AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 2, 1999
REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

DIRECT FOCUS, INC.

(Exact name of registrant as specified in its charter)

WASHINGTON	3949	943002667
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

2200 NE 65(TH) AVENUE, VANCOUVER, WASHINGTON 98661
(360) 694-7722

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

ROD W. RICE, CHIEF FINANCIAL OFFICER
DIRECT FOCUS, INC.
2200 NE 65(TH) AVENUE, VANCOUVER, WASHINGTON 98661
(360) 694-7722

(Name, address, including zip code, and telephone number, including area code, of agent for service)

COPIES TO:

BRUCE A. ROBERTSON MICHAEL J. KING Garvey, Schubert & Barer 1191 Second Avenue, 18th Floor Seattle, WA 98101-2939	NOLAN S. TAYLOR SAMUEL P. GARDINER LeBoeuf, Lamb, Greene & MacRae, L.L.P. 1000 Kearns Building 136 South Main Street Salt Lake City, UT 84101-1685

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC:
AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: / /

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: / /

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement or the earlier effective registration statement for the same offering: / /

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: / /

If delivery of this Prospectus is expected to be made pursuant to Rule 434, please check the following box: / /

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
Common Stock, no par value.....	1,150,000	$17.82	$20,493,000	$5,698
TOTAL.....				$5,698

(1) Includes 825,000 shares to be offered by the Company, 175,000 shares to be offered by the selling shareholders, and up to 150,000 shares issuable upon the exercise of the underwriter's over-allotment option.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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SUBJECT TO COMPLETION, DATED MARCH 2, 1999

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES, AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

1,000,000 SHARES

[COMPANY LOGO]

COMMON STOCK

Our common stock currently trades on the Toronto Stock Exchange under the symbol DFX. This is our first public offering in the United States. On February 26, 1999, the last reported price of our common stock on the Toronto Stock Exchange, stated in U.S. dollars, was $17.82 per share. We have filed an application for our common stock to be listed on the Nasdaq National Market under the symbol DFXI.

We are offering 825,000 shares of common stock and the selling shareholders listed on page 43 of this prospectus are offering an additional 175,000 shares of common stock. The underwriters also hold an option to purchase up to an additional 150,000 shares from us to cover over-allotments, which the underwriters must exercise within 30 days after the date of this prospectus. We will not receive any proceeds from the sale of common stock by the selling shareholders.

THIS INVESTMENT INVOLVES RISK. SEE "RISK FACTORS," BEGINNING ON PAGE 6 OF THIS PROSPECTUS.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS	PROCEEDS TO THE COMPANY	PROCEEDS TO SELLING SHAREHOLDERS
Per Share.....	$	$	$	$
Total.....	$	$	$	$

Delivery of the shares of common stock will be made on or about , 1999, against payment in immediately available funds.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

D.A. DAVIDSON & CO.

The date of this Prospectus is , 1999

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT. THIS DOCUMENT MAY ONLY BE USED WHERE IT IS LEGAL TO SELL THESE SECURITIES. THE INFORMATION IN THIS DOCUMENT MAY ONLY BE ACCURATE ON THE DATE OF THIS DOCUMENT.

As used in this prospectus, the terms "we," "our," "us," "Direct Focus" and "the Company" refer to Direct Focus, Inc. and its subsidiaries. The names Bow-Flex-Registered Trademark-, Nautilus-Registered Trademark-, Bowflex Power-Pro-Registered Trademark-, Motivator-Registered Trademark-, Versatrainer-Registered Trademark- and Power Rod-Registered Trademark- are registered trademarks of Direct Focus, Inc. We have filed trademark applications for the names Direct Focus-TM- and Instant Comfort-TM-. Except where we state otherwise, we present the information in this prospectus assuming no exercise of the underwriters' over-allotment option.

UNTIL , 1999 (25 DAYS AFTER THE COMMENCEMENT OF THE OFFERING), ALL DEALERS THAT EFFECT TRANSACTIONS IN THESE SECURITIES, WHETHER OR NOT PARTICIPATING IN THIS OFFERING, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE DEALER'S OBLIGATION TO DELIVER A PROSPECTUS WHEN ACTING AS AN UNDERWRITER AND WITH RESPECT TO UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

[Inside cover of prospectus includes the following artwork:

Along the left border of a fold-out page is a shaded column with the Direct Focus logo atop the column, beneath which is the following text: "A rapidly growing, direct marketing company that:". Below the logo and text are the following bullet points: (1) "Develops and markets high-end, branded consumer products through spot television commercials and infomercials, the internet and print media"; and (2) "Recently solidified its presence in the health and fitness market by acquiring the Nautilus product line and brand name."

Adjacent to the first column are three additional columns that depict and briefly describe the Company's products. Atop the first product column is the Bowflex logo, beneath which is a picture of a male torso and the following text: "Fitness, weight loss and muscle building in one convenient, easy to use machine." Below this are pictures of the Company's eight Bowflex machines, labeled "Power Pro," "Power Pro XT," "Power Pro XTL," "Power Pro XTLU," "Motiviator," "Motivator XT," "Motivator XTL" and "Versatrainer." Adjacent to the Bowflex images are the following four bullet points: (1) "Seven strength training machines designed for home use"; (2) "One strength training machine designed for wheelchair users"; (3) "Patented design and technology"; and (4) "A complementary line of accessory equipment." Below these bullet points is a close-up picture of the Company's Bowflex Power Rods with the following text: "Each Bowflex fitness machine uses our patented Power Rod-Registered Trademark-technology and comes with 210 pounds of resistance that can be upgraded to deliver over 400 pounds of resistance."

Atop the second product column is the Nautilus logo. Under the logo is a picture of a Nautilus fitness machine and a shaded Nautilus shell in the background, with the following caption: "The equipment that has been making America stronger for over 30 years." Below the picture and caption are pictures of ten Nautilus machines, labeled "Pec Fly," "Lateral Raise," "Abdominal," "Low Back," "Bench Press," "Compound Row," "Leg Extension," "Triceps Ext.," "Preacher Curl" and "Seated Leg Curl." Adjacent to these pictures are the following bullet points: (1) "27 all new strength training machines"; (2) "Patented technology and design"; (3) "A full free weight equipment line"; and (4) "An extensive consumer fitness accessory line." Below the bullet points are pictures of three Nautilus fitness accessories (a handgrip, jump rope and dumbbells) with the following caption: "In addition to high quality commercial fitness equipment, our Nautilus business offers an extensive line of consumer fitness accessories."

Atop the third product column is the Instant Comfort logo. Below the logo is a picture of the Company's airbed mattress in a bedroom setting with the following caption: "Our airbeds allow users to control the comfort and firmness of their sleeping surface." Below the picture and caption are pictures of the Company's airbed product line, labeled "The Ultimate Premier Series," "The Premier Series," "The Signature Series" and "The Basic Series." Adjacent to these pictures are the following bullet points: (1) "Four luxury air support sleep systems available in all standard sizes"; (2) "Patent pending technology and design"; and (3) "A complementary accessory line." Below the bullet points are pictures of the product components with the following caption: "Inside our premier air bed sleep system are dual variable firmness support chambers that allow users to independently control the firmness on each side of the bed. Our directly connected remote permits easy adjustments."]

PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus and does not contain all of the information that you need to consider before purchasing our common stock. You should read the entire prospectus carefully, including the financial statements and related notes appearing elsewhere in this prospectus, in order to make an informed investment decision.

DIRECT FOCUS, INC.

Direct Focus is a rapidly growing, direct marketing company that develops and markets high-end, branded consumer products. We market our consumer products directly to consumers through a variety of direct marketing channels, including spot television commercials, infomercials, print media, response mailings and the internet. Our principal and most successful directly marketed product to date has been our Bowflex line of home fitness equipment, and we recently developed and began testing a direct marketing campaign for a line of high-end airbeds. In January 1999, we acquired substantially all of the assets of Nautilus International, Inc., a manufacturer and marketer of Nautilus brand commercial fitness equipment and consumer fitness accessories. We believe that Nautilus is one of the most recognized brand names in the fitness industry.

We have experienced recent rapid sales and earnings growth, based almost entirely on the strength of our Bowflex products. In 1998, we generated net income of $12.5 million on net sales of $57.3 million. This represents a 420.8% increase in net income and a 187.9% increase in net sales from 1997, when we generated net income of $2.4 million on net sales of $19.9 million.

We believe that we have been successful primarily because of our direct marketing expertise, comprehensive statistical tracking systems, and extensive management information systems we have developed and refined while directly marketing our Bowflex products. We believe this expertise and experience enable us to:

- Develop proprietary, high-end branded product lines with broad consumer appeal that can be sold effectively through direct marketing channels;
- Develop and implement effective advertising and marketing strategies;
- Convert consumer interest and inquiries into sales;
- Effectively manage our product sourcing, manufacturing and distribution operations; and
- Provide excellent customer service.

We believe Direct Focus is well positioned to become a leading direct marketer of high-end consumer products. Key elements of our growth strategy include the following:

- Continue to grow sales of our highly successful Bowflex line of home fitness equipment by expanding our direct marketing campaign and continuing to introduce enhancements and additions for these products;
- Expand our direct marketing campaign for our newly introduced line of high-end airbeds;
- Develop and directly market additional high-end consumer products;
- Revitalize sales of Nautilus fitness equipment in the commercial market;
- Capitalize on the well-recognized Nautilus brand name by introducing and marketing consumer fitness equipment and related products under the Nautilus name;
- Capitalize on direct marketing and e-commerce opportunities presented by the internet, which currently generates 10.0% of our net sales; and
- Explore growth opportunities through strategic acquisitions that would enhance our direct marketing capabilities or our product lines.

Our principal executive offices are located at 2200 NE 65th Avenue, Vancouver, Washington 98661, and our telephone number is (360) 694-7722. We maintain web sites at www.bowflex.com, www.nautilus.com, www.nautilusdirect.com and www.instantcomfort.com. None of the information on our web sites is part of this prospectus.

THE OFFERING

Common stock offered	1,000,000 shares
Common stock offered by the Company	825,000 shares
Common stock offered by the selling shareholders	175,000 shares
Common stock to be outstanding after this offering	10,357,939 shares(1)
Common stock underlying over-allotment option	150,000 shares
Use of proceeds	Working capital, capital equipment purchases and other general corporate purposes.
Dividend policy	We have never declared or paid dividends on our common stock and do not anticipate doing so in the foreseeable future.
Proposed Nasdaq National Market symbol	DFXI

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(1) Based on 9,532,939 shares outstanding as of February 26, 1999. Includes 84,416 shares of common stock issued after December 31, 1998, upon the exercise of options. Excludes: (a) 550,618 shares of common stock issuable upon the exercise of outstanding options; and (b) 696,961 shares available for future issuance under our Stock Option Plan. See "Management - Benefit Plans."

SUMMARY FINANCIAL INFORMATION

You should read the following summary financial information together with the financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

	YEAR ENDED DECEMBER 31,					
	HISTORICAL					PRO FORMA(1)
	1994	1995	1996	1997	1998	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					(UNAUDITED)
STATEMENT OF OPERATIONS DATA:						
Net sales	$ 4,415	$ 4,772	$ 8,517	$ 19,886	$ 57,297	$ 76,601
Gross profit	2,841	3,156	5,914	14,772	44,855	50,211
Operating income (loss)	(531)	(59)	460	3,616	18,888	15,603
Net income (loss)	$ (510)	$ 15	$ 693	$ 2,421	$ 12,485	$ 9,756
Basic earnings (loss) per share	$ (0.06)	$ 0.00	$ 0.08	$ 0.27	$ 1.34	$ 1.04
Diluted earnings (loss) per share	$ (0.06)	$ 0.00	$ 0.08	$ 0.25	$ 1.28	$ 1.00
WEIGHTED AVERAGE COMMON SHARES:						
Basic outstanding shares	8,132	8,132	8,558	8,987	9,337	9,337
Diluted outstanding shares	8,132	8,132	8,943	9,511	9,726	9,726

	DECEMBER 31, 1998	
	ACTUAL	PRO FORMA AS ADJUSTED(2)
BALANCE SHEET DATA:		
Working capital	$ 15,682	$
Total assets	24,373	
Long-term liabilities	67	
Total stockholders' equity	$ 17,651	$

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(1) The unaudited pro forma statement of operations data was prepared as if the Nautilus acquisition occurred on January 1, 1998. The data reflects certain adjustments for the effects of purchase accounting, certain assumptions regarding financing and cash management and an adjustment for income taxes. The data is not necessarily indicative of what our actual results would have been if the Nautilus acquisition had occurred on January 1, 1998, nor does it purport to indicate the future results of our operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Unaudited Pro Forma Combined Results of Operations."

(2) The unaudited pro forma as adjusted balance sheet data assumes that we consummated the Nautilus acquisition on December 31, 1998. We also adjusted the data to give effect to this offering and the application of the net proceeds as described under "Use of Proceeds."

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones facing our company. Our business, financial condition and results of operations could be materially adversely affected by any of the following risks. The trading price of our common stock could decline due to any of the following risks, and you might lose all or part of your investment.

This prospectus also contains forward-looking statements that involve risks and uncertainties. Various factors, including the risks described below and elsewhere in this prospectus, could cause our actual results to differ materially from those anticipated in these forward-looking statements.

WE RELY ON SALES OF A FEW KEY PRODUCTS.

Our financial success has resulted almost entirely from marketing our Bowflex line of home fitness equipment, which has generated substantially all of our historical net sales. We began diversifying our product line in August 1998 when we started test marketing a line of airbeds. We also recently expanded our presence in the home and commercial fitness equipment markets by acquiring the Nautilus product line. Despite these efforts, our financial performance remains dependent on a few products. Any significant diminished consumer interest in our Bowflex products would adversely affect our business. We could also experience adverse financial consequences if we fail to sustain market interest in our Nautilus commercial fitness equipment. We may not be able to develop successful new products or implement successful enhancements to existing products. Any products that we do develop or enhance may not generate sufficient sales to justify the cost of developing and marketing these products.

WE MAY BE UNABLE TO EFFECTIVELY MANAGE OUR EXISTING OPERATIONS AND ANTICIPATED GROWTH.

We have grown significantly since 1996 when we began the first widespread direct marketing campaign for our Bowflex home fitness equipment. Specifically, our net sales increased from $8.5 million in 1996 to $19.9 million in 1997 and $57.3 million in 1998. We intend to continue to pursue an aggressive growth strategy. We have also added substantial operations through our Nautilus acquisition. Our recent growth and our Nautilus acquisition have strained our management team, production facilities, information systems and other resources. To manage our growth effectively, we believe that we must:

- Maintain a high level of manufacturing quality and efficiency;
- Continue to enhance our operational, financial and management systems and controls;
- Effectively expand, train and manage our employee base;
- Effectively integrate the additional distribution center for our Bowflex products at our Nautilus facilities in Independence, Virginia; and
- Maintain an effective and efficient customer call center and inventory control and distribution system.

Our failure to properly manage any of these or other growth-related challenges could adversely affect our business. We cannot assure you that we will succeed in effectively managing our existing operations or our anticipated growth.

WE DEPEND ON FAVORABLE ECONOMIC CONDITIONS THAT STIMULATE CONSUMER SPENDING.

The success of each of our products depends substantially on how consumers decide to spend their money. Certain changes in the economy, such as increased unemployment, higher interest rates, decreased credit availability or higher inflation, may depress consumer spending. High-end products like ours may be particularly vulnerable to these changes.

WE MAY BE UNABLE TO EFFECTIVELY INTEGRATE THE NAUTILUS BUSINESS INTO OUR OPERATIONS.

In January 1999, we acquired substantially all of the assets of Nautilus International, including the Nautilus brand name, its product line, and all existing equipment, inventory and facilities. The acquisition presents significant challenges for our management team. To be successful, we must effectively and efficiently integrate the Nautilus business into our organization, including the Nautilus product line, marketing and distribution system, production facilities, product development teams, and administrative and finance personnel and policies. We must also implement appropriate operational, financial and management systems and controls. We may encounter significant difficulties in this process, any one or more of which could adversely affect our business.

Additional risks relating to the acquisition include the following:

- Prior to the acquisition, Nautilus International had incurred several years of declining sales and accelerating losses. For the fiscal year ended June 27, 1998, Nautilus International had a net loss of approximately $14.8 million, of which $8.8 million constituted a one-time impairment charge, on net sales of $20.9 million. Unless and until we reverse these losses, our financial performance will be materially harmed;

- The key customer base for our current Nautilus product line includes commercial purchasers such as health clubs, corporate fitness centers, hotels and rehabilitation clinics. We have little experience marketing fitness equipment to commercial purchasers and may be unable to profitably exploit this opportunity; and

- Our manufacturing experience is generally limited to the assembly of our Bowflex and airbed products. We intend to continue Nautilus manufacturing operations, which are much more extensive than our own. We may be unable to operate Nautilus manufacturing operations in a cost-effective or timely manner.

Because of these and other risks, the Nautilus acquisition could fail to produce the revenue, earnings and business synergies that we anticipate, in which case our business would be adversely affected.

WE DEPEND ON CERTAIN KEY EMPLOYEES.

Our success depends on our key technical, marketing, sales and managerial personnel. The loss of any of our executive officers or other key personnel could adversely affect our business. All of our executive officers are under employment contracts, but none for longer than one year. We currently maintain a key man life insurance policy in the amount of $500,000 on Brian R. Cook, our President and Chief Executive Officer.

WE FACE REGULATORY RISKS.

We are regulated by various federal, state and local authorities, including the Federal Trade Commission, the Consumer Products Safety Commission, the Occupational Safety and Health Administration and the Environmental Protection Agency. We believe we are in material compliance with all applicable rules and regulations. If we are incorrect, or if we violate such regulations in the future, we may be subject to regulatory enforcement efforts. Any regulatory enforcement efforts, particularly any actions that could interrupt our direct marketing efforts or result in a product recall, would adversely affect our business.

FUTURE SALES OF OUR COMMON STOCK MAY DEPRESS OUR STOCK PRICE.

Sales of a substantial number of shares of our common stock in the public market following this offering could adversely affect the market price for our common stock. See "Shares Eligible for Future Sale."

A UNITED STATES MARKET FOR OUR COMMON STOCK MAY NOT DEVELOP.

Prior to this offering, the sole public market for our common stock has been the Toronto Stock Exchange. In connection with this offering, we have applied to have our common stock listed for trading on Nasdaq under the symbol DFXI. However, an active United States trading market may not develop.

WE FACE YEAR 2000 RISKS.

We may not accurately identify all potential Year 2000 problems within our business, and the corrective measures that we implement may be ineffective or incomplete. Any such problems may adversely affect our business. We also contract with many third parties that could be affected by the Year 2000 problem, such as telephone companies, carriers, manufacturers, suppliers and our consumer credit facilitator. If any of these or other third parties on which we rely experience Year 2000 problems, our business would be adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Year 2000 Compliance."

WE HAVE A LIMITED OPERATING HISTORY.

We altered our business plan in 1993 when we began our current direct marketing activities. Accordingly, we have only a limited operating history on which you can base your evaluation of our business and prospects. Despite our recent growth in sales and net income, we cannot assure you that these trends will continue or that we will remain profitable.

WE FACE RISKS RELATING TO PENDING LITIGATION WITH SOLOFLEX, INC.

Soloflex, Inc., a company that manufactures and directly markets home fitness equipment, has filed an action against Direct Focus and Randal R. Potter, our Vice President of Marketing. Soloflex is claiming that we are improperly using certain slogans and images to market our Bowflex products and that we have misappropriated some of its marketing trade secrets. We intend to vigorously defend against these claims, which we believe lack merit. However, we cannot assure you that we will prevail in this dispute. If Soloflex successfully prosecutes any of its claims, the resulting monetary damages and/or injunctive relief could significantly harm our business. See "Legal Proceedings."

WE FACE RISKS RELATING TO OUR RETURN POLICIES.

We offer a six-week satisfaction guarantee on all sales of Bowflex home fitness equipment and a similar guarantee on our airbeds. During the guarantee period, any dissatisfied customer may return these products and obtain a full refund of the purchase price. We have limited operating experience with our airbeds, which we began test marketing in August 1998. Any material increase in product returns could adversely affect our business.

WE FACE RISKS RELATING TO OUR PRODUCT WARRANTIES.

We offer the following warranties on our principal products:

- A two- to five-year limited warranty on our Bowflex home fitness equipment, depending on the model;

- A 20-year limited warranty on our airbeds; and

- A lifetime warranty on all Nautilus structural frames, welded moving parts and weight stacks; a 120-day warranty on all Nautilus upholstery, pads, grips and tethered-weight pin connectors; and a one-year warranty on all other Nautilus parts.

We have conducted extensive testing on our Bowflex products and airbeds, which we believe enables us to estimate warranty claims over their warranty periods. However, if our warranty reserves are inadequate to cover future warranty claims, our business would be adversely affected.

WE RELY ON UNINTERRUPTED AND RELIABLE CARRIER SERVICE.

We ship most of our products directly to our customers and have used UPS almost exclusively to perform this service. Accordingly, we were particularly vulnerable to the UPS labor dispute that lasted much of the third quarter of 1997. During this period, UPS was unable to deliver our products on time, which caused delivery delays and required us to find and use acceptable alternative carriers. As a result, we incurred substantially greater freight charges. We continue to rely on UPS to deliver our Bowflex products. Any similar labor difficulties at UPS in the future would adversely affect our business.

OUR MARKET IS INTENSELY COMPETITIVE.

Each market in which we participate is intensely competitive. We believe that more than 75 companies manufacture and market commercial and home fitness equipment, and more than 700 companies manufacture and market mattresses, of which four large manufacturers dominate this market. Important competitive factors in each of these markets include price, product quality and performance, diversity of features, warranties and customer service. We believe that our products are competitive in each of these categories. However, many of our competitors possess greater financial resources, wider brand name recognition, broader distribution networks and other resources and characteristics that may give them a competitive advantage. See "Business - Competition."

WE FACE PRODUCT LIABILITY RISKS.

We are subject to potential product liability claims if our products injure or allegedly injure our customers or other users. We believe that our insurance coverage and reserves adequately cover potential product liability claims. However, we may have inaccurately assessed our product liability risk. In addition, we may be unable to purchase sufficient insurance coverage at an affordable price, or our insurers may fail to satisfy their obligations. If our insurance coverage and reserves are inadequate to cover future product liability claims, our business may be adversely affected.

WE FACE RISKS ASSOCIATED WITH ANY FUTURE ACQUISITIONS.

We intend to explore growth opportunities through strategic acquisitions that would enhance our direct marketing capabilities or product lines. We currently have no agreements, understandings or other arrangements with respect to any acquisition. If we identify and pursue an acquisition opportunity, our management may be required to devote a significant amount of time and effort to the process, which could unduly distract them from our existing operations. If we complete an acquisition, we expect to face significant challenges integrating the acquired business into our operations. An acquisition may not produce the revenue, earnings or business synergies that we anticipate, and an acquired product or technology may not perform as we expect. Any such difficulties would adversely affect our business. In addition, the size, timing and integration of any acquisitions could cause substantial fluctuations in our operating results.

To pay for an acquisition, we may use common stock or cash, including the proceeds of the offering. See "Use of Proceeds." Alternatively, we may borrow money from banks or other lenders. If we use common stock, the ownership interest of our shareholders would be diluted. If we use cash or debt, our financial liquidity will be reduced.

WE FACE RISKS RELATING TO OUR INTERNATIONAL OPERATIONS.

We currently acquire many of our product components from foreign manufacturers, which subjects us to the general risks of doing business abroad. These risks include shipment delays or cancellations, work stoppages, increases in import duties and tariffs, foreign exchange rate fluctuations, changes in foreign laws and regulations and political instability. We face similar risks in distributing our Nautilus commercial products internationally. The loss of certain foreign suppliers, customers or distributors

could adversely affect our business until we can make alternative arrangements. We currently pay for all of our foreign purchases in United States dollars.

WE DEPEND ON DIRECT MARKETING AND OUR CUSTOMER SERVICE CALL CENTER TO SELL OUR PRODUCTS.

We depend primarily on 60-second or "spot" television commercials and television infomercials to market our products. See "Business - Direct Marketing." Consequently, the price we must pay for our preferred media time significantly affects our financial performance. If the cost of our preferred media time increases, it may adversely affect our business. Our dependence on spot commercials and infomercials also means that our future financial performance depends substantially on consumers' continued acceptance of and willingness to purchase products in response to these forms of advertising. We cannot assure you that this form of advertising will continue to appeal to consumers.

We receive and process almost all orders for our directly marketed products through our customer service call center. See "Business - Direct Marketing." Our call center could stop operating for a number of reasons, including poor weather, natural disaster, fire or Year 2000 problems. If our backup facilities and contingency plans are ineffective to handle such problems, we could not sell our directly marketed products during the affected period. Our business could be substantially harmed if our call center stops operating for a significant time period.

WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS.

We currently hold a number of United States, Canadian and international patents for certain features of our Bowflex and Nautilus fitness products. We also have several patent applications pending for certain features of our Nautilus products and a patent application pending for a certain feature of our airbed products. We believe that our patents and patent applications are important factors in maintaining our competitive position in the fitness and mattress industries. We also rely on a combination of copyright, trademark, trade secret, unfair competition and other intellectual property laws, nondisclosure agreements and other protective measures to protect our rights.

Our efforts to protect our intellectual property may be inadequate. Existing trade secret, copyright and trademark laws offer only limited protection, and the laws of other countries in which we market or may market our products may afford little or no effective protection to our intellectual property. In addition, other companies could independently develop similar or superior technology without violating our intellectual property rights. Any misappropriation of our technology or development of competitive technology may adversely affect our business. If we resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive.

Other third parties may claim that our products or technology infringe their patents or other intellectual property rights. We could incur substantial costs defending against such a claim, even if it is invalid, and could distract our management from our business. A party making such a claim could possibly secure a judgment requiring us to pay substantial damages. A judgment could also include a court order that prevents us from selling our products. Any of these events could adversely affect our business. See "Business - Intellectual Property."

THE PRICE OF OUR COMMON STOCK MAY DECLINE FOR REASONS UNRELATED TO OUR FINANCIAL PERFORMANCE.

Like all exchanges, Nasdaq and the Toronto Stock Exchange experience significant changes in price and volume from time to time for reasons unrelated to the financial performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. In addition, the market price of our common stock is likely to be affected by analysts' recommendations and predictions with respect to our business.

USE OF PROCEEDS

We expect to receive approximately $ in net proceeds from the sale of the 825,000 shares of common stock in this offering. If the underwriters fully exercise their over-allotment option, we expect to receive an additional $ in net proceeds. In calculating estimated net proceeds, we assume an offering price of $ per share and take into account the underwriting discount and estimated offering expenses. We will not receive any proceeds from the sale of shares by the selling shareholders.

We intend to use the net proceeds of this offering primarily for additional working capital, capital equipment purchases and other general corporate purposes, including increased direct marketing expenditures for our existing products, increased development expenditures for new consumer products, and capital expenditures made in the ordinary course of our business. Specifically, we anticipate higher working capital needs as we grow the Nautilus consumer product business. We also expect to direct additional funds toward the development of new consumer products under the Nautilus brand name. As we continue to grow sales of our Bowflex and airbed products, we anticipate adding a second product assembly and distribution center in the Western United States. In addition, we may use a portion of the net proceeds for strategic acquisitions that would enhance our direct marketing capabilities or our product lines. Although we evaluate potential acquisitions from time to time, we are not currently negotiating any acquisitions, nor do we have any specific oral or written plans, agreements or commitments to enter into or consummate any such transactions.

The amounts that we actually expend for working capital purposes will vary significantly depending upon a number of factors, including future revenue growth, if any, the amount of cash we generate from operations and the progress of our product development efforts. As a result, we will retain broad discretion in allocating the net proceeds of this offering. Pending the uses described above, we will invest the net proceeds in short-term, interest-bearing, investment grade securities.

MARKET PRICE OF AND DIVIDENDS ON OUR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our common stock has been listed on the Toronto Stock Exchange in the Province of Ontario, Canada, since January 26, 1993, and currently trades under the symbol DFX. Currently, there is no established trading market for our common stock in the United States. However, we have applied to have our common stock listed on Nasdaq under the symbol DFXI.

The following table summarizes the high and low sales prices for our common stock as reported on the Toronto Stock Exchange during the preceding two years. The prices listed below are in Canadian dollars, the currency in which they were quoted, and in United States dollars, which we calculated based on the currency exchange rate in effect on the date of each high and low quarterly price.

	CANADIAN DOLLARS		UNITED STATES DOLLARS	
	HIGH	LOW	HIGH	LOW
1997				
1(st) Quarter	$ 1.60	$ 1.01	$ 1.16	$ 0.75
2(nd) Quarter	1.41	1.10	0.99	0.80
3(rd) Quarter	3.00	1.06	2.17	0.77
4(th) Quarter	$ 4.00	$ 2.39	$ 2.80	$ 1.70
1998				
1(st) Quarter	$ 10.05	$ 3.50	$ 7.07	$ 2.45
2(nd) Quarter	15.00	10.00	10.48	7.05
3(rd) Quarter	18.00	11.80	12.09	7.67
4(th) Quarter	$ 23.00	$ 10.50	$ 14.95	$ 6.80

As of February 26, 1999, 9,532,939 shares of our common stock were issued and outstanding and held of record by 81 shareholders. See "Shares Eligible for Future Sale."

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. Our credit lines do not restrict the payment of dividends. To date, we have never declared or paid any cash dividends on our common stock and do not anticipate paying any cash dividends in the foreseeable future. Instead, we intend to retain and direct any future earnings to fund our anticipated expansion and growth.

CAPITALIZATION

The following table describes our capitalization as of December 31, 1998 (1) on an actual basis, and (2) on an as adjusted basis to reflect our sale of 825,000 shares of common stock under this prospectus at an assumed public offering price of $ per share (taking into account estimated underwriting discounts and offering expenses). You should read this information in conjunction with our financial statements and notes thereto, which appear elsewhere in this prospectus:

	DECEMBER 31, 1998	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
Common Stock, no par value; 50,000,000 shares authorized; 9,448,523 shares issued and outstanding, actual; 10,273,523 shares issued and outstanding, as adjusted(1)	$ 3,566	$
Retained earnings	14,085	
Total stockholders' equity	17,651	
Total capitalization	$ 17,651	$

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(1) Excludes: (a) 84,416 shares of common stock issued after December 31, 1998, upon the exercise of options; (b) 550,618 shares of common stock issuable upon the exercise of outstanding options (of which, options covering 309,199 shares are presently exercisable) under our Stock Option Plan at a weighted average exercise price of $2.39 per share; and (c) 696,961 shares available for future issuance under the Stock Option Plan. See "Management - Benefit Plans."

SELECTED FINANCIAL DATA

The selected financial data presented below for, and as of the end of, each of the three years ended December 31, 1998, have been derived from our audited financial statements included elsewhere in this prospectus. The selected financial data for, and as of the end of, each of the years ended December 31, 1994, and December 31, 1995, have been derived from our audited financial statements that are not included herein.

The unaudited pro forma combined statement of operations data for the fiscal year ended December 31, 1998, contain certain adjustments and were prepared as if the Nautilus acquisition had occurred on January 1, 1998. In our management's opinion, all adjustments necessary to present fairly such pro forma financial statements have been made. The unaudited pro forma combined balance sheet was prepared as if the Nautilus acquisition had occurred on December 31, 1998. These unaudited pro forma financial statements are not necessarily indicative of what actual results would have been if the acquisition had occurred at the beginning of the period, nor do they purport to indicate the results of our future operations.

The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and unaudited

pro forma balance sheet and statement of operations and related notes thereto included elsewhere in this prospectus.

	YEAR ENDED DECEMBER 31,					
	HISTORICAL					PRO FORMA
	1994	1995	1996	1997	1998	1998(1)
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					(UNAUDITED)
STATEMENT OF OPERATIONS DATA						
Net sales	$ 4,415	$ 4,772	$ 8,517	$ 19,886	$ 57,297	$ 76,601
Cost of sales	1,574	1,616	2,603	5,114	12,442	26,390
Gross profit	2,841	3,156	5,914	14,772	44,855	50,211
Operating expenses						
Selling and marketing	2,834	2,644	4,712	9,600	22,643	28,450
General and administrative	393	370	473	975	1,701	4,535
Royalties	145	201	269	581	1,623	1,623
Total operating expenses	3,372	3,215	5,454	11,156	25,967	34,608
Operating income (loss)	(531)	(59)	460	3,616	18,888	15,603
Other income (expense)						
Interest income	16	26	37	119	527	--
Interest expense	(4)	(3)	(2)	(1)	(1)	(388)
State business tax and other-net	(22)	(17)	(51)	(87)	(221)	(222)
Total other income (expense)	(10)	6	(16)	31	305	(610)
Income (loss) before income taxes	(541)	(53)	444	3,647	19,193	14,993
Income tax expense (benefit)	(31)	(68)	(249)	1,226	6,708	5,237
Net income (loss)	$ (510)	$ 15	$ 693	$ 2,421	$ 12,485	$ 9,756
Basic earnings (loss) per share(2)	$ (0.06)	$ 0.00	$ 0.08	$ 0.27	$ 1.34	$ 1.04
Diluted earnings (loss) per share(2)	$ (0.06)	$ 0.00	$ 0.08	$ 0.25	$ 1.28	$ 1.00
Basic shares outstanding	8,132	8,132	8,558	8,987	9,337	9,337
Diluted shares outstanding	8,132	8,132	8,943	9,511	9,726	9,726
BALANCE SHEET DATA(3)						
Cash and cash equivalents	$ 603	$ 756	$ 1,154	$ 4,790	$ 18,911	$ 2,911
Working capital	1,015	1,063	1,973	4,100	15,682	2,926
Total assets	1,940	2,150	3,515	7,922	24,373	27,397
Current liabilities	654	858	1,281	3,330	6,655	9,580
Long term liabilities	27	18	14	--	67	166
Total stockholders' equity	$ 1,259	$ 1,274	$ 2,220	$ 4,592	$ 17,651	$ 17,651

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(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Unaudited Pro Forma Combined Results of Operations" for a discussion of the adjustments included in the pro forma statement of operations data.

(2) Basic earnings per share have been computed by dividing net income by the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share have been computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents (such as stock options) outstanding during each period.

(3) See "Pro Forma Combined Balance Sheet, December 31, 1998," included elsewhere in this prospectus for a discussion of the adjustments included in the pro forma balance sheet data.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and related notes included elsewhere in this prospectus. This section of the prospectus includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. We use words such as "anticipate," "believe," "expect," "future," "intend" and similar expressions to identify forward-looking statements. You should not unduly rely on these forward-looking statements, which apply only as of the date of this prospectus. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical or anticipated results. For a discussion of some of these risks, see "Risk Factors" beginning on page 6.

OVERVIEW

HISTORY OF OPERATIONS

We are a rapidly growing, direct marketing company that develops and markets high-end branded consumer products. We market our consumer products directly to consumers through a variety of direct marketing channels, including spot television commercials, infomercials, print media, response mailings and the internet. We have generated substantial increases in net sales each year since 1996. Net sales increased from $8.5 million in 1996 to $19.9 million in 1997 and $57.3 million in 1998. A substantial portion of our net sales growth is attributable to our Bowflex Power Pro home fitness product. We believe this growth resulted from our expanded direct marketing campaign for our Bowflex product line and our ability to quickly provide "zero down" financing for our customers through third-party financing sources. Sales of our Bowflex Power Pro represented 90.2%, 91.3% and 93.3%, respectively, of our total net sales during 1996, 1997 and 1998. We expect that sales of our Bowflex Power Pro will continue to account for a substantial portion of our net sales for the foreseeable future.

We expanded our product base in 1998 by introducing a line of airbeds under the trade name "Instant Comfort." We are currently developing and testing a direct marketing campaign for this new product. We intend to expand this direct marketing campaign in 1999 and anticipate that this expansion will cause our line of airbeds to generate a material portion of our net sales in 1999. However, we expect that the gross margin for our airbed products will, at least initially, be lower than the current gross margin for our Bowflex products.

ACQUISITION OF NAUTILUS BUSINESS

In January 1999, we acquired substantially all of the assets of Nautilus International, a manufacturer and distributor of commercial fitness equipment and distributor of fitness accessories. We paid $16.0 million in cash and assumed approximately $2.5 million in liabilities as consideration for these assets, which include the following:

- All intellectual property rights to the Nautilus name and its products;
- Warehouse, manufacturing and office facilities in Independence, Virginia;
- The Nautilus line of commercial fitness equipment;
- The Nautilus line of consumer fitness equipment and fitness accessories;
- The Nautilus distribution system; and
- All working capital, except cash and finance receivables.

In recent years, Nautilus International suffered from declining revenues and significant losses. During the fiscal year ended June 27, 1998 Nautilus International had a net loss of $14.8 million, of which $8.8 million was attributable to a one-time impairment charge, on net sales of $20.9 million, compared to a net loss of $6.8 million on net sales of $21.9 million during the fiscal year ended June 27, 1997. We have identified and begun to implement a number of initiatives that we believe will effectively integrate Nautilus into our operations and revitalize its commercial business. These initiatives include the following:

- We have hired an experienced management team to oversee and revitalize the sales and marketing operations of our Nautilus commercial business;

- We are currently evaluating and intend to offer creative financing programs, such as pre-approved leasing;

- We intend to develop and introduce additional Nautilus commercial products to serve new market segments and expand our customer base;

- We have restructured the management of our Nautilus commercial manufacturing operations and begun to make other necessary manufacturing improvements;

- We have implemented and intend to continue to implement general cost-cutting measures;

- We are using the excess capacity of our Nautilus warehouse facilities as an East Coast distribution center for our Bowflex products; and

- We are working to improve the data gathering and analytical capabilities of our Nautilus commercial operations by linking them with our sophisticated management information systems.

We expect that the integration of the Nautilus commercial product line into our operations will significantly increase our overall net sales. We also expect that our overall gross margin as a percentage of net sales will decrease, principally because we are integrating two different business models: (1) a direct marketing business that historically has generated a high percentage gross margin; and (2) a manufacturing and marketing business that operates in an industry that traditionally generates a lower percentage gross margin.

COMPOSITION OF COST OF SALES AND EXPENSES

Cost of sales primarily consists of: (1) inventory component costs; (2) manufacturing and distribution salaries and bonuses; (3) distribution expense and shipping costs; and (4) facility costs.

Selling and marketing expenses primarily consist of: (1) television advertising expenses; (2) the cost of printed and video marketing materials; (3) television commercial production and marketing material expenses; (4) commissions, salaries and bonuses earned by sales and marketing personnel; and (5) facility and communication costs.

General and administrative expenses primarily consist of salaries, benefits and related costs for our executive, financial, administrative and information services personnel and professional services fees.

Royalty expense primarily consists of payments to the inventor of our Bowflex technology.

Other income (expense) historically has consisted of interest income on our cash investments and state business tax expenses.

OUR RESULTS OF OPERATIONS

We believe that period-to-period comparisons of our operating results are not necessarily indicators of future performance. You should consider our prospects in light of the risks, expenses and difficulties frequently encountered by companies experiencing rapid growth and, in particular, rapidly growing companies that operate in evolving markets. We may not be able to successfully address these risks and difficulties. Although we have experienced net sales growth in recent years, our net sales growth may not continue, and we cannot assure you of any future growth or profitability. Our future operating results will depend on many factors including those factors discussed in "Risk Factors" beginning on page 6.

The following table presents certain financial data as a percentage of total revenues:

	YEAR ENDED DECEMBER 31,		
	1996	1997	1998
STATEMENT OF OPERATIONS DATA			
Net sales	100.0%	100.0%	100.0%
Cost of sales	30.6	25.7	21.7
Gross profit	69.4	74.3	78.3
Operating expenses			
Selling and marketing	55.3	48.3	39.5
General and administrative	5.5	4.9	3.0
Royalties	3.2	2.9	2.8
Total operating expenses	64.0	56.1	45.3
Operating income	5.4	18.2	33.0
Other income (expense)	(0.2)	0.2	0.5
Income before income taxes	5.2	18.4	33.5
Income tax expense (benefit)	(2.9)	6.2	11.7
Net income	8.1%	12.2%	21.8%

COMPARISON OF THE YEARS ENDING DECEMBER 31, 1998, AND DECEMBER 31, 1997

NET SALES

Our net sales grew by 187.9% to $57.3 million in 1998, from $19.9 million in 1997. Sales of our Bowflex Power Pro grew by 199.0% and accounted for 93.3% of our aggregate net sales in 1998. Sales of our Bowflex Motivator increased by 73.0% and sales of our Bowflex accessories increased by 148.0% in 1998, and accounted for 1.8% and 4.5% of our aggregate net sales, respectively. We introduced and began test marketing our airbeds in August 1998, but this product did not materially contribute to our net sales in 1998.

Our sales growth in 1998 primarily resulted from expanded direct marketing of our Bowflex products. In 1998, we increased our advertising expenditures by 196.1%, focusing principally on expanded broadcasts of our Bowflex spot television commercials and television infomercials. Both of these direct marketing techniques generated strong sales in 1998. We intend to further expand our use of spot television commercials and infomercials in 1999 by increasing our market presence in our existing television markets and entering new television markets.

GROSS PROFIT

Our gross profit grew 203.4% to $44.9 million in 1998, from $14.8 million in 1997. Our gross profit as a percentage of net sales increased by 4.0% to 78.3% in fiscal 1998, from 74.3% in 1997. We

believe that our improved percentage gross profit in 1998 resulted primarily from a March 1998 increase in the shipping charge for our Bowflex products, as well as reduced component costs for our Bowflex products and improved labor and overhead efficiencies. We benefited from reduced component costs principally through volume discounts. Our improved labor and overhead efficiencies resulted primarily from improved manufacturing methods and the implementation of a second work shift.

We anticipate an increase in the percentage gross profit on our Bowflex products associated with the opening of our East Coast distribution center in March 1999. However, we expect our aggregate gross profit as a percentage of net sales to materially decline in 1999, principally due to the significantly lower gross profit margin on our Nautilus line of commercial fitness equipment. Initially, we also expect a lower percentage gross profit on our line of airbeds as we continue to develop our direct marketing campaign for this product and increase our marketing efforts.

OPERATING EXPENSES

SELLING AND MARKETING

Selling and marketing expenses grew to $22.6 million in 1998 from $9.6 million in 1997, an increase of 135.4%. This increase in sales and marketing expenses resulted primarily from the expansion of our Bowflex direct marketing campaign and variable costs associated with our sales growth.

As a percentage of net sales, selling and marketing expenses decreased to 39.5% in 1998 from 48.3% in 1997. This decrease in selling and marketing expenses as a percentage of net sales reflects the improved efficiency of our Bowflex direct marketing campaign. As we refined our spot commercial and infomercial advertising policies and our customer response techniques, we were able to stimulate sales growth at a more rapid rate than the growth in our sales and marketing expenses. We expect that our selling and marketing expenses will continue to increase as we:

- Continue to expand our Bowflex direct marketing campaign;

- Expand the direct marketing campaign for our airbeds;

- Integrate the marketing and distribution infrastructure for our Nautilus line of commercial fitness equipment; and

- Begin marketing new home fitness equipment products and fitness accessories under the Nautilus brand name.

GENERAL AND ADMINISTRATIVE

General and administrative expenses grew to $1.7 million in 1998 from $975,000 in 1997, an increase of 74.3%. This increase in general and administrative expenses was due primarily to increased staffing and infrastructure expenses necessary to support our continued growth. As a percentage of net sales, general and administrative expenses decreased to 3.0% in 1998 from 4.9% in 1997. The decline in general and administrative expenses as a percentage of our net sales resulted primarily from our substantial increase in net sales. We believe that our general and administrative expenses will continue to increase in future periods as we integrate the Nautilus business into our operations and expand our administrative staff and other resources to manage growth.

ROYALTY

Royalty expense grew to $1.6 million in 1998 from $581,000 in 1997, an increase of 175.4%. The increase in our royalty expenses is attributable to the increased sales of our Bowflex products in 1998. Our royalty expenses will increase if sales of our Bowflex products continue to increase.

OTHER INCOME (EXPENSE)

In 1998, other income (expense) increased to $305,000 from $31,000 in 1997. The $274,000 increase resulted primarily from interest income generated by our cash investments, which was partially offset by a $135,000 increase in our state business tax expense.

INCOME TAX EXPENSE

Income tax expense increased by $5.5 million in 1998 because of the growth in our income before taxes. We expect our income tax expense to increase in line with increases in our income before taxes.

NET INCOME

For the reasons discussed above, net income grew to $12.5 million in 1998 from $2.4 million in 1997, an increase of 420.8%.

COMPARISON OF YEARS ENDING DECEMBER 31, 1997, AND DECEMBER 31, 1996

NET SALES

Net sales grew to $19.9 million in 1997 from $8.5 million in 1996, an increase of 134.1%. Net sales of our Bowflex Power Pro grew by 137.7% and accounted for 91.3% of our aggregate net sales in 1997. Sales of our Bowflex Motivator increased by 766.7% and sales of our Bowflex accessories increased by 60.4% in 1997, and accounted for 3.0% and 5.4% of our aggregate net sales, respectively. This increase in net sales resulted from increased advertising and marketing expenditures, increased average sales price and improved marketing efficiencies.

GROSS PROFIT

Gross profit grew 150.8% to $14.8 million in 1997 from $5.9 million in 1996. As a percentage of net sales, gross profit grew to 74.3% in 1997 from 69.4% in 1996. The principal reason for this increase was our substantial growth in net sales, combined with increased production efficiencies and reduced costs associated with overseas component purchases.

OPERATING EXPENSES

SELLING AND MARKETING

Selling and marketing expenses increased to $9.6 million in 1997 from $4.7 million in 1996, but declined as a percentage of net sales to 48.3% in 1997 from 55.3% in 1996. The growth in selling and marketing expenses resulted primarily from our expanded direct marketing campaign and increased staffing and infrastructure expenditures necessary to support our growth. Our selling and marketing expenses declined as a percentage of net sales principally because our net sales growth outpaced the growth in our selling and marketing expenses.

GENERAL AND ADMINISTRATIVE

General and administrative expenses increased to $975,000 in 1997 from $473,000 in 1996, but declined as a percentage of net sales to 4.9% in 1997 from 5.5% in 1996. The increase in general and administrative expenses is primarily attributable to increased staffing and infrastructure expenses necessary to support our growth. The decline in general and administrative expense as a percentage of net sales resulted from our significant net sales growth in 1997.

ROYALTY

Royalty expense increased to $581,000 in 1997 from $269,000 in 1996 but remained relatively constant as a percentage of net sales. Royalty expense increased because we sold more Bowflex products in 1997 than in 1996.

OTHER INCOME (EXPENSE)

Other income (expense) was $31,000 in 1997, compared to an expense of ($16,000) in 1996. The $47,000 increase was primarily derived from interest income and was partially offset by a $36,000 increase in state business tax expense in 1997.

INCOME TAX EXPENSE

We incurred an income tax expense of $1.2 million in 1997, which was $1.5 million higher than in 1996. The principal reason for this increase was our higher profitability and the accounting treatment of deferred taxes associated with tax loss carrybacks.

NET INCOME

For the reasons described above, net income grew to $2.4 million in 1997 from $693,000 in 1996, a 246.0% increase.

UNAUDITED PRO FORMA COMBINED RESULTS OF OPERATIONS

As a result of the Nautilus acquisition, several adjustments and factors will impact the comparability of our historical financial results with our future results of operations. We paid $16.0 million in cash for the Nautilus assets and assumed approximately $2.5 million in liabilities. The unaudited pro forma combined statements of operations reflect: (1) certain adjustments for the effects of purchase accounting; (2) certain assumptions described below regarding financing and cash management; and (3) a provision for income taxes as if the combined operations had been taxed as a C-corporation for all periods presented.

In addition, the unaudited pro forma combined statement of operations for the year ended December 31, 1998 was prepared as if the Nautilus acquisition occurred on January 1, 1998. The unaudited pro forma financial statements and the information set forth below should be read in conjunction with our financial statements and accompanying notes and the financial statements of Nautilus International and related notes appearing elsewhere in this prospectus. The following summarizes certain adjustments that are reflected in the unaudited pro forma combined statement of operations data set forth below and included elsewhere in this prospectus:

- A $1.1 million decrease in depreciation expense associated with the depreciation of acquired property having an estimated fair value of $8.6 million. Depreciation is on a straight-line basis over periods ranging from 7 to 31.5 years;

- A $211,000 decrease in total operating expenses relating to the reduced amortization of the estimated intangible asset value of $4.2 million on a straight-line basis over a period of 20 years and depreciation expense of $56,000 on acquired assets;

- An $11.1 million adjustment to eliminate the effect of a one-time impairment charge taken by Nautilus International in connection with the revaluation of its assets based upon the $18.5 million acquisition price including assumption of $2.5 million of current liabilities;

- A $2.8 million decrease in interest expense, which we would have incurred had the acquisition occurred on January 1, 1998;

- A $608,000 decrease in other income, to reflect interest income foregone by the use of cash in the acquisition; and

- A $1.5 million decrease in income tax expense, to reflect income tax expense at our effective tax rates after giving effect to the adjustments described above.

The following table sets forth the specific components of income and expense as a percentage of net sales, on a pro forma basis for the period presented. See the unaudited pro forma combined financial statements and the related notes thereto included elsewhere in this prospectus.

DIRECT FOCUS, INC. AND AFFILIATE PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1998 (UNAUDITED)

	YEAR ENDED DECEMBER 31, 1998
Net sales	100.0%
Cost of sales	34.5
Gross profit	65.5
Operating Expenses:	
Selling and marketing	37.1
General and administrative	5.9
Royalties	2.1
Total operating expenses	45.1
Income from operations	20.4
Other expense	0.8
Income before income taxes	19.6
Pro forma income taxes	6.8
Pro forma net income	12.8%

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our growth primarily from cash generated by our operating activities. During 1998, our operating activities generated over $15.9 million in net cash, which contributed to an aggregate $14.1 million or 294.8% increase in cash and cash equivalents. This increase was primarily due to the substantial sales growth associated with our Bowflex products. At December 31, 1998, we had a cash balance of $18.9 million. We used $16.0 million in cash to fund the Nautilus acquisition in January 1999. We anticipate that our working capital requirements will increase as a result of increased inventory and accounts receivable related to our Nautilus operations.

We maintain two $5.0 million lines of credit with Bank of America. Both lines of credit are secured by our general assets and contain certain financial covenants. As of the date of this prospectus, we are in compliance with all material covenants applicable to the lines of credit, and there is no outstanding balance under either line.

We believe that our existing cash balances, combined with our lines of credit and the net proceeds of this offering, will be sufficient to meet our capital requirements for at least the next 12 months. Thereafter, if our capital requirements increase, we could be required to secure additional sources of capital. We cannot assure you that we will be able to secure additional capital or that the terms upon which such capital will be available to us will be acceptable. If we proceed with any other acquisitions,

we may be required to use cash to fund the purchase price or fund operations or expansion of the acquired business.

INFLATION AND PRICE INCREASES

Although we cannot accurately anticipate the effect of inflation on our operations, we do not believe that inflation has had or is likely in the foreseeable future to materially adversely affect our results of operations or our financial condition. However, increases in inflation over historical levels or uncertainty in the general economy could decrease discretionary consumer spending for products like ours. We have not raised the prices on our Bowflex products since 1994. Consequently, none of our revenue growth is attributable to price increases.

RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 1998, we adopted Statement of Financial Accounting Standards ("SFAS") No. 130, REPORTING COMPREHENSIVE INCOME, which requires presentation of comprehensive income within an entity's primary financial statements. 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. From 1996 to 1998, our comprehensive income equaled our net income.

Effective January 1, 1998, we adopted SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, which establishes standards for reporting information regarding an entity's operating activities. SFAS No. 131 requires that operating segments be defined at the same level and in a similar manner as management evaluates operating performance. We currently operate under two segments: direct marketing products and Nautilus commercial products. Through December 31, 1998, we operated as a single segment.

In February 1998, the Financial Accounting Standards Board, (the "FASB") issued SFAS No. 132, EMPLOYER'S DISCLOSURES ABOUT PENSIONS AND OTHER POSTRETIREMENT BENEFITS, which revises current disclosure requirements for an employer's pension and other retiree benefits. The pronouncement does not have a material impact on our financial statements, because it does not impact the measurement of pension benefits or other post-retirement benefit costs. Instead, it impacts only financial statement disclosure.

In March 1998, the Accounting Standards Executive Committee issued Statement of Position 98-1 ("SOP 98-1"), ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE, which establishes accounting requirements for the capitalization of software costs incurred for use by the organization. We adopted this pronouncement on a prospective basis as of January 1, 1999. We do not anticipate that SOP 98-1 will materially impact our financial statements.

Effective July 1, 1998, the FASB adopted SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which establishes accounting requirements for derivative instruments and for activities related to the holding of such instruments, including hedging activities. SFAS No. 133 expanded the definition of derivative instruments and revised accounting practices related to hedging and other activities associated with derivative instruments. Although we do not currently hold or issue instruments that qualify as derivative instruments, our future activities could fall within the scope of the new pronouncement, in which case SFAS No. 133 could materially affect our business.

YEAR 2000 COMPLIANCE

Many computer software programs, as well as hardware with embedded software, use a two-digit date field to track and refer to any given year. After, and in some cases prior to, January 1, 2000, these software and hardware systems will misinterpret the year "00," which will cause them to perform faulty calculations or shut down altogether. To the extent that this "Year 2000" problem is present in

our internal software and hardware systems, or those of our suppliers or customers, we could experience material disruptions in such important functions as:

- Airing our spot commercials and infomercials;

- Receiving and processing customer inquiries and orders;

- Distributing our products; and

- Processing billings and payments.

Such difficulties could result in a number of adverse consequences, including, but not limited to, delayed or lost revenue, diversion of resources, damage to our reputation, increased administrative and processing costs and liability to suppliers and/or customers. Any one or a combination of these consequences could significantly disrupt our operations and have a material adverse effect on our business.

Accordingly, we began assessing the scope of our potential Year 2000 exposure both internally and among our suppliers and customers in March 1998, and started implementing remedial measures soon thereafter. These measures included testing of all software and hardware systems that we use internally in our business to determine whether such systems are Year 2000 compliant, and replacing these systems as required. We are in the process of upgrading our financial accounting systems and database marketing system with software that we believe is Year 2000 compliant.

We will continue to test our software and hardware systems and modify and replace these systems as necessary. We expect to complete our internal assessment, testing, and remediation program by July 1999. To date, we have spent approximately $1.3 million to upgrade our computer systems, and we believe we will need to spend an additional $400,000 to complete our upgrade. Although we believe that these corrective measures will adequately address our potential Year 2000 problems, including those affecting our Nautilus operations, we cannot assure you that we will discover and address every Year 2000 problem or that all of our corrective measures will be effective. To the extent that Year 2000 problems persist, we could experience the adverse consequences described above, some or all of which could be material.

We have received assurances from our primary carrier, our primary consumer finance provider and certain other key suppliers and vendors that their businesses are Year 2000 compliant. We have requested but have not yet received such assurances from our other suppliers and vendors, the most important of which is our local telephone company. We have and will continue to work with all of our vendors and suppliers to resolve any potential Year 2000 problems. However, we have no direct control over these third parties and cannot assure you that such third-party software and hardware systems will be timely converted. The failure of certain individual vendors or suppliers, or a combination of vendors or suppliers, to make their systems Year 2000 compliant could have a material adverse effect on our financial results. We are currently developing a contingency plan, but cannot finalize the plan until we have received responses from all of our critical vendors and service providers. We expect to finalize the plan in July 1999.

OVERVIEW

We are a rapidly growing, direct marketing company that develops and markets high-end, branded consumer products. We market our consumer products directly to consumers through a variety of direct marketing channels, including spot television commercials, infomercials, print media, response mailings and the internet. Our principal and most successful directly marketed product to date has been our Bowflex line of home fitness equipment, and we recently developed and began testing a direct marketing campaign for a line of high-end airbeds. In January 1999, we acquired substantially all of the assets of Nautilus International, a manufacturer and marketer of Nautilus brand commercial fitness equipment and consumer fitness accessories.

We believe we have been successful primarily because of the direct marketing expertise, comprehensive statistical tracking systems and extensive management information systems we have developed and refined while directly marketing our Bowflex products. We believe that this expertise and experience enable us to:

- Develop proprietary, high-end branded product lines with broad consumer appeal that can be sold effectively through direct marketing channels;

- Develop and implement effective advertising and marketing strategies;

- Convert consumer interest and inquiries into sales;

- Effectively manage our product sourcing, manufacturing and distribution operations; and

- Provide excellent customer service.

We were incorporated in California in 1986 and initially focused on developing our first line of Bowflex home fitness equipment, the Bowflex 2000X. We sold the Bowflex 2000X through various channels, including direct marketing and retail stores. In 1988, we developed a new model, the Schwinn Bowflex, which we marketed exclusively through Schwinn Bicycle Company until late 1992. When our exclusive relationship with Schwinn ended, we seized the opportunity to study and develop our own direct marketing campaign for the next generation Bowflex product, the Power Pro. Over the next several years, we tested and refined our direct marketing techniques, developed our customer call center systems and procedures, and developed our market analysis techniques, media buying tools and performance tracking measures. Using our market research and knowledge base, we embarked on our first widespread direct marketing campaign in 1996. Building upon our initial success, in early 1997 we began offering our current "zero-down" financing program through a third-party finance company, and in mid-1997 we started airing our first infomercial. Based on positive viewer response, we accelerated our direct marketing campaign during the remainder of 1997 and throughout 1998. In May 1998, we changed our name to Direct Focus, Inc. to reflect our transformation from a home fitness equipment company into a direct marketing company.

In 1997, we also recognized that our direct marketing expertise and techniques could be used to market other high-end branded products. After a careful review process that began in late 1997, in August 1998 we began test marketing a line of high-end airbeds under the brand name "Instant Comfort." We also recently acquired substantially all of the assets of Nautilus International, including the Nautilus line of commercial fitness equipment and the widely recognized Nautilus brand name. Our primary objectives with respect to Nautilus include revitalizing sales of Nautilus products in the commercial fitness market and capitalizing on the Nautilus brand name by introducing and directly marketing a line of Nautilus consumer fitness equipment.

GROWTH STRATEGY

Our objective is to become a leading direct marketer of high-end consumer products. Our growth strategy includes the following key elements:

INCREASE SALES OF OUR HIGHLY SUCCESSFUL BOWFLEX PRODUCTS. We intend to continue to expand the direct marketing campaign for our Bowflex products by airing our spot commercials and infomercials to broader audiences and by increasing the frequency of airings on proven cable and network stations. Consistent with historical practices, we also intend to introduce enhancements and additions to our Bowflex product line.

EXPAND THE DIRECT MARKETING CAMPAIGN FOR OUR AIRBEDS. We began test marketing a line of high-end airbeds in August 1998 under the brand name "Instant Comfort." We are encouraged by our initial test results and intend to continue testing and refining, and plan to expand, our direct marketing campaign for this product throughout 1999.

DEVELOP AND DIRECTLY MARKET ADDITIONAL HIGH-END CONSUMER PRODUCTS. We will continue to evaluate internally and externally generated ideas for high-end consumer products that have direct marketing potential. Generally, we look for products that: (1) have patented or patentable features; (2) have a retail price point between $500 and $2,500; (3) can be marketed as a line that facilitates upselling; and (4) have the potential for mass consumer appeal, particularly among members of the "baby boom" generation.

REVITALIZE SALES OF THE NAUTILUS LINE OF COMMERCIAL FITNESS EQUIPMENT. Our immediate objective for our Nautilus business is to revitalize sales of the Nautilus line of commercial fitness equipment, which we believe will ultimately strengthen our ability to market Nautilus branded products. We believe that we can most effectively achieve this objective by rebuilding our commercial sales and marketing operations. We have already hired a new management team to oversee and implement changes in the way we market and sell Nautilus commercial fitness equipment. Each member of the management team has significant experience in the industry and a history of sales and marketing success. We intend to focus on strengthening the domestic market position for our existing Nautilus products. As we expand our commercial product line, we will attempt to service new market segments, both domestically and internationally, and thereby broaden our commercial customer base.

CAPITALIZE ON STRONG CONSUMER RECOGNITION OF THE NAUTILUS BRAND NAME. A principal motivation in purchasing the Nautilus business was to acquire rights to the Nautilus brand name, which we believe is one of the most widely-recognized names in the fitness industry. We also believe that the brand identity and consumer appeal of the Nautilus name, in combination with our direct marketing expertise, will enable us to introduce and directly market innovative consumer fitness equipment and related products under the Nautilus name. In addition, we intend to introduce and market to specialty fitness and sporting goods stores more traditional home fitness equipment and accessories under the Nautilus name, such as treadmills, recumbent bicycles, elliptical trainers, jump ropes, workout mats and hand grips. In appropriate circumstances, we may also license the Nautilus name to manufacturers of high-quality consumer products that do not fit within our current strategic plan, such as clothing and related accessories.

CAPITALIZE ON INTERNET MARKETING AND E-COMMERCE OPPORTUNITIES. In 1998, approximately 5.8% of our Bowflex product inquiries and 10.0% of our net sales were initiated through our Bowflex web site. Our experience in 1998 indicates that internet-based inquiries are more likely to be converted into sales than inquiries generated by other media forms, such as television or print media. We believe that the increasing consumer acceptance of e-commerce and internet-based marketing will also enhance and complement our direct marketing efforts. Consequently, we intend to expand and enhance our web sites to more fully integrate the internet into our direct marketing strategy and facilitate e-commerce transactions.

EXPLORE GROWTH THROUGH STRATEGIC ACQUISITIONS. We will continue to explore growth opportunities through strategic acquisitions that would enhance our direct marketing capabilities or our product lines. We do not currently have any oral or written plans, agreements or commitments regarding any acquisitions.

DIRECT MARKETING

We directly market our Bowflex home fitness equipment and airbeds principally through 60-second or "spot" television commercials, television infomercials, the internet, response mailings and print media. To date, we have been highly successful with what we refer to as a "two-step" marketing approach. In general, our two-step approach focuses first on spot commercials, which we air to generate consumer interest in our products and requests for product information. The second step focuses on converting inquiries into sales, which we accomplish through a combination of response mailings and outbound telemarketing. We supplement our two-step approach with infomercials, which generally are designed to provide potential customers with sufficient product information to stimulate an immediate purchase.

ADVERTISING

SPOT COMMERCIALS AND INFOMERCIALS. Spot television commercials are a key element of the marketing strategy for all of our directly marketed consumer products. For directly marketed products that may require further explanation and demonstration, television infomercials are an important additional marketing tool. We have developed a variety of spot commercials and infomercials for our Bowflex product line and several commercials and marketing videos for our airbed product line. We expect to use spot commercials and, where appropriate, infomercials to market any Nautilus consumer products that we develop and determine are appropriate for direct marketing.

When we begin marketing a new product, we typically test and refine our marketing concepts and selling practices while advertising the product in spot television commercials. Production costs for these commercials can range from $40,000 to $130,000. Based on our market research and viewer response to our spot commercials, we may produce additional spot commercials and, if appropriate for the product, an infomercial. Production costs for infomercials can range from $150,000 to $500,000, depending on the scope of the project. Generally, we attempt to film several infomercial and commercial concepts at the same time in order to maximize production efficiencies. From this footage we can then develop several varieties of spot commercials and infomercials and introduce and refine them over time. We typically generate our own scripts for spot commercials and hire outside writers to assist with infomercial scripts. We also typically contract with outside production companies to produce spot commercials and infomercials. We may outsource all of these functions if we continue to grow.

Once produced, we test spot commercials and infomercials on a variety of cable television networks that have a history of generating favorable responses for our existing products. Our initial objective is to determine their marketing appeal and what, if any, creative or product modifications may be appropriate. If these initial tests are successful, we then air the spot commercials and infomercials on an accelerating schedule on additional cable networks.

MEDIA BUYING. An important component of our direct marketing success is our ability to purchase quality media time at an affordable price. We currently purchase the majority of our media time on cable networks, through which we reach more than 70 million homes. We recently began testing the effectiveness of our spot commercials and infomercials on broadcast networks, through which we hope to reach a broader viewing audience.

We track the success of each of our spot commercials and infomercials by determining how many viewers respond to each airing of a spot commercial or infomercial. We accumulate this information in a database that we use to evaluate the cost-effectiveness of available media time. In addition, we

believe that the database enables us to predict with reasonable accuracy how many product sales and inquiries will result from each spot commercial and infomercial that we air. We also believe that we can effectively track changing viewer patterns and adjust our advertising accordingly.

We do not currently purchase media time under long-term contracts. Instead, we book most of our spot commercial time on a quarterly basis and most of our infomercial time on a monthly or quarterly basis, as networks make time available. Networks typically allow us to cancel booked time with two weeks' advance notice, which enables us to adjust our advertising schedule if our statistical tracking indicates that a particular network or time slot is no longer cost effective. Generally, we can increase or decrease the frequency of our spot commercial and infomercial airings at almost any time.

INTERNET. In 1998, approximately 5.8% of our Bowflex product inquiries and 10.0% of our net sales were initiated through our Bowflex web site, and we expect the internet to become an increasingly important part of our direct marketing strategy. In addition, our experience indicates that internet-based inquiries are more likely to be converted into sales than inquiries generated by other media forms, such as television or print media. Consequently, we believe that consumers who visit our web sites are more inclined to purchase our products than are the consumers we target through other media.

We currently operate two direct marketing-oriented web sites: (1) www.bowflex.com, which focuses on our Bowflex line of home exercise equipment; and (2) www.instantcomfort.com, which focuses on our newly introduced line of high-end airbeds. In an effort to expand and enhance our web presence, we recently added dedicated web site development and management personnel. Our immediate internet-related goals include improving the e-commerce capabilities at our Bowflex web site and adding e-commerce capabilities to our airbed web site. We also plan to redesign our web sites to enhance their role as a medium for finalizing sales. Previously, we used our web sites to generate interest in our products, but limited the information we provided to potential customers in an effort to induce them to initiate a telephone inquiry. We now believe that we can achieve a balance between our twin goals of finalizing sales and capturing consumer information by strategically designing our web pages and carefully analyzing web page hits, conversion rates, average sales prices and inquiry counts.

PRINT MEDIA. We advertise our directly marketed products in various print media when we believe that such advertising can effectively supplement our direct marketing campaigns. For example, we have advertised our Bowflex home fitness equipment in health and fitness-related consumer magazines and, to a limited extent, in entertainment, leisure and specialty magazines. We recently determined that television advertising and the internet generate more immediate consumer responses at a lower cost per inquiry and therefore have begun to reduce the print media advertising expenditures for our Bowflex products. In contrast, our experience to date suggests that print media can play an effective role in the direct marketing campaign for our line of airbeds. Consequently, we intend to devote a higher portion of our overall advertising budget for our airbed products to print media. We will evaluate print media advertising expenditures for other directly marketed products on a case-by-case basis.

CONVERSION OF INQUIRIES INTO SALES

CUSTOMER SERVICE CALL CENTER AND ORDER PROCESSING. We operate our own customer service call center in Vancouver, Washington, which operates 16 hours per day and receives and processes all infomercial-generated and customer service-related inquiries regarding our Bowflex and airbed products. We have developed a skill-based call routing system that automatically routes each incoming call to the most highly qualified inside sales agent or customer service representative available. The appropriate representative then answers product questions, pro-actively educates the potential customer about the benefits of our product line, promotes financing through our private label credit card, and typically upsells the benefits of higher priced models in our product line. This sophisticated system allows us to better utilize our agents, prioritize call types and improve customer service. We employ

two large telemarketing companies to receive and process information requests generated by our spot television advertising 24 hours per day. These companies also serve as overflow agents for our call center during peak times.

RESPONSE MAILINGS. We forward a "fulfillment kit" in response to each inquiry regarding our directly marketed products. Each kit contains detailed literature that describes the product line and available accessories, a marketing video that demonstrates and highlights the key features of our premium product in the line, and additional information about how to purchase the product. If a potential customer does not respond within a certain time period, we proceed with additional follow-up mailings that convey a different marketing message and typically offer certain inducements to encourage a sale. The specific marketing message and offer at each stage will vary on a case-by-case basis, based on what our statistical tracking indicates is most likely to trigger a sale.

CONSUMER FINANCE PROGRAMS. We believe that convenient consumer financing is an important tool in our direct marketing sales efforts and induces many of our customers to make purchases when they otherwise would not. Currently, we offer "zero-down" financing to approved customers on all sales of our Bowflex and airbed products. We arrange this financing through a consumer credit company with whom we recently signed a new non-recourse consumer financing agreement. Under this arrangement, our customer service agents can obtain financing approval in a few minutes over the phone and, if a customer is approved, immediately ship product without the need for cumbersome paperwork. The consumer finance company pays us promptly after we submit required documentation and subsequently sends to each approved customer a Direct Focus private label credit card that can be used for future purchases of our products. During 1998, approximately 39.7% of our net sales were financed in this manner, and we believe that this program will continue to be an effective marketing tool.

NAUTILUS SALES AND MARKETING

We market and sell our Nautilus commercial fitness equipment domestically through a direct sales force and internationally through various distributors. We market and sell our Nautilus fitness accessories and consumer fitness equipment through independent sales representatives.

DIRECT SALES FORCE

We recently hired a new management team to oversee and revitalize the sales and marketing operations of our Nautilus business. Each member of the management team has significant industry experience and a history of sales and marketing success. Our commercial direct sales force will focus on strengthening the domestic market position of our existing Nautilus product line, which we sell principally to health clubs, large hotels, assisted living facilities and the government. As we broaden our product line, our direct sales force will target new market segments and, if successful, broaden our customer base. Internationally, we market and sell our Nautilus commercial fitness products through a worldwide network of distributors.

OTHER SELLING AND MARKETING CHANNELS

We intend to implement additional sales and marketing strategies for our Nautilus commercial equipment, including the following:

- Offer innovative financing, such as private label leasing that allows pre-approved commercial customers to lease fitness equipment;

- Hire inside sales personnel to supplement and expand the selling capabilities of our direct sales force;

- Implement a targeted mailing program directed at our commercial customers; and

- Expand the Nautilus trade-in program to induce existing commercial customers to upgrade their equipment. We intend to donate much of the used equipment to schools and other youth-oriented organizations and facilities, which we hope will facilitate future growth and stability as children grow up using Nautilus fitness equipment.

OUR PRODUCTS

BOWFLEX HOME FITNESS EQUIPMENT

We introduced the first Bowflex home exercise machine in 1986, and since then have implemented several improvements to its design and functionality. We now offer three different Bowflex machines and eight different models. The key feature of all Bowflex machines is our patented "Power Rod" resistance technology. Each Power Rod is made of a solid polymer material that provides lineal progressive resistance in both the concentric and eccentric movements of an exercise. When combined with a bilateral cable pulley system, the machines provide excellent range and direction of motion for a large variety of strength-building exercises.

We currently offer the following Bowflex machines:

- The Power Pro (introduced in 1993) is our best selling product, accounting for approximately 93.3% of our net sales in 1998. The Power Pro is available in four different models: the basic Power Pro, the XT, the XTL and the XTLU. Each model offers over 60 different strength building exercises in one compact, foldable and portable design and comes with a 210-pound resistance pack that can be upgraded to 410 pounds. We have also incorporated an aerobic rowing exercise feature into the Power Pro. Prices currently range from $999 to $1,597, depending on the model and add-on features.

- The Motivator (introduced in 1996) is our entry-level strength training line. It is available in three different models: the basic Motivator, the XT and the XTL. Each model offers over 40 different strength building exercises in one compact, foldable design and comes standard with a 210-pound resistance pack that can be upgraded to 410 pounds. Prices currently range from $699 to $1,049, depending on the model and add-on features.

- The Versatrainer by Bowflex (introduced in 1988) is specifically designed to accommodate wheelchair-bound users. The Versatrainer's key advantage is that it permits users to exercise while remaining in their wheelchair, which offers enhanced independence and esteem. The Versatrainer can be found in many major rehabilitation hospitals, universities and institutions. The Versatrainer is currently priced at $1,699.

NAUTILUS COMMERCIAL FITNESS EQUIPMENT AND FITNESS ACCESSORIES

We currently offer a broad range of Nautilus strength training equipment for the commercial market. The Nautilus 2ST line of commercial strength equipment offers 27 high quality, technologically advanced strength building machines, each of which is specially designed to focus on a particular strength building exercise, such as leg presses, bench presses, super pullovers, hip abductors and adductors, and leg curls. We also offer the Nautilus 2ST for Women, which is designed to meet the special needs of the female body and offers a safer, more productive workout for women. In addition, we offer a line of specially designed Nautilus 2ST equipment that we market principally to medical therapy and rehabilitation clinics.

The key component of each Nautilus machine is its "cam," which builds and releases resistance as a user moves through an exercise. The resistance is at its minimum during the initial and final stages of an exercise, and at its maximum in the middle of an exercise. Each Nautilus machine includes a cam that is designed to accommodate and maximize the benefits associated with the motion required for that machine.

Our Nautilus business also distributes a line of quality consumer fitness accessories that includes the following products:

- Push-up bars
- Toning bands
- Cushioned dumbbells
- Toning wheels
- Step tubes
- Hand grips
- Ankle/wrist weights
- Jump ropes
- Workout mats
- Wrist and knee wraps
- Waist wraps
- Audio packs

AIRBEDS

In August 1998, we began test marketing a line of high-end airbeds under the brand name "Instant Comfort." The key feature of each airbed is its variable firmness support chamber, an air chamber within each airbed that can be electronically adjusted to regulate firmness. All queen and larger airbeds in our Signature and Premier Series are equipped with dual air chambers that enable users to maintain different firmness settings on each side of the bed. We believe that variable firmness and other comfort-oriented features of our airbeds favorably differentiate our airbeds from conventional innerspring mattresses.

We currently offer three airbed models:

- The Premier Series is our top-of-the-line airbed sleep system. It features dual patent pending interlocking variable support chambers that permit users to maintain separate firmness settings on each side of the airbed. The interlocking chambers regulate airflow and pressure to more effectively maintain support when a user changes position. The Premier Series comes with a removable wool blend pillow top sleeping surface, which permits users to easily convert to a "tight top" surface when they desire extra firmness. The Premier Series is available in seven sizes and currently ranges in price from $850 for a twin to $1500 for a California king, excluding foundation. Customers can also purchase an upgraded comfort layer of visco-elastic foam that conforms to a user's body.

- The Signature Series is designed to appeal to consumers who desire the flexibility of dual variable firmness support chambers, but at a more affordable price. Our customers can choose between a tight top and a pillow top sleeping surface over a one and one-half inch convoluted foam comfort layer. The Signature Series is available in seven sizes and currently ranges in price from $500 for a twin to $1100 for a California king, excluding foundation.

- The Basic Series is our entry-level airbed, which features a single, head-to-toe variable firmness support chamber and a traditional tight top sleeping surface over a one and one-half inch thick convoluted foam comfort layer. The Basic Series is available in five sizes and currently ranges in price from $250 for a twin to $700 for a California king, excluding foundation.

We offer foundations that are specifically designed to support and enhance the performance of our airbeds. We advise consumers to use our foundations because conventional box springs tend to sag and wear over time, causing an airbed to eventually mirror the worn box spring. We believe that the majority of our airbed customers will order a complete sleep system, which includes both a mattress and a foundation. Our foundations currently range in price from $150 for a twin to $350 for a California king.

NEW PRODUCT DEVELOPMENT AND INNOVATION

DIRECT MARKETING PRODUCTS

We develop direct marketing products either from internally generated ideas or by acquiring or licensing patented technology from outside inventors and then enhancing the technology. During the evaluation phase of product development, we evaluate the suitability of the product for direct marketing, whether the product can be developed and manufactured in acceptable quantities and at an acceptable cost, and whether it can be sold at a price that satisfies our profitability goals. More specifically, we look for high-quality consumer products that:

- Have patented or patentable features;
- Will have a retail price between $500 and $2,500;
- Can be marketed as a line of products with materially different features that facilitate upselling; and
- Have the potential for mass consumer appeal, particularly among members of the "baby-boom" generation, who are accustomed to watching television and now have significant disposable income.

In addition, because of our relatively high retail price target, we typically require that a product have a potential television advertising life cycle of at least five years and the possibility of an extended life cycle in retail stores.

Once we determine that a product may satisfy our criteria, we further assess its direct marketing potential by continuing to research the product and its probable market and by conducting blind product and focus group studies. If the results are positive and we do not own the product, we will then attempt to acquire the product outright or obtain rights to the product through a licensing arrangement. If we develop the product internally, or if we acquire or license the rights to the product, we will then proceed to develop and test a direct marketing campaign for the product. In most cases, our direct marketing campaigns will emphasize the use of spot commercials and television infomercials, which we supplement with print media advertisements, written materials, marketing videos and our web sites. See "Direct Marketing."

NAUTILUS COMMERCIAL FITNESS PRODUCTS

Our Nautilus commercial product development group develops and refines our commercial fitness products. Its members gather and evaluate ideas from various departments, including sales and marketing, manufacturing, engineering and finance, and then determine which ideas will be incorporated into existing products or will serve as the basis for new products. Based on these ideas, the group designs new or enhanced products, develops prototypes, tests and modifies products, develops a manufacturing plan, and finally brings products to market. The group evaluates, designs and develops each new or enhanced product taking into consideration our marketing requirements, target price points, target gross margin requirements and manufacturing constraints. In addition, each new or enhanced product must maintain the Nautilus standard of quality and reputation for excellence. We incorporate principles of physiology, anatomy and biomechanics into all of our Nautilus machines in order to match the movements of the human body throughout an exercise. Our key objective is to produce products that minimize the stress on users' skeletal systems and connective tissues and maximize the safety and efficiency of each workout.

NAUTILUS CONSUMER FITNESS PRODUCTS

We are currently evaluating design and feature concepts for a new line of Nautilus consumer fitness products, such as home gyms, treadmills, stationary bicycles and stair machines. If we elect to proceed with one or more of these products, we would then assess price points, develop a prototype and determine the most appropriate manufacturing plan. We do not anticipate introducing any such products before 2000.

MANUFACTURING AND DISTRIBUTION

BOWFLEX AND AIRBED PRODUCTS

Our primary manufacturing and distribution objectives for our Bowflex and airbed products are to maintain product quality, reduce and control costs, maximize production flexibility and improve delivery speed. We use a computerized inventory management system to forecast our manufacturing requirements. In general, we attempt to use outside suppliers to manufacture a majority of our raw materials and finished parts. We select these suppliers based upon their production quality, cost and flexibility. Whenever possible and in order to improve flexibility, we will attempt to use at least two suppliers to manufacture each product component. We currently use overseas suppliers to manufacture approximately half of our Bowflex components, although we produce the main component of our Bowflex products, the Power Rods, exclusively in the United States. We will continue to use overseas suppliers that meet our manufacturing criteria. All of our airbed components are currently manufactured domestically.

We assemble, inspect, package and ship our products from our Vancouver, Washington and Independence, Virginia facilities. We also intend to establish an additional distribution center in the Western United States. We rely primarily on UPS to deliver our Bowflex products, and we currently use a private furniture shipping company to deliver our airbed products. See "Risk Factors."

NAUTILUS COMMERCIAL FITNESS EQUIPMENT, CONSUMER FITNESS EQUIPMENT AND FITNESS ACCESSORIES

Our Nautilus manufacturing 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 Nautilus products and offer our commercial customers the opportunity to order certain color variations. We currently distribute Nautilus commercial fitness equipment from our Independence, Virginia warehouse facilities directly to consumers through our own truck fleet. This method of distribution allows us to effectively control the set-up and inspection of equipment at the end-user's facilities. We intend to outsource the manufacturing of Nautilus consumer fitness equipment and fitness accessories to outside manufacturers. We currently distribute our Nautilus fitness accessories from our Vancouver, Washington facilities.

INDUSTRY OVERVIEW

FITNESS EQUIPMENT

We market our Bowflex home fitness equipment principally in the United States, which we believe is a large and growing market. According to the Sporting Goods Manufacturers' Association (the "SGMA"), United States consumers spent roughly $5.2 billion on home exercise equipment in 1997, which represented an 8.3% increase from roughly $4.8 billion in 1996.

We market our Nautilus commercial fitness equipment throughout the world, including the United States, Europe, the United Kingdom, Asia, the Middle-East, Latin America and Africa. Within these markets, we target the following commercial customers, among others:

- Health clubs and gyms
- Rehabilitation clinics
- The military
- Hospitals
- Hotels and motels
- Corporate fitness centers
- Colleges and universities
- Governmental agencies
- YMCA's and YWCA's
- Professional sports teams

According to the SGMA, which has only tracked the commercial market since 1996, aggregate sales of fitness equipment to commercial purchasers in the United States rose from $450 million in 1996 to $500 million in 1997, an 11.1% increase.

MATTRESSES

The United States mattress market is large and dominated by four major manufacturers whose primary focus is the conventional innerspring mattress. According to the International Sleep Products Association (the "ISPA"), United States consumers purchased approximately 35.3 million mattress and foundation units in 1997, generating approximately $3.6 billion in wholesale sales. We believe that this equates to over $6.0 billion in retail sales. The ISPA estimates that innerspring mattresses accounted for approximately 90.0% of total domestic mattress sales in 1997 and the four largest manufacturers (Sealy, Serta, Simmons and Spring Air) accounted for nearly 62.0% of domestic wholesale dollar sales. We believe over 700 manufacturers, operating primarily on a regional basis, serve the balance of the mattress market. We believe that less than 10.0% of all mattress sales are made through direct marketing channels.

COMPETITION

BOWFLEX HOME FITNESS EQUIPMENT

The market for our Bowflex products is highly competitive. Our competitors frequently introduce new and/or improved products, often accompanied by major advertising and promotional programs. We believe that the principal competitive factors affecting this portion of our business are price, quality, brand name recognition, product innovation and customer service.

We compete directly with a large number of companies that manufacture, market and distribute home fitness equipment, and with the many health clubs that offer exercise and recreational facilities. We also compete indirectly with outdoor fitness, sporting goods and other recreational products. Our principal direct competitors include ICON Health & Fitness, Inc. (through its Health Rider, NordicTrak, Image, Proform, Weider and Weslo brands), Schwinn Fitness, Precor and Total Gym.

We believe that our Bowflex line of home exercise equipment is competitive within the market for home fitness equipment and that our direct marketing activities are effective in distinguishing our products from the competition. In addition, our recent Nautilus acquisition presents a significant opportunity to capitalize on the well-known Nautilus brand name by directly marketing existing Nautilus consumer products and developing and introducing new products. However, some of our competitors have significantly greater financial and marketing resources, which may give them and their products an advantage in the marketplace.

NAUTILUS COMMERCIAL FITNESS EQUIPMENT

The market for commercial fitness equipment is highly competitive. Our Nautilus products compete against the products of numerous other commercial fitness equipment companies, including Life

Fitness, Cybex and Precor. Many of our competitors have greater financial and marketing resources, significantly more experience in the commercial fitness equipment industry, and more extensive experience manufacturing their products. We believe that the key competitive factors in this industry include price, product quality and durability, diversity of features, financing options and warranties. Many commercial customers are also interested in product-specific training programs that educate them regarding how to safely maximize the benefits of a workout and achieve specific fitness objectives. In addition, certain commercial customers, such as hotels and corporate fitness centers, have limited floor space to devote to fitness equipment. These customers tend to favor multi-function machines that require less floor space.

Our Nautilus commercial fitness products carry a premium price, but we believe their reputation for quality and durability appeals to a significant portion of the market that strives for long-term product value. In addition, our principal line of Nautilus commercial fitness equipment, the Nautilus 2ST, possesses unique features that appeal to the commercial market, such as low friction working parts, one-pound incremental weight stacks and hydraulic seat adjustments. We also offer training programs that are responsive to marketplace demands.

AIRBEDS

The mattress industry is also highly competitive as evidenced by the wide range of products available to consumers, such as innerspring mattresses, waterbeds, futons and other air-supported mattresses. According to the ISPA, conventional innerspring mattresses presently account for at least 90.0% of all domestic mattress sales, with waterbeds, futons and other types of mattresses making up the remainder of the market. We believe that market participants compete primarily on the basis of price, product quality and durability, brand name recognition, innovative features, warranties and return policies.

We believe that our most significant competition is the conventional mattress industry, which is dominated by four large, well-recognized manufacturers: Sealy (which also owns the Stearns & Foster brand name), Serta, Simmons and Spring Air. According to the ISPA, these manufacturers were responsible for approximately 62.0%, or $2.2 billion, of domestic wholesale dollar mattress sales in 1997. We believe approximately 700 smaller manufacturers serve the balance of the conventional mattress market. Although we believe that our airbeds offer consumers an appealing alternative to conventional mattresses, many of these conventional manufacturers, including Sealy, Serta, Simmons and Spring Air, possess significantly greater financial, marketing and manufacturing resources, and better brand name recognition.

Moreover, several manufacturers currently offer beds with firmness technology similar to our airbeds. We believe that the largest manufacturer in this niche market is Select Comfort, Inc. Select Comfort offers its airbeds at company-owned retail stores throughout the United States and engages in a significant amount of direct marketing, including infomercials, targeted mailings, and print, radio and television advertising. Select Comfort has an established brand name and has greater financial, marketing and manufacturing resources. Select Comfort also has significantly greater experience in marketing and distributing airbeds. Despite these advantages, we believe that the market for airbeds is large enough for both companies to be successful. In addition, we believe that our airbeds possess features that will enable us to effectively compete against Select Comfort and other airbed companies.

We believe that our success in the mattress business depends in part on convincing consumers that variable firmness control and other features of our sleep system favorably differentiate our products from those of our competitors. We also believe that our experience with direct marketing will enable us to successfully convey this message. However, the intense competition in the mattress industry, both from conventional mattress manufacturers and Select Comfort, may adversely affect our efforts to market and sell our airbeds and, consequently, may adversely affect our business.

INTELLECTUAL PROPERTY

We believe that our intellectual property is an important factor in maintaining our competitive position in the fitness and mattress industries. Accordingly, we have taken the following steps to protect our intellectual property:

- We hold 17 United States patents and have applied for three additional United States patents with respect to our Nautilus products;

- We hold four patents relating to our Bowflex home fitness equipment;

- We have applied for one patent relating to our airbeds;

- We have obtained United States trademark protection for various names associated with our products, including "Bow-Flex," "Nautilus," "Power Rod," "Bowflex Power-Pro," "Motivator" and "Versatrainer";

- We have applied for United States trademark protection for the names "Direct Focus," "Instant Comfort" and various other names and slogans associated with our products;

- We have registered the name "Bow-Flex" in Canada and the European Community and have registered or applied to register the "Nautilus" trademark in approximately 30 foreign countries;

- We have obtained trademark protection for the "look" of our Bowflex Power Rods; and

- We hold eight United States copyright registrations relating to our Nautilus products.

Each federally registered trademark is renewable indefinitely if the mark 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 marks. Despite our efforts, the steps we have taken to protect our proprietary technology may be inadequate. See "Risk Factors - Intellectual Property."

ENVIRONMENTAL REGULATION

Environmental regulations most significantly affect our Nautilus facilities in Independence, Virginia. The Virginia Department of Environmental Quality has issued an air permit for several point sources at this facility. The sources include boilers, flash ovens and high solids paint booths. The permit imposes operation limits based on the length of time each piece of equipment is operated each day, and we operate the plant within these limits. The town of Independence, Virginia has issued an industrial user's wastewater permit that governs our discharge of on-site generated wastewater and storm water. In addition to the foregoing, we recently completed a Phase I Environmental Site Assessment and a limited Phase II Soil Analysis Assessment at our Nautilus facilities in Independence, Virginia. No significant deficiencies or violations were noted. We do not believe that continued compliance with federal, state and local environmental laws will have a material effect upon our capital expenditures, earnings or competitive position.

EMPLOYEES

As of February 1, 1999, we employed 336 full-time employees, including three executive officers and 34 part-time employees.

PROPERTIES

Our corporate headquarters and our principal warehouse facilities occupy approximately 74,000 square feet in Vancouver, Washington. We also use these facilities to house our customer call center and to assemble and distribute our Bowflex and airbed products. We lease these properties pursuant to

operating leases that expire at various times, from May 30, 2000, to April 30, 2002. The aggregate base rent is approximately $24,000 per month and some of the leases are subject to annual adjustments based upon changes in the consumer price index, but no adjustment may exceed 6.0% in any calendar year.

As part of our recent acquisition of substantially all of the assets of Nautilus International, we acquired 54 acres of commercial real property in Independence, Virginia, which includes the following facilities:

- A 124,000 square foot building devoted to fabrication, finishing, assembly, plastics, upholstery, warehousing and shipping;

- A 100,000 square foot building devoted to fabrication and warehousing;

- A 27,105 square foot building that houses our Nautilus engineering, prototyping and customer service operations; and

- A 9,187 square foot building that houses our Nautilus administrative operations.

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

LEGAL PROCEEDINGS

On May 1, 1998, Soloflex, Inc., a company that manufactures and directly markets home fitness equipment, filed an action against Direct Focus and Randal R. Potter, our Vice President of Marketing, in the United States District Court for the District of Oregon. The suit is titled Soloflex, Inc. v. Bowflex, Inc. and Randy Potter, Cause No. 98-557-JO. The judge has set a trial date of July 6, 1999, and both parties are now proceeding with discovery.

Soloflex is pursuing two categories of claims, both of which relate to activities that allegedly violate its intellectual property rights. First, Soloflex claims that we violated the Lanham Act, which relates to trademark and trade dress infringement, and infringed upon several of its copyrights. The principal basis for these claims is Soloflex's contention that our print and video advertisements are too similar to its advertisements. For example, Soloflex asserts that we are prohibited from marketing our products with advertisements that: (1) feature Mr. Potter, a former model for Soloflex; (2) feature an image of Mr. Potter removing his shirt; or (3) use phrases with the words "unlock your body's potential" or "the body you always wanted."

Second, Soloflex claims that we misappropriated certain of its marketing trade secrets. The principal basis for this claim is Soloflex's allegation that Mr. Potter had access to marketing knowledge and physical documents while an employee of Soloflex, and that Mr. Potter improperly used this knowledge and documentation to our competitive advantage. Soloflex further alleges that we hired another Soloflex employee, who also possessed this type of information, for the specific purpose of acquiring such information and obtaining a competitive advantage.

Soloflex has requested both monetary damages and injunctive relief in connection with its claims. Specifically, Soloflex is seeking to recover: (1) any profits it would have earned but for our allegedly improper activities; (2) any profits we earned during the period when an alleged violation may have occurred; and/or (3) the cost of corrective advertising to remedy the allegedly "false impressions" created by our advertising activities. The injunctive relief that Soloflex is seeking would prohibit us from airing advertisements that allegedly would infringe upon Soloflex's intellectual property rights. We intend to vigorously defend against these claims, which we believe lack merit. However, we cannot

assure you that we will prevail in this dispute. If Soloflex successfully prosecutes any of its claims, the resulting monetary damages and/or injunctive relief would significantly harm our business. See "Risk Factors - Soloflex Litigation."

We are also involved in various legal proceedings incident to the ordinary course of our business. We believe that the outcome of these pending legal proceedings will not, in the aggregate, have a material adverse effect on our business.

DIRECTORS AND EXECUTIVE OFFICERS

Our directors and executive officers and their ages as of the date of this prospectus are as follows:

NAME	AGE	POSITION(S) WITH THE COMPANY
Brian R. Cook	49	President and Chief Executive Officer, Director
Randal R. Potter	31	Vice President of Marketing
Rod W. Rice	34	Chief Financial Officer, Treasurer and Secretary
C. Reed Brown	52	Director of Business/Legal Affairs, Director
Kirkland C. Aly	42	Director
Gary L. Hopkins	51	Director
Roger J. Sharp	43	Director
Roland E. Wheeler	50	Director

BRIAN R. COOK has served as a director and the President and Chief Executive Officer of Direct Focus since 1986. Mr. Cook received his B.A. in Business Administration, with a major in accounting, from Western Washington University. He is a Certified Public Accountant. Mr. Cook is related by marriage to Mr. Hopkins.

RANDAL R. POTTER joined Direct Focus in 1991 as a Creative Director and Marketing Manager and was named Vice President of Marketing in December 1995. Mr. Potter, who received his B.S. in Social Science from Washington State University, has been involved in the direct marketing industry since 1986.

ROD W. RICE joined Direct Focus in 1994 as Controller and was named Chief Financial Officer, Treasurer and Secretary in 1995. From 1992 to 1994, Mr. Rice was a senior assistant accountant with Deloitte & Touche LLP. Mr. Rice received his B.S. in Business Administration, with a major in Accounting and Economics, from Portland State University. He is a Certified Public Accountant.

C. REED BROWN joined Direct Focus in 1998 as the Director of Business/Legal Affairs and has served as a director since 1998. From 1996 to 1997, Mr. Brown served as Vice President/General Counsel and Director of Business Affairs at Williams Worldwide Television, and also served briefly as President and Chief Operating Officer of Stilson & Stilson Advertising and Marketing. From 1992 to 1996, Mr. Brown held various positions at HealthRider, Inc., including General Counsel/Vice President, Executive Vice President, Corporate Secretary and President of HealthRider Kiosk, Inc. Mr. Brown received his J.D. in 1973 from the University of Utah College of Law. Mr. Brown also serves as a director of Pen Interconnect, Inc.

KIRKLAND C. ALY has been a director of Direct Focus since 1996. Since 1998, Mr. Aly has been the Vice President of Worldwide Sales & Marketing at Software Logistix Corporation, a company that develops, implements and manages integrated supply chains for high technology companies. From 1997 to 1998, Mr. Aly was the Executive Vice President of Softbank Content Services, Inc., and from 1996 to 1997 was a principal in KDI Capital, LLC. From 1995 to 1997, Mr. Aly was the President and Chief Executive Officer of Atrieva Corporation. Throughout 1994, Mr. Aly was the President of Prism Group, Inc. Mr. Aly received his B.A. in Communications from Washington State University.

GARY L. HOPKINS has been a director of Direct Focus since January 1993. Mr. Hopkins is currently the Branch Operations Manager of Qpoint Mortgage, a position he has held since March 1998. Mr. Hopkins previously served as a Senior Lending Officer at Olympic NW Mortgage from 1996 to 1998, a Senior Loan Officer at Emerald Mortgage from 1994 to 1996, and as President and CEO of Merit Escrow from 1990 to 1994. Mr. Hopkins is related by marriage to Mr. Cook.

ROGER J. SHARP has been a director of Direct Focus since 1995. Since 1993, he has served as the President of The Sharp Law Firm in Vancouver, Washington, a general civil legal practice. He received his J.D. from the University of Washington School of Law in 1981. Mr. Sharp has provided, and from time to time may continue to provide, legal services to Direct Focus.

ROLAND E. "SANDY" WHEELER has served as a director of Direct Focus since 1986. Since 1998, he has served as the President and CEO of DynaMed, Inc., a cancer research company. In addition, since 1996, he has served as the President of V-Care Health Systems, Inc., a medical equipment company. From 1994 to 1995, Mr. Wheeler served as the Vice President of Marketing of Direct Focus.

COMMITTEES OF THE BOARD OF DIRECTORS

Our board of directors has two committees: an audit committee and a Year 2000 committee. Roland Wheeler, Kirkland C. Aly, Gary L. Hopkins and C. Reed Brown serve on the audit committee. The audit committee has authority to: (1) make recommendations to the board of directors regarding the selection of independent auditors; (2) review the results and scope of audits and other services provided by our independent auditors; and (3) review and evaluate our audit and control functions. C. Reed Brown and Roland Wheeler serve on the Year 2000 committee, which is charged with developing, overseeing and reviewing our Year 2000 response and contingency plan. We do not have a compensation committee. Instead, the full board of directors considers and determines compensation issues, except that no officer who is a director participates in board deliberations regarding their own compensation.

DIRECTOR COMPENSATION

All of our nonemployee directors are paid $500 per day plus travel expenses for each board of directors meeting that they attend in person, and $150 per day for each board of directors meeting that they attend telephonically. On February 27, 1998, the board granted to each non-employee director an option to purchase 5,000 shares of our common stock at an exercise price equal to the market price of our common stock at the close of trading on the Toronto Stock Exchange on the date of grant. On May 8, 1998, the board granted to Mr. Brown an option to purchase 5,000 shares of our common stock under the same terms. In addition, on May 8, 1998, the board of directors granted a $10,000 bonus to each director other than C. Reed Brown.

DIRECTOR AND OFFICER INDEMNIFICATION AND LIABILITY

Our articles of incorporation limit the liability of directors to the fullest extent permitted by the Washington Business Corporation Act or other applicable law, as then in effect. Consequently, subject to the Washington Business Corporation Act, no director shall be personally liable to Direct Focus or its shareholders for monetary damages resulting from his or her conduct as a director of Direct Focus, except liability for:

- Acts or omissions involving intentional misconduct or knowing violations of law;

- Unlawful distributions; or

- Transactions from which the director or officer personally receives a benefit in money, property or services to which the director is not legally entitled.

Our articles of incorporation and bylaws also provide that we shall indemnify any individual made a party to a proceeding because that individual is or was a director or officer of Direct Focus. We must also advance or reimburse reasonable expenses incurred by such individual prior to the final disposition of the proceeding to the fullest extent permitted by the Washington Business Corporation Act or other applicable law, as then in effect. No repeal of or modification to our articles of incorporation or bylaws may adversely affect any indemnification rights of a director or officer of Direct Focus

who is or was a director or officer at the time of such repeal or modification. To the extent the provisions of our articles of incorporation provide for indemnification of directors and officers for liabilities arising under the Securities Act of 1933, those provisions are, in the opinion of the Securities and Exchange Commission, against public policy as expressed in the Securities Act and they are therefore unenforceable.

We do not currently maintain a liability insurance policy pursuant to which our directors and officers may be indemnified against liability that they may incur for serving in their capacities as directors and officers of Direct Focus. However, we intend to obtain such a policy in 1999.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Our board of directors does not have a compensation committee. During 1998, director Brian R. Cook, who is also the President and Chief Executive Officer of Direct Focus, participated in board deliberations regarding the compensation of all executive officers other than himself.

EXECUTIVE COMPENSATION

The following table sets forth certain information regarding the compensation we paid to our Chief Executive Officer and other executive officers whose salary and bonus together exceeded $100,000 in 1998. We refer to these individuals collectively in this prospectus as the "Named Executive Officers."

SUMMARY COMPENSATION TABLE

				LONG-TERM COMPENSATION
		ANNUAL COMPENSATION		SECURITIES
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)(1)	UNDERLYING OPTIONS (#)
Brian R. Cook, President & CEO	1998	$ 175,000	$ 175,000	30,000
Randal R. Potter, Vice President, Marketing	1998	$ 105,000	$ 105,000	20,000
Rod W. Rice, Chief Financial Officer, Treasurer and Secretary	1998	$ 90,000	$ 90,000	25,000

(1) The board of directors has sole discretion in establishing bonus awards. All bonuses awarded in 1998 were in accordance with the performance-based criteria established by the board of directors in February 1998.

OPTION GRANTS

The following table sets forth information concerning stock option grants to the Named Executive Officers during the year ended December 31, 1998.

OPTION GRANTS IN 1998

	INDIVIDUAL GRANTS				
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1) (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1998(2)	EXERCISE PRICE ($/SH)(3)	EXPIRATION DATE	GRANT DATE VALUE GRANT DATE PRESENT VALUE(4) ($)
Brian R. Cook.....	30,000	16.0%	$ 4.62	2/28/2003	$ 90,000
Randal R. Potter.....	20,000	10.6%	$ 4.62	2/28/2003	$ 60,000
Rod W. Rice.....	25,000	13.3%	$ 4.62	2/28/2003	$ 75,000

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(1) The options were granted on February 27, 1998. Mr. Cook's option vested in full on the date of grant. Mr. Potter's and Mr. Rice's options vest in one-third increments on each of the first three anniversaries of the grant date.

(2) During 1998, the board of directors granted options to purchase a total of 188,000 shares of Direct Focus common stock.

(3) In accordance with the rules of the Toronto Stock Exchange and our Stock Option Plan, the exercise price per share equals the closing price (in U.S. dollars) of our common stock on the Toronto Stock Exchange on the grant date. The exercise price may be adjusted only upon the occurrence of specific events that would dilute our share capital.

(4) 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: (a) all options granted will vest as scheduled; (b) no dividend yield; (c) a risk-free interest rate of 5.0%; and (d) an expected volatility of 76.0%.

The following table summarizes the number and value of options exercised by the Named Executive Officers during 1998 and the value of options held by such persons as of February 26, 1999.

AGGREGATED OPTION EXERCISES IN 1998 AND YEAR END OPTION VALUES

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT YEAR END (#)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT YEAR END ($)	
NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED ($)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Brian R. Cook.....	--	$ --	80,000	--	$ 1,026,300	$ --
Randal R. Potter.....	63,500	$ 333,688	107,500	20,000	$ 1,581,675	$ 211,200
Rod W. Rice.....	37,213	$ 100,705	36,666	48,334	$ 527,791	$ 603,009

EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT AND CHANGE-IN-CONTROL ARRANGEMENTS

BRIAN R. COOK is employed as our President and Chief Executive Officer pursuant to an employment agreement dated as of January 1, 1998 (the "Cook Agreement"). Mr. Cook's current salary is $225,000 per year, and is subject to increase at the discretion of our board of directors. He is also entitled to reimbursement for reasonable out-of-pocket expenses. The Cook Agreement had an initial term of one year, with automatic renewals for subsequent one-year terms. We may terminate the Cook

Agreement by providing Mr. Cook with at least six months' notice of such termination. Upon the receipt of such notice, all unpaid salary that would have been paid to Mr. Cook during the remaining term of his employment would become immediately due and payable.

RANDAL R. POTTER is employed as our Vice President of Marketing pursuant to an employment agreement dated as of January 1, 1998 (the "Potter Agreement"). Mr. Potter's current salary is $150,000 per year, and is subject to increase at the discretion of our board of directors. He is also entitled to reimbursement for reasonable out-of-pocket expenses. The Potter Agreement had an initial term of one year, with automatic renewals for subsequent one-year terms. We may terminate the Potter Agreement by providing Mr. Potter with at least six months' notice of such termination. Upon the receipt of such notice, all unpaid salary that would have been paid to Mr. Potter during the remaining term of his employment would become immediately due and payable.

ROD W. RICE is employed as our Chief Financial Officer pursuant to an employment agreement dated as of January 1, 1998 (the "Rice Agreement"). Mr. Rice's current salary is $120,000 per year, and is subject to increase at the discretion of our board of directors. He is also entitled to reimbursement for reasonable out-of-pocket expenses. The Rice Agreement had an initial term of one year, with automatic renewals for subsequent one-year terms. We may terminate the Rice Agreement by providing Mr. Rice with at least six months' notice of such termination. Upon the receipt of such notice, all unpaid salary that would have been paid to Mr. Rice during the remaining term of his employment would become immediately due and payable.

BENEFIT PLANS

DIRECT FOCUS, INC. STOCK OPTION PLAN

In 1995, our board of directors and shareholders adopted the Direct Focus, Inc. Stock Option Plan, which was amended in 1998 and 1999. The principal purpose of the Stock Option Plan is to enhance shareholder value by offering our employees, officers, directors and consultants a financial incentive to stimulate our continued growth and success. Our board of directors has reserved a total of 1,857,961 shares of Direct Focus common stock for issuance upon the exercise of options granted under the Stock Option Plan. As of December 31, 1998, options to purchase 550,618 shares of Direct Focus common stock were outstanding, of which options to purchase 309,199 shares were then exercisable. The weighted average exercise price of outstanding options was $2.39 per share, with actual exercise prices ranging between $0.12 and $9.75 per share.

The current plan administrator is our board of directors, although the board may appoint a committee of two or more directors to administer the Stock Option Plan. The plan administrator may grant (1) incentive stock options to any employee of Direct Focus or its subsidiaries, and (2) non-qualified stock options to any employee, officer, director or consultant of Direct Focus or its subsidiaries. The plan administrator has the exclusive authority to administer the Stock Option Plan in accordance with the terms thereof, including the authority to:

- Select which employees, if any, will be granted incentive stock options;

- Select which employees, officers, directors and/or consultants, if any, will be granted non-qualified stock options;

- Specify the terms and conditions of each option granted;

- Designate the number of shares subject to each option granted;

- Designate the exercise price of each option granted (which, for incentive stock options, must be at least equal to the fair market value of Direct Focus common stock on the grant date); and

- Designate the vesting schedule.

Unless the plan administrator establishes a shorter term or the holder of an incentive stock option dies or ceases to be an employee of Direct Focus or one of our subsidiaries, all incentive stock options granted to persons who beneficially own more than 10.0% of our outstanding common stock terminate five years after the grant date, and all other options terminate ten years after the grant date. If the holder of an incentive stock option dies or ceases to be an employee of Direct Focus or one of our subsidiaries due to a disability, his or her option will terminate six months after the date of death or cessation of employment. If the holder of an incentive stock option ceases to be an employee of Direct Focus or one of our subsidiaries for any reason other than a disability, the plan administrator may designate a termination date between 30 days and three months after the cessation of employment.

The plan administrator is required to make proportional adjustments to the aggregate number of shares issuable under the Stock Option Plan and pursuant to outstanding options in the event of stock splits or other capital adjustments. In addition, certain corporate transactions, such as a merger or consolidation that would cause our shareholders to own less than a majority of the surviving entity, will cause all outstanding options to become immediately exercisable without regard for any vesting schedule or other vesting contingencies. Similarly, all outstanding options will become immediately exercisable if a person becomes the beneficial owner of 50.0% or more of our voting securities.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We acquired the rights to our Bowflex technology from Tessema D. Shifferaw, the inventor of the technology and an original shareholder, pursuant to an agreement that provides for royalty payments to Mr. Shifferaw based on net sales of our Bowflex products. We paid approximately $1.6 million to Mr. Shifferaw in 1998. Pursuant to a separate agreement between Mr. Shifferaw, Brian R. Cook and Roland E. Wheeler, Mr. Shifferaw is obligated to pay Messrs. Cook and Wheeler 40.0% (20.0% each) of annual royalties in excess of $90,000. For 1998, Messrs. Cook and Wheeler each expect to receive $302,765 from Mr. Shifferaw under this arrangement.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table summarizes certain information regarding the beneficial ownership of our outstanding common stock as of February 26, 1999, and as adjusted to reflect the sale of common stock in this offering, by: (1) each director; (2) each executive officer whose name appears in the summary compensation table; (3) all persons that we know are beneficial owners of more than 5.0% of our common stock, and (4) all directors and executive officers as a group.

DIRECTORS, EXECUTIVE OFFICERS, 5% SHAREHOLDERS AND SELLING SHAREHOLDERS(1)	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING		SHARES TO BE SOLD IN OFFERING	SHARES BENEFICIALLY OWNED AFTER OFFERING	
	NUMBER	PERCENTAGE(2)	NUMBER	NUMBER	PERCENTAGE(2)
Brian R. Cook(3)	696,071	7.2%	25,000	671,071	6.4%
Randal R. Potter(4)	173,166	1.8	12,500	160,666	1.5
Rod W. Rice(5)	108,499	1.1	12,500	95,999	*
Kirkland C. Aly(6)	14,000	*	--	14,000	*
C. Reed Brown(7)	5,000	*	--	5,000	*
Gary L. Hopkins(8)	44,000	*	--	44,000	*
Roger J. Sharp(9)	29,140	*	--	29,140	*
Roland E. Wheeler(10)	349,586	3.7	25,000	324,586	3.1
Paul Little(11)	452,610	4.7	100,000	352,610	3.4
All directors and executive officers as a group (8 persons)	1,419,462	14.6	75,000	1,344,462	12.7

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* Less than 1%.

(1) The address of all directors and executive officers is our address: 2200 N.E. 65(th) Avenue, Vancouver, Washington 98661.

(2) We have calculated the pre-offering percentages assuming that 9,532,939 shares of our common stock are issued and outstanding, and have calculated post-offering percentages assuming that 10,357,939 shares of our common stock will be issued and outstanding. In accordance with SEC regulations, each percentage calculation with respect to a shareholder assumes the exercise of all outstanding options that such shareholder holds and that can be exercised within 60 days after the anticipated effective date of this offering.

(3) Includes 80,000 shares issuable upon the exercise of options.

(4) Includes 96,416 shares issuable upon the exercise of options.

(5) Includes 8,333 shares issuable upon the exercise of options.

(6) Includes 5,000 shares issuable upon the exercise of options.

(7) Includes 5,000 shares issuable upon the exercise of options.

(8) Includes 15,000 shares issuable upon the exercise of options.

(9) Includes 5,000 shares issuable upon the exercise of options, 4,000 shares held by Mr. Sharp's spouse and 1,900 shares held by Mr. Sharp's children. Mr. Sharp's spouse is the custodian for all shares held by their children.

(10) Includes 5,000 shares issuable upon the exercise of options and 18,900 shares held by Mr. Wheeler's daughter.

(11) Includes 202,810 shares held by Westover Investments, Inc., of which Mr. Little is the sole shareholder and director. Mr. Little's address is 211 Queen's Quay West, Suite 911, Toronto, Ontario, Canada M5J 2M6.

UNDERWRITING

The underwriters named below, acting through their representative, D.A. Davidson & Co., have severally agreed with the Company and the selling shareholders, subject to the terms and conditions of the Underwriting Agreement, to purchase the number of shares of common stock set forth opposite their respective names below. The underwriters are committed to purchase and pay for all such shares if any are purchased.

UNDERWRITER	NUMBER OF SHARES
D.A. Davidson & Co.	
Total	1,000,000

D.A. Davidson & Co. has advised the Company and the selling shareholders that the underwriters propose to offer the shares of common stock to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at such price less a concession of not in excess of $ per share, of which $ may be reallowed to other dealers. After the offering, the public offering price, concession and reallowance to dealers may be reduced by D.A. Davidson & Co. No such reduction shall change the amount of proceeds to be received by the Company and the selling shareholders as set forth on the cover page of this prospectus.

The Company has granted to the underwriters an option, exercisable during the 30-day period after the date of this prospectus for the offering, to purchase up to 150,000 additional shares of common stock at the same price per share as the Company and the selling shareholders will receive for the one million shares that the underwriters have agreed to purchase. To the extent that the underwriters exercise such option, each of the underwriters will have a firm commitment, subject to certain conditions, to purchase approximately the same percentage of such additional shares that the number of shares of common stock to be purchased by it shown in the above table represents as a percentage of the one million shares offered hereby. If purchased, the underwriters will sell such additional shares on the same terms as those on which the one million shares are being sold.

The following table summarizes the compensation to be paid to the underwriters by the Company and the selling shareholders, and the expenses payable by the Company and the selling shareholders.

		TOTAL	
	PER SHARE	WITHOUT OVER-ALLOTMENT	WITH OVER-ALLOTMENT
Underwriting discounts and commissions paid by the Company	$	$	$
Underwriting discounts and commissions paid by the selling shareholders	$	$	$
Expenses payable by the Company	$	$	$

The Underwriting Agreement contains covenants of indemnity among the underwriters, the Company and the selling shareholders against certain civil liabilities, including liabilities under the Securities Act of 1933 and liabilities arising from breaches of representations and warranties contained in the Underwriting Agreement.

The Company has applied to have its common stock listed for trading on Nasdaq.

Each officer and director of the Company and each selling shareholder have agreed that, for a period of 180 days after the effective date of this prospectus, they will not, subject to certain exceptions, directly or indirectly offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to, any shares of common stock, or any securities convertible into or exchangeable for shares of common stock, now owned or hereafter acquired directly by such holders or

with respect to which they have the power of disposition, without the prior written consent of D.A. Davidson & Co., which may, in its sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements. In addition, the Company has agreed that during the 180 days following the effective date of this prospectus, the Company will not, without the prior written consent of D.A. Davidson & Co., subject to certain exceptions, offer, issue, sell, contract to sell, or otherwise dispose of any shares of common stock, any options or warrants to purchase any shares of common stock, or any securities convertible into, exercisable for or exchangeable for shares of common stock other than the Company's sales of shares in the offering.

The underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

Prior to the offering, there has been no public market in the United States for the common stock of the Company. Consequently, the public offering price for the common stock offered hereby will be determined through negotiations among the Company and D.A. Davidson & Co. Among the factors to be considered in such negotiations include prevailing market conditions, the market price of the Company's common stock on the Toronto Stock Exchange, certain financial information of the Company, market valuations of other companies that the Company and D.A. Davidson & Co. believe to be comparable to the Company, estimates of the business potential of the Company and the industry in which it competes, an assessment of the Company's management, its past and present operations, the prospects for, and timing of, future revenues of the Company, the present state of the Company's development and other factors deemed relevant. The Company's common stock has been listed on the Toronto Stock Exchange in the Province of Ontario, Canada, since January 26, 1993 and currently trades under the symbol DFX.

D.A. Davidson & Co. has advised the Company that, pursuant to Regulation M under the Securities Act, certain persons participating in the offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids that may have the effect of stabilizing or maintaining the market price of the common stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of the common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the common stock. A "syndicate covering transaction" is the bid for or the purchase of the common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering. A "penalty bid" is an arrangement permitting D.A. Davidson & Co. to reclaim the selling concession otherwise accruing to an underwriter or syndicate member in connection with the offering if the common stock originally sold by such underwriter or syndicate member is purchased by D.A. Davidson & Co. in a syndicate covering transaction and has therefore not been effectively placed by such underwriter or syndicate member. D.A. Davidson & Co. has advised the Company that such transactions may be effected on Nasdaq or otherwise and, if commenced, may be discontinued at any time.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 50,000,000 shares of common stock, no par value. As of February 26, 1999, 9,532,939 shares of Direct Focus common stock were outstanding and held of record by 81 shareholders. Following this offering, 10,357,939 shares of Direct Focus common stock will be outstanding (assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options), all of which will be fully paid and nonassessable.

COMMON STOCK

Our common shareholders are entitled to: (1) one vote per share at all shareholder meetings; (2) receive dividends ratably, if, as and when declared by our Board of Directors; and (3) participate ratably in any distribution of property or assets upon any liquidation, winding up, or dissolution of the Company. None of our common stock has cumulative voting rights, preemptive rights or conversion rights, and there are no redemption or sinking fund provisions applicable to our common stock.

ANTITAKEOVER EFFECTS OF CERTAIN PROVISIONS OF WASHINGTON LAW

Washington law imposes restrictions on certain transactions between a corporation and certain significant shareholders. Chapter 23B.19 of the Washington Business Corporation Act prohibits a "target corporation," with certain exceptions, from engaging in certain significant business transactions with an "acquiring person," which is defined as a person or group of persons that beneficially owns 10.0% or more of the voting securities of the target corporation, for a period of five years after such acquisition, unless the transaction or acquisition of shares is approved by a majority of the members of the target corporation's board of directors prior to the time of acquisition. Such prohibited transactions include, among other things:

- A merger or consolidation with, disposition of assets to, or issuance or redemption of stock to or from, the acquiring person;

- Termination of 5.0% or more of the employees of the target corporation as a result of the acquiring person's acquisition of 10.0% or more of the shares; or

- Allowing the acquiring person to receive any disproportionate benefit as a shareholder.

After the five-year period, a "significant business transaction" may occur if the transaction complies with certain "fair price" provisions of the statute. A corporation may not "opt out" of this statute. This provision may have the effect of delaying, deterring or preventing a change in control of Direct Focus.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for Direct Focus common stock traded in Canada is Montreal Trust. The transfer agent and registrar for Direct Focus common stock traded in the United States will be ChaseMellon Shareholder Services, L.L.C.

NASDAQ NATIONAL MARKET LISTING

We have applied to have our common stock listed for trading on Nasdaq under the symbol DFXI.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, the only public market for our common stock was the Toronto Stock Exchange. We have applied to have our common stock listed for trading on Nasdaq under the symbol DFXI. However, we cannot provide any assurance that a significant public market for our common stock will develop on Nasdaq or be sustained after this offering. Future sales of substantial amounts of our common stock in the public market, or the possibility of such sales, could adversely affect prevailing market prices for our common stock or our future ability to raise capital through an offering of equity securities.

After this offering, approximately 10,357,939 shares of our common stock will be outstanding (10,507,939 shares if the underwriter's over-allotment option is fully exercised). Of these shares, the 825,000 newly issued shares that we are selling in the offering (975,000 shares if the underwriters' over-allotment option is fully exercised) will be freely tradable in the public market without restriction under the Securities Act. As explained below, we believe that as many as 8.3 million additional shares, including the 175,000 shares being offered by the selling shareholders, all of which are currently issued and outstanding, will be freely tradable in the public market without restriction under the Securities Act.

Approximately 8.9 million shares that will be outstanding after the offering were issued in private placement transactions that were exempt from the registration requirements of the Securities Act, of which 861,000 shares are currently held by our directors and officers. The majority of these transactions occurred in 1993 and the last occurred in 1997. All of these shares originally qualified as "restricted securities" (as such term is defined in Rule 144). Restricted securities cannot be resold in the public market except in a registered transaction or in a transaction exempt from the registration requirements of the Securities Act, such as the exemption afforded by Rule 144, which is discussed below. In addition, restricted securities continue to qualify as such until they are resold in a registered transaction or in accordance with Rule 144. All of the shares issued in these transactions have been held beyond the minimum holding periods set forth in Rule 144, and we believe that many of these shares have been resold through the Toronto Stock Exchange or otherwise and no longer qualify as restricted securities. The shares other than those held by our officers and directors can be freely sold without restriction under the Securities Act.

Approximately 650,000 additional shares were issued upon the exercise of options in reliance upon the exemption afforded by Rule 701 of the Securities Act. Approximately 417,000 of these shares are still held by the optionees, including 264,000 shares currently held by our officers and directors, and qualify as restricted securities that may be resold in accordance with Rule 701. Rule 701 permits resales pursuant to Rule 144 (other than the holding period) beginning 90 days after the date of this prospectus. Approximately 233,000 of these shares have been resold on the Toronto Stock Exchange and no longer qualify as restricted securities.

After the offering, our directors and executive officers will own approximately 1,125,000 shares of our common stock, some of which they acquired in private placement transactions or pursuant to option exercises. Pursuant to certain "lock-up" agreements between the underwriters and each director and executive officer, shares of common stock held by these individuals cannot be offered, sold or otherwise disposed of in any way until 180 days after the date of this prospectus. On the expiration date of this lock-up period, our directors and executive officers may sell these shares in the public market, subject to any applicable resale limitations set forth in Rule 144.

In general, under Rule 144 as currently in effect, any person (or persons whose shares are aggregated) who has beneficially owned restricted securities for at least one year is entitled to sell, within any three month period, a number of shares that does not exceed the greater of:

- One percent of the then outstanding shares of the issuer's common stock; or

- The average weekly trading volume during the four calendar weeks preceding such sale.

Sales under Rule 144 are also subject to certain manner of sale and notice requirements and to the availability of current public information about Direct Focus. Under Rule 144(k), a person who has not been an affiliate of Direct Focus during the preceding 90 days and who has beneficially owned the restricted shares for at least two years is entitled to sell such shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Generally, an affiliate includes all of our officers and directors and any shareholder who holds 10% or more of our outstanding common stock. All of our affiliates are subject to continuing volume limitations described above.

After the effective date of this offering, we intend to file a registration statement on Form S-8 to register up to approximately 550,618 shares of our common stock that are reserved for issuance under our Stock Option Plan. The Form S-8 registration statement will become effective automatically upon filing. Shares issued under our Stock Option Plan after filing the Form S-8 registration statements may be freely sold in the open market, subject only to certain Rule 144 limitations applicable to affiliates, the above-referenced lock-up agreements and the vesting requirements applicable to the options.

LEGAL MATTERS

The legality of the common stock that we and the selling shareholders are offering hereunder will be passed upon by Garvey, Schubert & Barer, Seattle, Washington. Certain legal matters in connection with the issuance of the common stock will be passed upon for the underwriters by LeBoeuf, Lamb, Greene & MacRae, L.L.P., Salt Lake City, Utah.

EXPERTS

The financial statements as of December 31, 1997 and 1998 and for each of the three years in the period ended December 31, 1998, included in this prospectus have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements of the Nautilus Business as of June 27, 1998, and June 28, 1997, and for each of the years in the three year period ended June 27, 1998, have been included herein and in the registration statement in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a Registration Statement on Form S-1. This prospectus, which forms a part of the Registration Statement, does not contain all of the information included in the Registration Statement. Certain information is omitted and you should refer to the Registration Statement and its exhibits. With respect to references made in this prospectus to any contract or other document of Direct Focus, such references are not necessarily complete and you should refer to the exhibits attached to the Registration Statement for copies of the actual contract or document. You may review a copy of the Registration Statement, including exhibits and schedules filed therewith, at the Securities and Exchange Commission's public reference facilities in Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the regional offices of the Securities and Exchange Commission located at 7 World Trade Center, Suite 1300, New York, New York, 10048, and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also obtain copies of such materials from the Public Reference Section of the Securities and Exchange Commission, Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Securities and Exchange Commission maintains a Web site (http://www.sec.gov) that contains reports, proxy statements and other information regarding registrants, such as Direct Focus, that file electronically with the Securities and Exchange Commission.

DIRECT FOCUS, INC.
INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
of Direct Focus, Inc.:

We have audited the accompanying balance sheets of Direct Focus, Inc. as of December 31, 1997 and 1998 and the related statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements present fairly, in all material respects, the financial position of Direct Focus, Inc. at December 31, 1997 and 1998 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP

Portland, Oregon

February 26, 1999

DIRECT FOCUS, INC.

BALANCE SHEETS,

DECEMBER 31, 1997 AND 1998

	1997	1998
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,790,316	$ 18,910,675
Trade receivables (less allowance for doubtful accounts of: 1997, $85,000 and 1998, $40,000)	259,543	218,207
Inventories	1,945,773	2,614,673
Prepaid expenses and other current assets	212,382	378,409
Current deferred tax asset	222,139	215,737
Total current assets	7,430,153	22,337,701
Furniture and Equipment:		
Equipment	587,661	1,822,205
Furniture and fixtures	257,325	459,297
	844,986	2,281,502
Less accumulated depreciation	(446,922)	(438,790)
Total furniture and equipment	398,064	1,842,712
Long-Term Deferred Tax Asset	26,202	--
Other Assets (Less accumulated amortization of: 1997, $39,242 and 1998, $49,967)	67,821	192,859
Total	$ 7,922,240	$ 24,373,272

See notes to financial statements.

DIRECT FOCUS, INC.

BALANCE SHEETS,

DECEMBER 31, 1997 AND 1998

	1997	1998
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade payables	$ 1,178,255	$ 3,602,074
Income taxes payable	801,128	504,775
Accrued liabilities	1,089,134	1,851,253
Royalty payable to stockholders	210,511	548,211
Customer deposits	41,853	148,937
Current portion of capital lease obligation	9,167	--
Total current liabilities	3,330,048	6,655,250
Long-term Deferred Tax Liability	--	66,880
Commitments and Contingencies (Note 5)	--	--
Stockholders' Equity:		
Common stock--authorized, 50,000,000 shares of no par value; outstanding, 1997: 9,005,328 shares, 1998: 9,448,523 shares	2,992,172	3,565,628
Retained earnings	1,600,020	14,085,514
Total stockholders' equity	4,592,192	17,651,142
Total	$ 7,922,240	$ 24,373,272

DIRECT FOCUS, INC.

STATEMENTS OF INCOME

THREE YEARS ENDED DECEMBER 31, 1998

	1996	1997	1998
Net Sales	$ 8,516,584	$ 19,886,354	$ 57,296,880
Cost of Sales	2,602,717	5,113,980	12,442,307
Gross profit	5,913,867	14,772,374	44,854,573
Operating Expenses:			
Selling and marketing	4,712,365	9,600,076	22,642,885
General and administrative	472,661	974,887	1,700,956
Royalties	269,123	580,677	1,622,726
Total operating expenses	5,454,149	11,155,640	25,966,567
Operating Income	459,718	3,616,734	18,888,006
Other Income (Expense):			
Interest income	37,524	118,541	526,961
Interest expense	(2,225)	(1,381)	(455)
State business tax and other-net	(51,113)	(86,660)	(221,434)
Total other income (expense)-net	(15,814)	30,500	305,072
Income Before Income Taxes	443,904	3,647,234	19,193,078
Income Tax Expense (Benefit)	(249,000)	1,226,068	6,707,584
Net Income	$ 692,904	$ 2,421,166	$ 12,485,494
Basic Earnings Per Share	$ 0.08	$ 0.27	$ 1.34
Diluted Earnings Per Share	$ 0.08	$ 0.25	$ 1.28

See notes to financial statements.

DIRECT FOCUS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

THREE YEARS ENDED DECEMBER 31, 1998

	COMMON STOCK		RETAINED EARNINGS (ACCUMULATED DEFICIT)	TOTAL
	SHARES	AMOUNT		
Balances, January 1, 1996	8,131,541	$ 2,788,535	$ (1,514,050)	$ 1,274,485
Common shares issued	750,000	247,090	--	247,090
Options exercised	40,000	4,800	--	4,800
Net income	--	--	692,904	692,904
Balances, December 31, 1996	8,921,541	3,040,425	(821,146)	2,219,279
Options exercised	129,887	15,586	--	15,586
Stock repurchased	(46,100)	(98,120)	--	(98,120)
Tax benefit of exercise of nonqualified options	--	34,281	--	34,281
Net income	--	--	2,421,166	2,421,166
Balances, December 31, 1997	9,005,328	2,992,172	1,600,020	4,592,192
Options exercised	443,195	134,004	--	134,004
Tax benefit of exercise of nonqualified options	--	439,452	--	439,452
Net income	--	--	12,485,494	12,485,494
Balances, December 31, 1998	9,448,523	$ 3,565,628	$ 14,085,514	$ 17,651,142

See notes to financial statements.

DIRECT FOCUS, INC.

STATEMENTS OF CASH FLOWS

THREE YEARS ENDED DECEMBER 31, 1998

	1996	1997	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 692,904	$ 2,421,166	$ 12,485,494
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	88,460	96,133	301,913
Loss on equipment disposal	230	--	--
Deferred income taxes	(249,000)	140,659	99,484
Write-off of investment	6,676	--	--
Changes in:			
Trade receivables	297,211	(29,128)	41,336
Inventories	(311,845)	(1,156,643)	(668,900)
Prepaid expenses and other current assets	(565,669)	373,807	(166,027)
Trade payables	305,776	277,909	2,423,819
Income taxes payable	--	835,409	143,099
Accrued liabilities and royalty payable to stockholders	111,514	944,547	1,099,819
Customer deposits	5,126	25,473	107,084
Net cash provided by operating activities	381,383	3,929,332	15,867,121
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sale (purchase) of investment in certificate of deposit	(100,000)	100,000	--
Additions to furniture and equipment	(123,516)	(278,886)	(1,738,836)
Additions to other assets	(3,201)	(22,514)	(12,309)
Prepaid acquisition cost of Nautilus	--	--	(120,454)
Net cash used in investing activities	(226,717)	(201,400)	(1,871,599)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments under capital lease obligation	(8,269)	(9,113)	(9,167)
Proceeds from issuing common stock	251,890	15,586	134,004
Stock repurchased	--	(98,120)	--
Net cash provided by (used in) financing activities	243,621	(91,647)	124,837
NET INCREASE IN CASH AND CASH EQUIVALENTS	398,287	3,636,285	14,120,359
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	755,744	1,154,031	4,790,316
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,154,031	$ 4,790,316	$ 18,910,675
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 2,225	$ 1,381	$ 455
Cash paid for income taxes	--	250,000	6,465,006
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING TRANSACTIONS--Tax benefit of exercise of nonqualified options	$ --	$ 34,281	$ 439,452

See notes to financial statements.

DIRECT FOCUS, INC.

NOTES TO FINANCIAL STATEMENTS

THREE YEARS ENDED DECEMBER 31, 1998

(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Direct Focus, Inc. (the "Company") is a direct marketing company that develops and markets high-end, branded consumer products. The Company markets consumer products directly to consumers through a variety of direct marketing channels, including spot television commercials, infomercials, print media, response mailings, and the internet. The Company's principal products are the Bowflex line of home fitness equipment and recently the Company has introduced a direct marketing campaign for a line of high-end airbeds.

The Company is registered under the laws of the State of Washington and is subject to the securities laws of Ontario (Ontario Securities Commission), Canada and the regulations of the Toronto Stock Exchange.

USE OF ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash deposited with banks and financial institutions and highly liquid debt instruments purchased with maturity date of three months or less at 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.

INVENTORIES

Inventories, which include assembly and testing labor, are stated at the lower of average cost or market.

ADVERTISING

The Company expenses the production costs of advertising the first time the advertising takes place.

FURNITURE AND EQUIPMENT

Furniture and Equipment is stated at cost. Depreciation is computed using the straight-line method over estimated useful lives of three to seven years, except for the capital lease equipment which is being depreciated over the life of the lease.

Management reviews 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 the three years ended December 31, 1998. If there were an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without

(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows were less than the carrying amount of the asset, an impairment loss would be recognized to write down the asset to its estimated fair value.

OTHER ASSETS

Other Assets consist specifically of acquisition costs, license agreements and patents and trademarks. Amortization is computed using the straight-line method over estimated useful lives of 3 to 17 years.

WARRANTY COSTS

The Company's warranty policy provides for coverage for defects in material and workmanship. Warranty periods on the Company's products range from two to five years on Bowflex line of home fitness products and twenty years on airbeds. A provision for estimated warranty costs has been provided and is included in accrued liabilities.

REVENUE RECOGNITION

Revenue from product sales is recognized at the time of shipment. The Company has established reserves for potential sales returns for 1997 and 1998 of $285,000 and $600,704, respectively, based upon historical experience.

INCOME TAXES

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. A valuation allowance is established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

COMPREHENSIVE INCOME

Effective January 1, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, REPORTING COMPREHENSIVE INCOME, which requires presentation of comprehensive income within an entity's primary financial statements. 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 equaled net income for all periods presented.

SEGMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, which establishes standards for reporting information regarding an entity's operating activities. SFAS No. 131 requires that operating segments

(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
be defined at the same level and in a similar manner as management evaluates operating performance. Currently, the Company is operating as a single segment.

FUTURE ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which establishes accounting and reporting standards for derivative instruments and for hedging activities. Currently, the Company does not engage in any derivative or hedging activities.

RECLASSIFICATIONS

Certain amounts from the 1996 and 1997 have been reclassified to conform to the 1998 presentation.

(2) ACQUISITION

Effective January 4, 1999, the Company acquired substantially all of the net assets of Nautilus International, Inc. ("Nautilus"), a manufacturer and distributor of commercial fitness equipment. The acquisition has been accounted for under the purchase method of accounting. The Company paid approximately $16.0 million for the assets and intellectual property of Nautilus and assumed $2.5 million in current liabilities.

The unaudited pro forma financial information below for the fiscal year ended December 31, 1998 was prepared as if the transaction had occurred on January 1, 1998:

Revenue	$ 76,600,696
Net income	$ 9,755,812
Basic earnings per share	$ 1.04
Diluted earnings per share	$ 1.00

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

(3) INVENTORIES

Inventories at December 31 consisted of the following:

	1997	1998
Finished goods	$ 1,156,862	$ 1,758,171
Parts and components	788,911	856,502
Total	$ 1,945,773	$ 2,614,673

(4) ACCRUED LIABILITIES

Accrued liabilities at December 31 consisted of the following:

	1997	1998
Accrued expenses	$ 162,261	$ 127,970
Accrued payroll	114,569	357,033
Accrued payroll taxes	60,515	185,996
Sales return reserve	285,000	600,704
Accrued advertising	92,144	275,298
Accrued bonus	175,000	20,411
Accrued other	199,645	283,871
Total	$ 1,089,134	$ 1,851,253

(5) COMMITMENTS AND CONTINGENCIES

LINES OF CREDIT

During 1998, the Company obtained two lines of credit for $5,000,000 each with a bank. Both lines are secured by the Company's general assets, and interest is payable on outstanding borrowings under each line at the bank's prime rate (7.75% at December 31, 1998). There were no outstanding borrowings on these lines of credit at December 31, 1998.

OPERATING LEASES

The Company leases its office and warehouse facilities under an operating lease which expires April 30, 2002. The lease commitment is subject to an annual rent adjustment based upon changes in the consumer price index, limited to a 6.0% annual change. The agreement provides for an annual cancellation provision by the Company upon proper notification. Under a separate agreement in 1997, which was amended in 1998, the Company leased additional warehouse facilities. This operating lease expires May 31, 2000. Rent expense under these leases was $66,714 in 1996, $107,361 in 1997, and $239,197 in 1998.

OBLIGATIONS

Future minimum lease payments under the operating leases during the years ending December 31 are as follows:

1999	$ 300,324
2000	186,664
2001	73,644
2002	24,548
Total minimum lease payments	$ 585,180

(5) COMMITMENTS AND CONTINGENCIES (CONTINUED)
EMPLOYMENT CONTRACTS

Three officers of the Company are employed under employment contracts.

LITIGATION

A competitor has filed an action against the Company and one of its officers, alleging violations of the competitor's intellectual property rights. The competitor seeks, among other things, monetary damages and injunctive relief in connection with its claims. The Company believes the claims lack merit and intends to vigorously defend against the claims. However, if the competitor successfully prosecutes any of its claims against the Company, the resulting monetary damages and/or injunctive relief would have a material adverse effect on the Company's financial position, results of operations and/or cash flows. Additionally, in the normal course of business, the Company is a party to various other 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 disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

(6) PRIVATE PLACEMENT SUBSCRIPTION AGREEMENT

During 1996, the Company entered into a Private Placement Subscription Agreement (the "Agreement") to issue 750,000 shares of common shares at $0.33 per share. Net proceeds, after deducting expenses of $2,910 were $247,090. In addition, upon meeting certain conditions the Agreement would grant to the subscriber nontransferable common share purchase warrants to purchase up to 1,280,000 common shares subject to certain conditions. These conditions were not met in 1997 and the warrants expired.

(7) STOCK OPTIONS

The Company's stock-based compensation plan was adopted in June 1995. The Company can issue both nonqualified stock options to the Company's officers and directors and qualified options to the Company's employees. The plan was amended in June 1998 so the Company may grant options for up to 1,857,961 shares of common stock. The plan is administered by 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 market price of the Company's stock on the date of the grant, and vesting periods vary by option granted, generally no longer than three years.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, which encouraged (but did not require) that stock-based compensation cost be recognized and measured by the fair value of the equity instrument awarded. The Company did not change its method of accounting for its stock-based compensation plans and will continue to apply Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK-BASED COMPENSATION PLANS ISSUED TO EMPLOYEES, and related interpretations in accounting for these plans. Accordingly, no compensation cost has been recognized for these plans in the financial statements. If compensation cost on stock

(7) STOCK OPTIONS (CONTINUED)

options granted in 1996, 1997, and 1998 under these plans had been determined based on the fair value of the options consistent with that described in SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below for the years ended December 31, 1996, 1997, and 1998:

	1996	1997	1998
Net income, as reported	$ 692,904	$ 2,421,166	$ 12,485,494
Net income, pro forma	671,452	2,334,082	12,274,208
Diluted earnings per share, as reported	$ 0.08	$ 0.25	$ 1.28
Diluted earnings per share, pro forma	$ 0.08	$ 0.25	$ 1.26

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 and the awarding of stock compensation awards in future 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 grants in 1996, 1997, and 1998, respectively; all options granted will vest as scheduled; no dividend yield for all three years; risk-free interest rate of 5.9%, 5.5%, and 5%; expected volatility of 178%, 93% and 76%; expected lives of five years for all three years.

A summary of the status of the Company's stock option plans as of December 31, 1996, 1997, and 1998, and changes during the years ended on those dates is presented below.

	1996		1997		1998	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	535,000	$ 0.43	646,500	$ 0.18	813,113	$ 0.47
Granted	356,500	0.20	386,500	0.96	188,000	5.70
Forfeited or canceled	(205,000)	0.87	(90,000)	.98	(10,000)	0.96
Exercised	(40,000)	0.12	(129,887)	0.12	(440,495)	0.30
Outstanding at end of year	646,500	$ 0.18	813,113	$ 0.47	550,618	$ 2.39
Options exercisable of end of year	465,000		504,779		309,199	
Weighted average for value of options granted in current year	$ 0.26		$ 0.91		$ 3.72	

(7) STOCK OPTIONS (CONTINUED)

The following table summarizes information about stock options outstanding as of December 31, 1998:

	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
$0.12 - $0.98	362,618	3.0	$ 0.68	264,617	$ 0.64
$4.62 - $9.75	188,000	4.3	5.70	44,582	4.94
$0.12 - $9.75	550,618	3.4	$ 2.39	309,199	$ 1.26

(8) INCOME TAXES

The tax effect of temporary differences that give rise to deferred tax assets and liabilities at December 31, 1997 and 1998 can be summarized as follows:

	1997		1998	
	CURRENT DEFERRED	LONG-TERM DEFERRED	CURRENT DEFERRED	LONG-TERM DEFERRED
Deferred tax assets	$ 222,139	$ 26,202	$ 311,426	$ --
Deferred tax liabilities	--	--	(95,689)	(66,880)
Deferred income taxes, net	$ 222,139	$ 26,202	$ 215,737	$ (66,880)

The expense (benefit) for income taxes consists of the following:

	1996	1997	1998
Current:			
Federal	$ --	$ 1,085,409	$ 6,608,100
Deferred:			
Federal	(249,000)	140,659	99,484
Total income tax expense (benefit)	$ (249,000)	$ 1,226,068	$ 6,707,584

The principal differences between taxes on income computed at the statutory federal income tax rate and recorded income tax expense (benefit) for 1996, 1997, or 1998 are as follows:

	1996	1997	1998
Tax computed at statutory rate	$ 155,366	$ 1,240,060	$ 6,717,577
Change in valuation allowance	(385,000)	--	--
Other	(19,366)	(13,992)	(9,993)
Income tax expenses (benefit)	$ (249,000)	$ 1,226,068	$ 6,707,584

(9) EARNINGS PER SHARE

Effective for the year beginning January 1, 1997, the Company adopted SFAS No. 128, EARNINGS PER SHARE. SFAS No. 128 established new standards for computing and presenting earnings per share and, accordingly, all periods have been restated. The per share amounts are based on the weighted average number of basic and dilutive common equivalent shares assumed to be outstanding during the period of computation. Net income for the calculation of both basic and diluted earnings per share is the same for all periods.

The calculation of weighted average outstanding shares is as follows:

	AVERAGE SHARES		
	1996	1997	1998
Basic shares outstanding	8,558,227	8,986,655	9,336,525
Common stock equivalents	385,058	524,213	389,433
Diluted shares outstanding	8,943,285	9,510,868	9,725,958

(10) RELATED-PARTY TRANSACTIONS

The Company incurred royalty expense under an agreement with a stockholder of the Company of $220,397 in 1996, $530,805 in 1997, and $1,603,821 in 1998, of which $210,511 and $548,211 was payable at December 31, 1997 and 1998, respectively.

The Company incurred royalty expense under an agreement with a stockholder who is a director of the Company of $41,048, $36,722, and zero in 1996, 1997, and 1998, respectively.

The Company incurred investment consulting expense under an agreement with a director of the Company of $30,000 in 1997, all of which was paid in 1997. This agreement expired in 1997.

The Company incurred attorney fees to a director of the Company of $2,692, $4,401, and $5,545 in 1996, 1997, and 1998, respectively.

(11) FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB Statement No. 107, DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS, requires disclosure of fair value information about financial instruments when it is practicable to estimate that value. The carrying amount of the Company's cash, trade receivables, trade payables, royalty payables, and accrued liabilities approximates their estimated fair values due to the short-term maturities of those financial instruments.

DIRECT FOCUS, INC. AND AFFILIATE
UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS
BASIS OF PRESENTATION

Effective January 4, 1999, Direct Focus, Inc. ("Direct Focus") acquired substantially all of the assets of Nautilus International, Inc. ("Nautilus"). Direct Focus accounted for the acquisition using the purchase method of accounting. Direct Focus paid $16.0 million in cash for the assets and assumed approximately $2.5 million in current liabilities. Because of the Nautilus acquisition, several adjustments and factors will impact the comparability of our historical financial results with our future results of operations. The following unaudited pro forma combined financial statements reflect: (1) certain adjustments for the effects of purchase accounting; (2) certain assumptions described below regarding financing and cash management aspects of the transaction; and (3) a provision for income taxes as if the combined operations had been taxed as a C-corporation for all periods presented.

In addition, the unaudited pro forma combined balance sheet has been prepared as if the Nautilus acquisition had occurred on December 31, 1998. The unaudited pro forma combined statement of operations was prepared as if the Nautilus acquisition were consummated on January 1, 1998. Direct Focus believes that all adjustments necessary to present fairly the unaudited pro forma combined financial statements have been made. These financial statements are not necessarily indicative of what actual results would have been had the transaction occurred on January 1, 1998, nor do they purport to indicate the future results of Direct Focus's operations. The unaudited pro forma combined financial statements should be read in conjunction with our financial statements and accompanying notes and the financial statements of Nautilus and related notes appearing elsewhere in this prospectus.

The costs of the acquisition have been allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition as determined by management. The allocation of the costs of acquisitions is preliminary while the Company obtains final information regarding the fair values of all assets acquired; however, management believes that any adjustments to the amounts allocated will not have a material effect on the Company's financial position or results of operations.

DIRECT FOCUS, INC. AND AFFILIATE

PRO FORMA COMBINED BALANCE SHEET

DECEMBER 31, 1998
(UNAUDITED)

	DIRECT FOCUS, INC.	NAUTILUS	ADJUSTMENTS	PRO FORMA
Current Assets:				
Cash and cash equivalents	$ 18,910,675	13,309	$ (16,013,309) (1)	$ 2,910,675
Trade Receivables	218,207	3,226,325	(193,332) (2)	3,251,200
Inventories	2,614,673	4,024,132	(1,000,000) (2)	5,638,805
Prepaid expenses and other current assets	594,146	111,551	--	705,697
Total current assets	22,337,701	7,375,317	17,206,641	12,506,377
Property:	1,842,712	10,692,938	(2,058,585) (2)	10,477,065
Other Assets	192,859	618,808	3,601,764)(3	4,413,431
Total	$ 24,373,272	$ 18,687,063	$ (15,663,462)	$ 27,396,873
Current Liabilities:				
Trade payables	$ 3,602,074	$ 348,175	408,664(2)	$ 4,358,913
Income taxes payable	504,775	--	--	504,775
Accrued liabilities	2,548,401	2,168,174	--	4,716,575
Due to affiliate	--	39,733,312	(39,733,312) (4)	--
Total current liabilities	6,655,250	42,249,661	(39,324,648)	9,580,263
Long-term Liabilities	66,880	98,588	--	165,468
Total Stockholders' Equity	17,651,142	(23,661,186)	23,661,186(4)	17,651,142
Total	$ 24,373,272	$ 18,687,063	$ (15,663,462)	$ 27,396,873

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(1) Represents $16.0 million cash paid for Nautilus and cash not acquired from Nautilus.

(2) To record the estimated fair value of assets acquired and liabilities assumed in the Nautilus acquisition. The purchase price was comprised of $16.0 million in cash and $2.5 million in assumed current liabilities.

NET ASSETS ACQUIRED	NAUTILUS HISTORICAL DECEMBER 31, 1998	FAIR VALUE
Accounts receivables	$ 3,226,325	$ 3,032,993(a)
Inventories	4,024,132	3,024,132(b)
Prepaid expenses and other current assets	111,551	111,551
Furniture and equipment	$ 10,692,938	8,634,353
Liabilities assumed	(2,614,937)	(2,523,601)(c)
Total	$ 15,440,009	$ 12,279,428

(a) Excludes $193,332 of current receivables not purchased.

(b) Reflects $1 million of inventories related to Nautilus products which will be discontinued.

(c) Excludes $91,336 of liabilities not assumed and includes $500,000 of acquisition costs.

(3) Includes $4,220,572 representing the estimated fair value of the Nautilus brand trademark, less $618,808 of finance notes receivable not acquired by Direct Focus.

(4) Reflects the elimination of Nautilus' deficit and amounts due to an affiliate, which Direct Focus did not assume.

DIRECT FOCUS, INC. AND AFFILIATE
PRO FORMA COMBINED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1998
(UNAUDITED)

	DIRECT FOCUS, INC.	NAUTILUS	PRO FORMA ADJUSTMENTS	PRO FORMA
Net sales	$ 57,296,880	$ 19,303,816	$ --	$ 76,600,696
Cost of Sales	12,442,307	15,016,987	(1,069,827)(1)	26,389,467
Gross profit	44,854,573	4,286,829	1,069,827	50,211,229
Total Operating Expenses	25,966,567	8,908,559	(267,336)(2)	34,607,790
Impairment Charges	--	11,100,000	(11,100,000)(3)	--
Operating income (loss)	18,888,006	(15,721,730)	12,437,163	15,603,439
Interest Expense	(455)	(3,142,238)	2,754,256(4)	(388,437)
Other Income (Expense)	305,527	81,244	(608,205)(5)	(221,434)
Net income (loss) before income taxes	19,193,078	(18,782,724)	14,583,214	14,993,568
Income Taxes	6,707,584	--	(1,469,829)(6)	5,237,755
Net Income (Loss)	$ 12,485,494	$ (18,782,724)	$ 16,053,042	$ 9,755,812
Basic Earnings Per Share	$ 1.34			$ 1.04
Diluted Earnings Per Share	$ 1.28			$ 1.00
Basic Outstanding Shares	9,336,525			9,336,525
Diluted Outstanding Shares	9,725,958			9,725,958

- ------------------------

(1) Reflects a $1.1 million decrease in depreciation expense associated with the depreciation of acquired property with an estimated fair value of $8.6 million. The depreciation is on a straight-line basis over periods ranging from 7 to 31.5 years.

(2) Reflects a $211,000 decrease in total operating expenses relating to the reduced amortization of the estimated intangible asset value of $4.2 million on a straight-line basis over a period of 20 years and depreciation expense of $56,000 on acquired assets.

(3) The $11.1 million adjustment eliminates the effect of a one-time impairment charge taken by Nautilus International in connection with the revaluation of its assets based upon the $18.5 million acquisition price (including assumption of $2.5 million of current liabilities.)

(4) Reflects a $2.8 million decrease in interest expense, which would have resulted had the acquisition occurred on January 1, 1998.

(5) Reflects a $608,000 decrease in other income relating to interest income that we would have foregone by using cash in the acquisition.

(6) The $1.5 million decrease in income tax expense reflects income tax expense at our effective tax rates after giving effect to the adjustments described above.

INDEPENDENT AUDITORS' REPORT

The Boards of Directors of
Delta Woodside, Inc.:

We have audited the accompanying combined balance sheets of the Nautilus Business (the "Business"), as described in Note 1, as of June 28, 1997 and June 27, 1998, and the related combined statements of operations and accumulated deficit and cash flows for each of the years in the three-year period ended June 27, 1998. These combined financial statements are the responsibility of the Business' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Business as of June 28, 1997 and June 27, 1998, and the results of its operations and cash flows for each of the years in the three-year period ended June 27, 1998, in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

Greenville, South Carolina

October 2, 1998

NAUTILUS BUSINESS
(AS DESCRIBED IN NOTE 1)
COMBINED BALANCE SHEETS

ASSETS

	JUNE 28, 1997	JUNE 27, 1998
Current assets:		
Cash	$ 1,790	$ 1,600
Accounts receivable (notes 3 and 9):		
Customer	4,196,491	4,414,042
Financed notes	792,438	473,171
Other	155,049	74,912
Less allowance for doubtful accounts	(1,723,982)	(1,604,407)
	3,419,996	3,357,718
Inventories (notes 2 and 9):		
Raw materials	2,078,598	1,730,295
Work in process	1,597,676	1,614,862
Finished goods	702,141	970,206
Supplies	25,574	20,661
	4,403,989	4,336,024
Prepaids and other current assets (note 2)	125,544	122,103
Total current assets	7,951,319	7,817,445
Property, plant and equipment, net (note 4)	12,897,432	11,522,745
Financed notes receivable (note 3)	2,241,777	1,771,773
Intangible assets, net (note 5)	11,476,601	1,987,961
	$ 34,567,129	$ 23,099,924

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities:		
Accounts payable	271,892	515,223
Bank overdraft	552,658	469,963
Accrued employee compensation	824,194	1,084,480
Other accrued expenses (note 6)	1,946,448	1,046,636
Due to affiliates, net (note 9)	33,011,924	36,992,270
Current bond obligations	116,566	--
Total current liabilities	36,723,682	40,108,572
Other liabilities	70,000	13,138
Total liabilities	36,793,682	40,121,710
Stockholder's deficit:		
Common stock, $1 par value, authorized, issued and outstanding 100 shares	100	100
Additional paid in capital	10,692,506	10,692,506
Accumulated deficit	(12,919,159)	(27,714,392)
Total stockholder's deficit	(2,226,553)	(17,021,786)
Commitments and contingencies		
	$ 34,567,129	$ 23,099,924

See accompanying notes to combined financial statements

NAUTILUS BUSINESS

(AS DESCRIBED IN NOTE 1)

COMBINED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	YEAR ENDED		
	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998
Net sales	$ 28,591,447	$ 21,935,298	$ 20,851,063
Cost of goods sold	19,914,644	17,134,933	16,291,581
Gross profit	8,676,803	4,800,365	4,559,482
Selling, general and administrative expenses	(13,463,038)	(11,014,925)	(7,704,677)
Impairment charges (note 2)	--	--	(8,800,000)
Intercompany management fees	(228,000)	(302,428)	(194,471)
Royalty income (note 2)	474,125	445,121	268,779
Other income (expense)	4,028	90,265	(42,871)
Operating loss	(4,536,082)	(5,981,602)	(11,913,758)
Interest income (expense):			
Interest income	662,615	160,913	112,966
Interest expense	(67,656)	(19,141)	(24,774)
Intercompany interest expense	(1,879,433)	(2,158,509)	(2,969,667)
	(1,284,474)	(2,016,737)	(2,881,475)
Loss before taxes	(5,820,556)	(7,998,339)	(14,795,233)
Income tax benefit (note 8)	(2,495,057)	(1,202,379)	--
Net loss	(3,325,499)	(6,795,960)	(14,795,233)
Accumulated deficit, beginning of year	(2,797,700)	(6,123,199)	(12,919,159)
Accumulated deficit, end of year	$ (6,123,199)	$ (12,919,159)	$ (27,714,392)

See accompanying notes to combined financial statements

NAUTILUS BUSINESS

(AS DESCRIBED IN NOTE 1)

COMBINED STATEMENTS OF CASH FLOWS

	YEAR ENDED		
	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998
Operating activities:			
Net loss	$ (3,325,499)	$ (6,795,960)	$ (14,795,233)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Depreciation	1,351,164	1,469,573	1,486,652
Amortization	692,753	689,846	688,640
Deferred taxes	(1,944,345)	(1,185,199)	--
Impairment charges	--	--	8,800,000
Provision for losses on accounts receivable	123,426	283,626	(119,575)
(Gain) loss on sale of property and equipment	--	(83,267)	1,595
Changes in operating assets and liabilities:			
Accounts receivable	2,595,441	1,543,410	651,857
Inventories	(292,303)	(231,699)	67,965
Prepaids and other current assets	73,130	317,671	3,441
Other noncurrent assets	111,268	--	--
Accounts payable	(333,376)	(658,453)	243,331
Bank overdraft	406,725	20,710	(82,695)
Accrued employee compensation	53,057	159,367	260,286
Other accrued expenses	478,266	412,894	(899,812)
Other liabilities	15,664	(669,103)	(56,862)
Net cash provided (used) by operating activities	5,371	(4,726,584)	(3,750,410)
Investing activities:			
Purchases of property, plant and equipment	(863,354)	(620,288)	(121,185)
Proceeds from sale of property, plant and equipment	--	266,386	7,625
Net cash used by investing activities	(863,354)	(353,902)	(113,560)
Financing activities:			
Principal payments on bond obligations	(9,576)	(58,661)	(116,566)
Change in due to affiliates, net	874,811	5,131,415	3,980,346
Net cash provided by financing activities	865,235	5,072,754	3,863,780
Increase (decrease) in cash	7,252	(7,732)	(190)
Cash at beginning of year	2,270	9,522	1,790
Cash at end of year	$ 9,522	$ 1,790	$ 1,600
Supplemental disclosures of cash flow information:			
Interest paid	$ 1,879,433	$ 2,158,509	$ 2,969,667

See accompanying notes to combined financial statements.

(1) BASIS OF PRESENTATION

The combined financial statements include the operations and accounts of Nautilus International, Inc., a Virginia corporation, and the Nautilus trademark, combined and referred to herein as the Business. The Business is owned by Alchem Capital Corporation, a wholly owned subsidiary of Delta Woodside Industries, Inc. ("DWI"). The accompanying combined financial statements have been prepared for purposes of depicting the combined financial position and results of operations of the Business on a historical cost basis.

All balances and transactions among the Business have been eliminated in combination. Balances and transactions with other affiliates have not been eliminated in the combination and are reflected as affiliate balances and transactions.

(2) SIGNIFICANT ACCOUNTING POLICIES

(A) DESCRIPTION OF BUSINESS

The Business designs, manufactures, markets and services fitness equipment. The Business sells its products and services in the domestic market through direct sales representatives, distributors and dealers. Internationally, the Business sells its products and services through a network of distributors.

(B) FISCAL YEAR

The Business' operations are based upon a fifty-two, fifty-three week fiscal year ending on the Saturday closest to June 30. Fiscal years 1996, 1997 and 1998 each consist of 52 weeks.

(C) INVENTORIES

Inventories are stated at the lower of cost or market determined using the first-in, first-out (FIFO) method.

Included in finished goods inventories are consignment inventory balances which represent equipment which is used by customers on a trial basis. The Business does not record revenue for trial equipment until the customer agrees to purchase the items. However, in order to account for the risk of loss if this equipment is not returned to the Business, a reserve has been established where this equipment is depreciated over 3 years. The net book value of this consignment inventory is approximately $49,000 and $43,000 as of June 28, 1997 and June 27, 1998, respectively.

Included in finished goods inventories are used equipment which customers trade-in when purchasing new equipment. The Business values this equipment at the trade-in allowance and attempts to sell these items to customers in the used fitness equipment market. The net book value of this inventory is approximately $202,000 and $177,000 as of June 28, 1997 and June 27, 1998, respectively.

(D) PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated on the basis of cost. Depreciation is computed by the straight-line method for financial reporting based on estimated useful lives of 3 to 31.5 years, and by accelerated methods for income tax reporting.

(2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(E) IMPAIRMENT OF LONG-LIVED ASSETS

The Business adopted the provisions of SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, in fiscal year 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets.

The Business' assets held for sale include all net assets except for intercompany balances with affiliates. The net value of assets held for sale have been written down to their estimated fair market value, which is the net estimated purchase price of the Business of approximately $20.0 million. Therefore, in order to value these assets held for sale at their estimated fair market value, the Business has recorded an impairment charge of $8.8 million during 1998 which was recorded as a reduction in intangible assets, net.

(F) OTHER ASSETS

Other assets consist principally of prepaid insurance and prepaid expenses for booth space related to future trade shows.

(G) RESEARCH AND DEVELOPMENT, AND ADVERTISING

Research and development, and advertising costs are expensed as incurred. Research and development costs amounted to approximately $666,000, $692,000 and $593,000 in 1996, 1997 and 1998, respectively. Advertising costs amounted to approximately $2,820,000, $1,142,000 and $600,000 in 1996, 1997 and 1998, respectively.

(H) REVENUE RECOGNITION

Sales are recorded upon shipment if the products are shipped with a common carrier or upon installation if the Business' truck fleet is used for delivery of the products.

(I) ROYALTY INCOME

The Business licenses its products through International Apparel Marketing Corporation, a subsidiary of the Business' parent, Delta Woodside Industries, Inc. The Business receives 35% of the royalties earned by International Apparel Marketing Corporation on the Nautilus licensees. The Business' current licensing agreements expire at various intervals from September 30, 1998 to January 31, 2000, with renewal options ranging from zero to three years. In addition, the Business receives royalty income directly from various customer sources which is primarily due to licensing fees for use of the Nautilus name in fitness clubs.

(J) INCOME TAXES

Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

(2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(K) YEAR 2000

In 1998, the Business recognized its computer programs are not Year 2000 compliant. The Year 2000 problem is the result of computer programs being written using two digits rather than four to define the applicable year. As of June 27, 1998, the Business has not begun to convert its systems to be Year 2000 compliant. If the Business were to not become Year 2000 compliant by January 1, 2000, it may have a material adverse impact on the Business' operations.

(L) WARRANTY COSTS

The Business offers product warranties to all its customers. These warranties include a lifetime warranty on the structural frame, welded moving parts and weight stacks, a 120 day warranty on upholstery and padded items, and a one-year warranty on all other parts. Warranty expense was approximately $373,000, $287,000 and $367,000 for fiscal years 1996, 1997 and 1998, respectively. Accrued warranty expense, which is included in other accrued expenses, was approximately $177,000 as of June 28, 1997 and June 27, 1998.

(M) COMMITMENTS AND CONTINGENCIES

The Business has been named as a "potentially responsible party" under the Comprehensive Environmental Response, Compensation, and Liability Act with respect to three hazardous waste sites. To the Business' knowledge, all of the transactions with these sites were conducted by a corporation whose assets were sold in 1990 pursuant to the terms of an order of the United States Bankruptcy Court to another corporation, the stock of which was subsequently acquired by the Business in January 1993. The Business, therefore, has denied any responsibility at the sites and has declined to participate in any settlements. Accordingly, the Business has not provided for any reserves for costs or liabilities attributable to the previous corporation. At two sites, the previous company is listed as a "de minimis" party. At the third site, the previous company is ranked eleventh out of a total of over 300 potentially responsible parties based on the company's volume of contribution of about 3.0%. Latest estimates of certain costs to clean up the site range up to $4 million. Although there is uncertainty as to several legal issues, the Business believes that it has certain defenses to liability at these sites and the potential liabilities arising from these three sites will not have a materially adverse impact on the Business.

From time to time, the Business is a defendant in legal actions involving claims arising in the normal course of business, including product liability claims. The Business believes that, as a result of legal defenses, insurance arrangements and indemnification provisions with parties believed to be financially capable, none of these actions should have a material effect on its operations or financial condition.

(N) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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.

(3) ACCOUNTS RECEIVABLE

The Business' customer receivable balances are due in a lump-sum from various customers.

The Business' financed receivable balances relate to customer receivable balances which are due in equal installments over periods of time ranging up to 60 months. This program was used as an additional incentive to promote purchasing of the Business' products by domestic customers. This program was discontinued in May 1996 and all sales transactions are now payable within normal trade credit terms.

In May 1996, the Business sold approximately $5.8 million of its financed receivable balances to a financial institution under a purchase agreement. Approximately $0.9 million of these receivable balances were sold without recourse while approximately $4.9 million of these receivable balances were sold with recourse. The receivable balances sold with recourse have been accounted for as a sale, in accordance with Statement of Financial Standards No. 77 "Reporting by Transferors for Transfers of Receivables with Recourse." The net loss on this sale was approximately $150,000 after a contingency of $250,000 for the Business' estimated future obligations related to the sale was accrued as of the sale date. The remaining contingency reserve as of June 28, 1997 and June 27, 1998 was $180,000 and $108,000, respectively. As of June 28, 1997 and June 27, 1998, the outstanding balance of these receivables sold with recourse was approximately $3,558,000 and $1,973,000, respectively.

Other receivable balances are principally due to royalty and employee receivables.

Changes in the reserve for doubtful accounts are as follows:

	1996	1997	1998
Balance, beginning of year	$ 1,316,930	$ 1,440,356	$ 1,723,982
Charged to expense	307,379	532,564	102,803
Balances written-off	(183,953)	(248,938)	(222,378)
Balances, end of year	$ 1,440,356	$ 1,723,982	$ 1,604,407

(4) PROPERTY, PLANT AND EQUIPMENT, NET

Details of property, plant and equipment, net are as follows:

	ESTIMATED USEFUL LIFE	1997	1998
Land and land improvements	N/A	$ 204,813	$ 204,813
Buildings	31.5	6,289,177	6,332,855
Machinery and equipment	10	9,387,138	9,781,880
Computers and software	3-5	706,565	737,621
Furniture and fixtures	7	356,192	356,192
Leasehold improvements	4	138,286	138,286
Automobiles	7	83,520	83,520
Construction in progress	N/A	363,334	--
		17,529,025	17,635,167
Less accumulated depreciation and amortization		(4,631,593)	(6,112,422)
Property, plant and equipment, net		$ 12,897,432	$ 11,522,745

(4) PROPERTY, PLANT AND EQUIPMENT, NET (CONTINUED)

Property, plant and equipment balances are stated at cost. Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets.

(5) INTANGIBLE ASSETS, NET

Intangible assets, net consist of the following:

	1997	1998
Goodwill	$ 4,957,682	$ --
Trademark	6,553,000	6,553,000
Non-compete agreements	1,708,831	1,708,831
Other	1,025,622	1,025,622
	14,245,135	9,287,453
Less accumulated amortization	(2,768,534)	(7,299,492)
Intangible assets, net	$ 11,476,601	$ 1,987,961

During 1998, an impairment charge was recorded in accordance with SFAS 121 and resulted in a write-off of net goodwill of approximately $4.3 million and accumulated amortization on the remaining intangible assets was increased by approximately $4.5 million.

Normal amortization of intangible assets is computed using the straight-line method. The excess of cost over assigned value of net assets acquired relating to certain business combinations was amortized to expense over 40 years. Other intangible assets are being amortized over periods of 5 to 40 years, but averaging approximately 16 years.

(6) OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

	1997	1998
Customer deposits	$ 290,433	$ 330,571
Accrued loss on sale of receivables	180,000	108,000
Accrued insurance	92,060	113,866
Accrued warranty costs	177,401	177,401
Deferred compensation	646,420	13,138
Accrued commissions	146,988	36,587
Accrued legal	129,371	86,745
Other	283,775	180,328
	$ 1,946,448	$ 1,046,636

(7) LEASES

The Business also has several noncancelable operating leases relating to buildings, machinery and equipment, computer systems, and trailers.

(7) LEASES (CONTINUED)

Future minimum lease payments under noncancelable operating leases as of June 27, 1998 were as follows:

FISCAL YEAR	OPERATING
1999	$ 252,134
2000	225,494
2001	218,066
2002	80,446
2003	20,128
Thereafter	--
	$ 796,268

Rent expense for all operating leases was approximately $603,000, $480,000 and $364,000 for fiscal years 1996, 1997 and 1998, respectively.

(8) INCOME TAXES

The Business reports Federal income taxes in the consolidated return of Delta Woodside Industries, Inc. (DWI) and had taxable losses of $5.9 million which will be reported in the fiscal 1998 consolidated Federal income tax return of its parent, DWI. The consolidated group had a tax loss of $27 million, which will be carried forward to offset future taxable income. The Federal income tax obligation or refund under the corporate tax sharing agreement that is allocated to the Business is substantially determined as if the Business were filing a separate Federal income tax return. The Business' Federal tax liability or receivable is paid to or is a receivable from the parent company.

Federal and state income tax benefit was as follows:

	1996	1997	1998
Current:			
Federal	$ --	$ --	$ --
State	(550,712)	(17,180)	--
Total current	(550,712)	(17,180)	--
Deferred:			
Federal	(1,881,000)	(1,027,225)	--
State	(63,345)	(157,974)	--
Total deferred	(1,944,345)	(1,185,199)	--
Income tax benefit	$ (2,495,057)	$ (1,202,379)	$ --

(8) INCOME TAXES (CONTINUED)

A reconciliation between income tax benefit computed using the effective income tax rate and the federal statutory income tax rate of 34% is as follows:

	1996	1997	1998
Income tax benefit at the statutory rate	$ (1,978,989)	$ (2,719,435)	$ (5,030,379)
State income tax benefit, net of federal income taxes	(41,806)	(115,602)	--
Valuation allowance adjustments	160,196	2,191,404	3,681,592
Non-deductible amortization	--	--	1,462,000
Other	(634,458)	(558,746)	(113,213)
Income tax benefit	$ (2,495,057)	$ (1,202,379)	$ --

Significant components of the Business' deferred tax assets and liabilities are as follows:

	1997	1998
Deferred tax assets:		
Net operating loss carryforward	$ 4,994,065	$ 7,407,672
Inventory	222,047	181,034
Allowance for doubtful accounts	539,780	196,843
Accrued vacation	142,088	129,563
Other	667,449	616,135
Gross deferred tax assets	6,565,429	8,531,247
Less valuation allowance	(2,618,647)	(6,300,239)
Net deferred tax assets	3,946,782	2,231,008
Deferred tax liabilities:		
Depreciation	2,006,063	1,833,039
Intangibles	1,914,149	127,845
Other	26,570	270,124
Deferred tax liabilities	3,946,782	2,231,008
Net deferred tax asset (liability)	$ --	$ --

The Business' gross deferred tax assets are reduced by a valuation allowance to net deferred tax assets considered by management to be more likely than not realizable. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. The change in the valuation allowance was an increase of $2,191,404 and $3,681,592 during fiscal year 1997 and 1998, respectively.

As of June 27, 1998, the Business had approximately regular tax loss carryforwards of $18.2 million for federal purposes as calculated under the corporate tax sharing agreement and state net operating losses of approximately $21 million. These carryforwards expire at various intervals through 2011. In the event of a sale of the Business, these carryovers most likely will not be available to the new owner, or their use may be subject to limitation.

(9) AFFILIATED PARTY TRANSACTIONS

The Business participates in a cash management system maintained by DWI. Under this system, excess cash was forwarded to DWI each day, reducing the current loan payable to affiliate. Likewise, cash requirements were funded daily by DWI, increasing the current loan payable to affiliate. Interest is charged on loan payable to DWI balances based on the weighted average cost of DWI's borrowings. In addition, the Business incurs management fees from DWI for various corporate services including management, treasury, computer, benefits, payroll, auditing, accounting and tax services. For these services DWI charges actual cost based on relative usage and other factors.

The balance with International Apparel Marketing Corporation is due to the unpaid portion of the Company's 35% of the royalties earned by International Apparel Marketing Corporation on the Nautilus licenses. The balance with Alchem Capital Corporation is primarily due to the Nautilus trademark.

Due to (from) affiliates, net balances consist of the following:

	1997	1998
Delta Woodside Industries, Inc.	$ 29,838,338	$ 33,560,436
International Apparel Marketing Corporation	(145,053)	(81,665)
Alchem Capital Corporation	3,318,639	3,513,499
Due to affiliates, net	$ 33,011,924	$ 36,992,270

In May 1998, DWI replaced a $20 million line of credit with a $30 million revolving credit facility (subject to borrowing base limitations) which is due in May of 1999. This new facility is backed by certain accounts receivable and inventory, as defined in the credit agreement, of the Business, Delta Apparel and Duck Head Apparel, all subsidiaries of DWI.

(10) EMPLOYEE BENEFIT PLANS

The Business participates in the Delta Woodside Industries, Inc. retirement and 401(k) plans. On September 27, 1997, the Delta Woodside Industries Employee Retirement Plan ("Retirement Plan") merged into the Delta Woodside Employee Savings and Investment Plan ("401(k) Plan"). Future contributions to the 401(k) Plan in lieu of a contribution to the Retirement Plan will be made in cash and not in stock. In the 401(k) Plan, employees may elect to convert Delta Woodside Industries (DWI) stock to other funds, but may not increase the amount of stock in their account. Each participant has the right to direct the trustee as to the manner in which shares held are to be voted. The Retirement Plan qualified as an Employee Stock Ownership Plan ("ESOP") under the Internal Revenue Code as a defined contribution plan. The Business contributed approximately $23,000, $29,000 and $26,000 to the 401(k) Plan during fiscal 1996, 1997 and 1998, respectively. The Business contributed approximately $16,000, $52,000 and $20,000 to the Retirement Plan during fiscal 1996, 1997 and 1998, respectively.

The Business also participates in a 501(c)(9) trust, the Delta Woodside Employee Benefit Plan and Trust ("Trust"). The Trust collects both employer and employee contributions from the Business and makes disbursements for health claims and other qualified benefits.

The Business participates in a Deferred Compensation Plan, managed by DWI, which permits certain management employees to defer a portion of their compensation. Deferred compensation

(10) EMPLOYEE BENEFIT PLANS (CONTINUED)
accounts are credited with interest and are distributed after retirement, disability or employment termination. As of June 28, 1997 and June 27, 1998, the Business' liability was approximately $646,000 and $13,000, respectively.

The Business also participates in the Delta Woodside Industries, Inc. Incentive Stock Award Plan and Stock Option Plan. Under both Plans, the Business recognized expense of approximately $0, $9,000 and $6,000 for fiscal years 1996, 1997 and 1998, respectively.

(11) FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying values approximate fair values for financial instruments that are short-term in nature, such as cash, accounts receivable, accounts payable and accrued expenses. The Business estimates that the fair value of the financed notes receivable are not materially different than the carrying value.

(12) PENDING SALE

The parent company, DWI, has identified a potential buyer for the Business and is negotiating the purchase agreement. DWI has committed to fund the Business' cash deficiency, operations and necessary capital improvements, including expenses necessary to allow the Business to become Year 2000 compliant, at least until December 31, 1999 in the event that DWI is unable to complete the sale of the Business.

NAUTILUS BUSINESS
(AS DESCRIBED IN NOTE 1)

COMBINED BALANCE SHEETS

	JUNE 27, 1998	DECEMBER 31, 1998 (UNAUDITED)
ASSETS		
Current assets:		
Cash	$ 1,600	$ 13,309
Accounts receivable:		
Customer	4,414,042	3,431,678
Financed notes	473,171	380,885
Other	74,912	51,315
Less allowance for doubtful accounts	(1,604,407)	(637,553)
	3,357,718	3,226,325
Inventories	4,336,024	4,024,132
Prepaids and other current assets	122,103	111,551
Total current assets	7,817,445	7,375,317
Property, plant and equipment, net	11,522,745	10,692,938
Financed notes receivable	1,771,773	618,808
Intangible assets, net	1,987,961	--
	$ 23,099,924	$ 18,687,063
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Accounts payable	$ 515,223	$ 256,839
Bank overdraft	469,963	91,336
Accrued employee compensation	1,084,480	882,699
Other accrued expenses	1,046,636	1,285,475
Due to affiliates, net	36,992,270	39,733,312
Total current liabilities	40,108,572	42,249,661
Other liabilities	13,138	98,588
Total liabilities	40,121,710	42,348,249
Stockholder's deficit:		
Common stock, $1 par value, authorized, issued and outstanding 100 shares	100	100
Additional paid in capital	10,692,506	10,692,506
Accumulated deficit	(27,714,392)	(34,353,792)
Total stockholder's deficit	(17,021,786)	(23,661,186)
Commitments and contingencies		
	$ 23,099,924	$ 18,687,063

See accompanying notes to combined financial statements

NAUTILUS BUSINESS
(AS DESCRIBED IN NOTE 1)

COMBINED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	SIX-MONTH PERIOD ENDED	
	DECEMBER 27, 1997	DECEMBER 31, 1998
	(UNAUDITED)	
Net sales	$ 10,719,671	$ 9,172,424
Cost of goods sold	(8,630,779)	(7,356,185)
Gross profit	2,088,892	1,816,239
Selling, general and administrative expenses	(3,426,338)	(4,483,635)
Impairment charges	--	(2,300,000)
Intercompany management fees	(125,535)	(3,573)
Royalty income	181,572	97,724
Other income (expense)	58,120	(158,016)
Operating loss	(1,223,289)	(5,031,261)
Interest income (expense):		
Interest income	62,579	34,363
Interest expense	(24,774)	(3,506)
Intercompany interest expense	(1,466,425)	(1,638,996)
	(1,428,620)	(1,608,139)
Loss before taxes	(2,651,909)	(6,639,400)
Income tax benefit	--	--
Net loss	(2,651,909)	(6,639,400)
Accumulated deficit, beginning of period	(12,919,159)	(27,714,392)
Accumulated deficit, end of period	$ (15,571,068)	$ (34,353,792)

See accompanying notes to combined financial statements

NAUTILUS BUSINESS
(AS DESCRIBED IN NOTE 1)

COMBINED STATEMENTS OF CASH FLOWS

	SIX-MONTH PERIOD ENDED	
	DECEMBER 27, 1997	DECEMBER 31, 1998
	(UNAUDITED)	
Operating activities:		
Net loss	$ (2,651,909)	$ (6,639,400)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation	777,627	795,733
Amortization	346,036	200,454
Impairment charges	--	2,300,000
Provision for losses on accounts receivable	(145,278)	(249,594)
Changes in operating assets and liabilities:		
Accounts receivable	(989,531)	1,533,952
Inventories	441,280	311,892
Prepaids and other current assets	8,858	10,552
Accounts payable, bank overdraft, accrued employee compensation and other accrued expenses	461,165	(599,953)
Other liabilities	598,054	85,450
Net cash provided (used) by operating activities	(1,153,698)	(2,250,914)
Investing activities:		
Purchases of property, plant and equipment	(79,251)	(57,419)
Net cash used by investing activities	(79,251)	(57,419)
Financing activities:		
Principal payments on bond obligations	(24,332)	--
Change in due to affiliates, net	1,257,291	2,320,042
Net cash provided by financing activities	1,232,959	2,320,042
Increase (decrease) in cash	10	11,709
Cash at beginning of year	1,790	1,600
Cash at end of year	$ 1,800	$ 13,309
Supplemental disclosures of cash flow information:		
Interest paid	$ 1,466,425	$ 1,638,996
Noncash investing and financing activities:		
Increase in intangible assets and due to affiliates, net	$ --	$ 421,000

See accompanying notes to combined financial statements.

NAUTILUS BUSINESS

COMBINED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

The combined financial statements include the operations and accounts of Nautilus International, Inc., a Virginia corporation, and the Nautilus trademark, combined and referred to herein as the Business. The Business is owned by Alchem Capital Corporation, a wholly owned subsidiary of Delta Woodside Industries, Inc. (DWI). The accompanying combined financial statements have been prepared for purposes of depicting the combined financial position and results of operations of the Business on a historical cost basis.

The parent company, DWI, has sold certain assets and liabilities of the Business (as defined in the Asset Purchase Agreement dated November 10, 1998) to Direct Focus, Inc. The transaction closed on January 4, 1999.

All balances and transactions among the Business have been eliminated in combination. Balances and transactions with other affiliates have not been eliminated in the combination and are reflected as affiliate balances and transactions.

(2) SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements included herein as of June 27, 1998 and December 31, 1998 and for the six month periods ended December 27, 1997 and December 31, 1998 have been prepared by the Business, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments necessary for a fair presentation have been included, herein and are of a normal, recurring nature.

(3) IMPAIRMENT OF LONG-LIVED ASSETS

In fiscal year 1998, the Business' assets held for sale include all net assets except for intercompany balances with affiliates. The net value of assets held for sale have been written down to their estimated fair market value, which is the net estimated purchase price of the Business of approximately $20.0 million. Therefore, in order to value these assets held for sale at their estimated fair market value, the Business has recorded an impairment charge of $8.8 million during 1998, which was recorded as a reduction in intangible assets, net. However in 1999, the purchase price of certain assets of the Business was finalized at $16 million plus the assumption of certain liabilities. Therefore, in order to value these assets held for sale at their estimated fair market value, the Business recorded an additional impairment charge of $2.3 million during the period ended December 31, 1998, which was recorded as a $2.2 million reduction in intangible assets, net and a $.1 million reduction in property, plant and equipment, net.

[Inside back cover of the prospectus includes the following artwork:

In the top left corner of this single page layout is the Bowflex logo, beneath which is a picture of a male torso surrounded by a picture of the Bowflex Power Pro XTLU and two pictures of individuals using the Company's Bowflex machines. The top right corner includes the Direct Focus logo and the following bullet points: (1) "High quality, branded products"; and (2) "Direct marketing to control and enhance our image." Immediately below these two images is the Nautilus logo and a picture of a Nautilus fitness machine with a shaded Nautilus shell in the background. Below the Nautilus image is the Instant Comfort logo, together with a picture of the product components and a complete airbed in a bedroom setting.]

[OUTSIDE BACK COVER]
[COMPANY LOGO APPEARS HERE]

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the various expenses in connection with the issuance and distribution of the securities being registered, other than the underwriting discount, all of which shall be borne by the Company. All amounts shown are estimates except the Securities and Exchange Commission registration fee, the National Association of Securities Dealers, Inc. filing fee and the Nasdaq National Market listing fee.

FEES	AMOUNT
Securities and Exchange Commission registration fee	$ 5,698
National Association of Securities Dealers, Inc. filing fee	$ 2,549
Nasdaq National Market listing fee	$ 78,875
Printing and engraving expenses	$ 100,000
Transfer agent fees	$ 5,000
Accounting fees and expenses	$ 60,000
Legal fees and expenses	$ 150,000
Blue Sky fees and expenses (including related legal fees)	$ 5,000
Miscellaneous	$ 35,000
Total	$ 442,122

ITEM 14. INDEMNIFICATION OF OFFICERS AND DIRECTORS.

Sections 23B.08.500 through 23B.08.600 of the Washington Business Corporation Act (the "WBCA") authorize a court to award, or a corporation's board of directors to grant, indemnification to directors and officers on terms sufficiently broad to permit indemnification under certain circumstances for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"). Article IX of the registrant's Articles of Incorporation (Exhibit 3.1 hereto) and Article X of the registrant's Bylaws (Exhibit 3.2 hereto) provide for indemnification of the registrant's directors, officers, employees and agents to the maximum extent permitted by Washington law. The directors and officers of the registrant also may be indemnified against liability they may incur for serving in that capacity pursuant to a liability insurance policy maintained by the registrant for such purpose. However, the registrant does not currently have such an insurance policy.

Section 23B.08.320 of the WBCA authorizes a corporation to limit a director's liability to the corporation or its shareholders for monetary damages for acts or omissions as a director, except in certain circumstances involving intentional misconduct, knowing violations of law or illegal corporate loans or distributions, or any transaction for which the director personally receives a benefit in money, property or services to which the director is not legally entitled. Section 8.4 of the registrant's Articles of Incorporation contains provisions implementing, to the fullest extent permitted by the WBCA, such limitations on a director's liability to the registrant and its shareholders.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES.

In June 1996, the Company issued 750,000 shares of its common stock to an investor with whom the Company had a business relationship, for an aggregate purchase price of $250,000. As part of the same transaction, the investor could have acquired warrants to purchase up to 1,280,000 shares of the Company's common stock at a price of $1.25 per share for one year and then $2.50 per share, subject to certain conditions. These conditions were not satisfied in 1997 and the warrants were never issued.

The Company issued the shares in reliance upon the registration exemption afforded by Rule 504 of Regulation D.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

EXHIBIT NUMBER	DESCRIPTION
1.1	Form of Underwriting Agreement.
3.1	Articles of Incorporation of registrant.
3.2	Articles of Merger of registrant.
3.3	Articles of Amendment of registrant.
3.4	Bylaws of registrant.
3.5	Amendment to Bylaws of registrant.
5.1*	Opinion of Garvey, Schubert & Barer as to the legality of the shares.
10.1	Direct Focus, Inc. Stock Option Plan, as amended.
10.2	Form of Nonstatutory Option Agreement.
10.3	Form of Incentive Stock Option Agreement.
10.4	Lease Agreement dated September 16, 1992, between Bow-Flex of America, Inc. and Christensen Group, Inc.
10.5	First Amendment to Lease dated September 16, 1992, between Bow-Flex of America, Inc. and Christensen Group, Inc.
10.7	Amendment to Bowflex, Inc. Lease Extension, dated August 27, 1996, between Bowflex, Inc. and Ogden Business Park Partnership.
10.8	First Amendment to Lease, dated December 10, 1996, between Bowflex, Inc. and Ogden Business Park Partnership
10.9	Lease Agreement, dated June 4, 1998, between Direct Focus, Inc. and Hart Enterprises
10.10	Amendment to Lease, dated as of October 20, 1998, between Direct Focus, Inc. and LeRoy Hart Rentals.
10.11	Borrowing Agreement, dated December 16, 1998, between Direct Focus, Inc. and Seafirst Bank.
10.12	Borrowing Agreement, dated December 16, 1998, between Direct Focus, Inc. and Seafirst Bank.
10.13	Royalty Agreement, dated as of April 9, 1988, between Bow-Flex of America, Inc. and Tessema D. Shifferaw.
10.14	Royalty Payment Agreement, dated as of June 18, 1992, between Tessema D. Shifferaw, Brian R. Cook and R.E. 'Sandy' Wheeler.
10.15	First Amended and Restated Merchant Agreement dated as January 27, 1999, between Direct Focus, Inc. and Household Bank (SB), N.A.**
10.16	Exclusive Sales Agreement dated as of January 1, 1996, between Delta Consolidated Corporation and Novacare, Inc.**
21.1	Subsidiaries of Direct Focus, Inc.
23.1	Consent of Deloitte & Touche LLP.

EXHIBIT NUMBER	DESCRIPTION
23.2	Consent of KPMG Peat Marwick LLP.
23.3*	Consent of Garvey, Schubert & Barer (included in Exhibit 5.1).
24.1	Power of Attorney of Kirland C. Aly.
24.2	Power of Attorney of C. Reed Brown.
24.3	Power of Attorney of Gary L. Hopkins.
24.4	Power of Attorney of Roger J. Sharp.
24.5	Power of Attorney of Roland E. Wheeler.
27.1	Financial Data Schedule.

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* To be filed by amendment

** We have requested confidential treatment for certain confidential portions of this exhibit pursuant to Rule 406 under the Securities Act. In accordance with Rule 406, we have omitted these confidential portions from this exhibit and filed them separately with the Commission.

(b) Financial Statement Schedules

None

ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-1 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Vancouver, State of Washington, on March 1, 1999.

DIRECT FOCUS, INC.

By: /s/ BRIAN R. COOK

Brian R. Cook,
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

NAME	TITLE	DATE
/s/ BRIAN R. COOK Brian R. Cook	Chairman of the Board, Director, President and Chief Executive Officer (Principal Executive Officer)	March 1, 1999
/s/ ROD W. RICE Rod W. Rice	Chief Financial Officer (Principal Financial and Accounting Officer)	March 1, 1999
/s/ KIRKLAND C. ALY* Kirkland C. Aly	Director	March 1, 1999
/s/ C. REED BROWN* C. Reed Brown	Director	March 1, 1999
/s/ GARY L. HOPKINS* Gary L. Hopkins	Director	March 1, 1999
/s/ ROGER J. SHARP* Roger J. Sharp	Director	March 1, 1999
/s/ ROLAND E. WHEELER* Roland E. Wheeler	Director	March 1, 1999

*By: /s/ ROD W. RICE

Rod W. Rice March 1, 1999
ATTORNEY-IN-FACT

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	PAGE NUMBER
1.1	Form of Underwriting Agreement.	
3.1	Articles of Incorporation of registrant.	
3.2	Articles of Merger of registrant.	
3.3	Articles of Amendment of registrant.	
3.4	Bylaws of registrant.	
3.5	Amendment to Bylaws of registrant.	
5.1*	Opinion of Garvey, Schubert & Barer as to the legality of the shares.	
10.1	Direct Focus, Inc. Stock Option Plan, as amended.	
10.2	Form of Nonstatutory Option Agreement.	
10.3	Form of Incentive Stock Option Agreement.	
10.4	Lease Agreement dated September 16, 1992, between Bow-Flex of America, Inc. and Christensen Group, Inc.	
10.5	First Amendment to Lease dated September 16, 1992, between Bow-Flex of America, Inc. and Christensen Group, Inc.	
10.7	Amendment to Bowflex, Inc. Lease Extension, dated August 27, 1996, between Bowflex, Inc. and Ogden Business Park Partnership.	
10.8	First Amendment to Lease, dated December 10, 1996, between Bowflex, Inc. and Ogden Business Park Partnership.	
10.9	Lease Agreement, dated June 4, 1998, between Direct Focus, Inc. and LeRoy Hart Rentals.	
10.10	Amendment to Lease, dated as of October 20, 1998, between Direct Focus, Inc. and LeRoy Hart Rentals.	
10.11	Borrowing Agreement, dated December 16, 1998, between Direct Focus, Inc. and Seafirst Bank.	
10.12	Borrowing Agreement, dated December 16, 1998, between Direct Focus, Inc. and Seafirst Bank.	
10.13	Royalty Agreement, dated as of April 9, 1988, between Bow-Flex of America, Inc. and Tessema D. Shifferaw.	
10.14	Royalty Payment Agreement, dated as of June 18, 1992, between Tessema D. Shifferaw, Brian R. Cook and R.E. 'Sandy' Wheeler.	
10.15	First Amended and Restated Merchant Agreement, dated as January 27, 1999, between Direct Focus, Inc. and Household Bank (SB), N.A.**	
10.16	Exclusive Sales Agreement dated as of January 1, 1996, between Delta Consolidated Corporation and Novacare, Inc.**	
21.1	Subsidiaries of Direct Focus, Inc.	
23.1	Consent of Deloitte & Touche LLP.	
23.2	Consent of KPMG Peat Marwick LLP.	
23.3*	Consent of Garvey, Schubert & Barer (included in Exhibit 5.1).	
24.1	Power of Attorney of Kirland C. Aly.	
24.2	Power of Attorney of C. Reed Brown.	

EXHIBIT NUMBER	DESCRIPTION	PAGE NUMBER
24.3	Power of Attorney of Gary L. Hopkins.	
24.4	Power of Attorney of Roger J. Sharp.	
24.5	Power of Attorney of Roland E. Wheeler.	
27.1	Financial Data Schedule.	

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* To be filed by amendment

** We have requested confidential treatment for certain confidential portions of this exhibit pursuant to Rule 406 under the Securities Act. In accordance with Rule 406, we have omitted these confidential portions from this exhibit and filed them separately with the Commission.

UNDERWRITING AGREEMENT

_____, 1999

D.A. DAVIDSON & CO.
As the Representative of the several Underwriters
named on Schedule A hereto
c/o D.A. Davidson & Co.
8 Third Street North
Great Falls, Montana 59403

Ladies and Gentlemen:

Direct Focus, Inc., a Washington corporation (the "COMPANY"), and certain shareholders of the Company named in Schedule B hereto (hereinafter called the "SELLING SHAREHOLDERS") address you as the Representative of each of the persons, firms and corporations listed in Schedule A hereto (hereinafter collectively called the "UNDERWRITERS") and hereby confirm their respective agreements with the several Underwriters as follows:

1. DESCRIPTION OF SHARES. The Company proposes to issue and sell 825,000 shares of its authorized and unissued Common Stock, having no par value, to the several Underwriters. The Selling Shareholders, acting severally and not jointly, propose to sell an aggregate of 175,000 shares of the Company's authorized and outstanding Common Stock to the several Underwriters. The 825,000 shares of Common Stock of the Company to be sold by the Company are hereinafter called the "COMPANY SHARES" and the 175,000 shares of Common Stock to be sold by the Selling Shareholders are hereinafter called the "SELLING SHAREHOLDER SHARES." The Company Shares and the Selling Shareholder Shares are hereinafter collectively referred to as the "FIRM SHARES." The Company also grants to the Underwriters an option to purchase up to 150,000 additional shares of the Company's Common Stock (the "OPTION SHARES"), as provided in Section 8 hereof. As used in this Agreement, the term "SHARES" shall include the Firm Shares and the Option Shares. All shares of Common Stock of the Company to be outstanding after giving effect to the sales contemplated hereby, including the Shares, are hereinafter referred to as "COMMON STOCK."

2. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE COMPANY. The Company represents and warrants to and agrees with each Underwriter that:

(a) A registration statement on Form S-1 (File No. 333-_____) with respect to the Shares, including a prospectus subject to completion, has been prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "ACT"), and the applicable rules and regulations (the "RULES AND REGULATIONS") of the Securities and Exchange Commission (the "COMMISSION") under the Act and has been filed with the Commission; such amendments to such registration statement, such amended prospectuses subject to completion and such abbreviated registration statements pursuant to Rule 462(b) of the Rules and Regulations as may have been required prior to the date hereof have been similarly prepared and filed with the Commission; and the Company will file such additional amendments to such registration statement, such amended prospectuses subject to completion and such abbreviated registration statements as may hereafter be required. Copies of such registration statement and amendments, of each related prospectus subject to completion (the "PRELIMINARY PROSPECTUSES") and of any abbreviated registration statement

pursuant to Rule 462(b) of the Rules and Regulations have been delivered to you.

If the registration statement relating to the Shares has been declared effective under the Act by the Commission, the Company will prepare and promptly file with the Commission the information omitted from the registration statement pursuant to Rule 430A(a) or, if D.A. Davidson & Co., on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the information required to be included in any term sheet filed pursuant to Rule 434(b) or (c), as applicable, of the Rules and Regulations pursuant to subparagraph (1), (4) or (7) of Rule 424(b) of the Rules and Regulations or as part of a post-effective amendment to the registration statement (including a final form of prospectus). If the registration statement relating to the Shares has not been declared effective under the Act by the Commission, the Company will prepare and promptly file an amendment to the registration statement, including a final form of prospectus, or, if D.A. Davidson & Co., on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the information required to be included in any term sheet filed pursuant to Rule 434(b) or (c), as applicable, of the Rules and Regulations. The term "REGISTRATION STATEMENT" as used in this Agreement shall mean such registration statement, including financial statements, schedules and exhibits, in the form in which it became or becomes, as the case may be, effective (including, if the Company omitted information from the registration statement pursuant to Rule 430A(a) or files a term sheet pursuant to Rule 434 of the Rules and Regulations, the information deemed to be a part of the registration statement at the time it became effective pursuant to Rule 430A(b) or Rule 434(d) of the Rules and Regulations) and, in the event of any amendment thereto or the filing of any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations relating thereto after the effective date of such registration statement, shall also mean (from and after the effectiveness of such amendment or the filing of such abbreviated registration statement) such registration statement as so amended, together with any such abbreviated registration statement. The term "PROSPECTUS" as used in this Agreement shall mean the prospectus relating to the Shares as included in such Registration Statement at the time it becomes effective (including, if the Company omitted information from the Registration Statement pursuant to Rule 430A(a) of the Rules and Regulations, the information deemed to be a part of the Registration Statement at the time it became effective pursuant to Rule 430A(b) of the Rules and Regulations); provided, however, that if in reliance on Rule 434 of the Rules and Regulations and with the consent of D.A. Davidson & Co., on behalf of the several Underwriters, the Company shall have provided to the Underwriters a term sheet pursuant to Rule 434(b) or (c), as applicable, prior to the time that a confirmation is sent or given for purposes of Section 2(10)(a) of the Act, the term "PROSPECTUS" shall mean the "prospectus subject to completion" (as defined in Rule 434(g) of the Rules and Regulations) last provided to the Underwriters by the Company and circulated by the Underwriters to all prospective purchasers of the Shares (including the information deemed to be a part of the Registration Statement at the time it became effective pursuant to Rule 434(d) of the Rules and Regulations). Notwithstanding the foregoing, if any revised prospectus shall be provided to the Underwriters by the Company for use in connection with the offering of the Shares that differs from the prospectus referred to in the immediately preceding sentence (whether or not such revised prospectus is required to be filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations), the term "PROSPECTUS" shall refer to such revised prospectus from and after the time it is first provided to the Underwriters for such use. If in reliance on Rule 434 of the Rules and Regulations and with the consent of D.A. Davidson & Co., on behalf of the several Underwriters, the Company shall have provided to the Underwriters a term sheet pursuant to Rule 434(b) or (c), as applicable, prior to the time that a confirmation is sent or given for purposes of Section 2(10)(a) of the Act, the Prospectus and the term sheet, together, will not be materially different from the prospectus in the Registration Statement.

(b) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus or instituted proceedings for that purpose, and each such Preliminary Prospectus has conformed in all material respects to the requirements of the Act and the Rules and Regulations and, at the time the Registration Statement became or becomes, as the case may be, effective and at all times subsequent thereto up to and on the Closing Date (hereinafter defined) and on any later date on which Option Shares are to be purchased, (i) the Registration Statement and the Prospectus, and any amendments or supplements thereto, contained and will contain all material information required to be included therein by the Act and the Rules and Regulations and will in all material respects conform to the requirements of the Act and the Rules and Regulations, (ii) the Registration Statement, and any amendments or supplements thereto, did not and will not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (iii) the

Prospectus, and any amendments or supplements thereto, did not and will not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties contained in this subparagraph (b) shall apply to information contained in or omitted from the Registration Statement or Prospectus, or any amendment or supplement thereto, in reliance upon, and in conformity with, written information relating to any Underwriter or Selling Shareholder furnished to the Company by such Underwriter or Selling Shareholder specifically for use in the preparation thereof.

(c) Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation with full power and authority (corporate and other) to own, lease and operate its properties and conduct its business as described in the Prospectus; the Company owns all of the outstanding capital stock of its subsidiaries free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest other than the lien in favor of Bank of America as the successor to SeaFirst Bank; each of the Company and its subsidiaries is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified or be in good standing would not have a material adverse effect on the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; no proceeding has been instituted in any such jurisdiction, revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority or qualification; each of the Company and its subsidiaries is in possession of and operating in compliance with all authorizations, licenses, certificates, consents, orders and permits from state, federal and other regulatory authorities which are material to the conduct of its business, all of which are valid and in full force and effect; neither the Company nor any of its subsidiaries is in violation of its respective articles of incorporation or bylaws or in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any material bond, debenture, note or other evidence of indebtedness, or in any material lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture orother material agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of its subsidiaries or their respective properties may be bound; and neither the Company nor any of its subsidiaries is in material violation of any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties of which it has knowledge. The Company does not own or control, directly or indirectly, any corporation, partnership, limited liability company, joint venture, association or other entity other than Nautilus Fitness Products, Inc., Nautilus, Inc., Nautilus Human Performance Systems, Inc., Direct Focus Sales Corporation, Instant Comfort Corporation, Direct Focus FSC, Inc., DFI Properties, LLC and DFI Advertising, Inc.

(d) The Company has full legal right, power and authority to enter into this Agreement and perform the transactions contemplated hereby. This Agreement has been duly authorized, executed and delivered by the Company and is a valid and binding agreement on the part of the Company, enforceable in accordance with its terms, except as rights to indemnification and contribution hereunder may be limited by applicable law and except as the enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; the performance of this Agreement and the consummation of the transactions herein contemplated will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, (i) any material bond, debenture, note or other evidence of indebtedness, or under any material lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other material agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of its subsidiaries or their respective properties may be bound, (ii) the articles of incorporation or bylaws of the Company or any of its subsidiaries, or (iii) any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties. No consent, approval, authorization or order of or qualification with any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties is required for the execution and delivery of this Agreement and the consummation by the Company or any of its subsidiaries of the transactions herein contemplated, except such as may be required under the Act, the Securities Exchange Actof 1934, as amended (the "EXCHANGE ACT"), state or other securities or blue sky laws or the bylaws, rules and regulations of the National Association of Securities Dealers, Inc. (the "NASD"), all of which requirements have been satisfied in all material respects.

(e) Except as disclosed in the Prospectus, there is not any pending or, to the best of the Company's knowledge, threatened action, suit, claim or proceeding against the Company, any of its subsidiaries or any of their respective officers or any of their respective properties, assets or rights before any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective officers or properties or otherwise which (i) might result in any material adverse change in the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise or might materially and adversely affect their properties, assets or rights, (ii) might prevent consummation of the transactions provided herein, or (iii) is required to be disclosed in the Registration Statement or Prospectus and is not so disclosed; and there are no agreements, contracts, leases or documents of the Company or any of its subsidiaries of a character required to be described or referred to in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement by the Act or the Rules and Regulations which have not been accurately described in all material respects in the Registration Statement or Prospectus or filed as exhibits to the Registration Statement.

(f) All outstanding shares of capital stock of the Company (including the Selling Shareholder Shares) have been duly authorized and validly issued and are fully paid and nonassessable, have been issued in compliance with all federal, provincial, and state securities laws, were not issued in violation of or subject to any pre-emptive rights or other rights to subscribe for or purchase securities, and the authorized and (as of the date set forth therein) the outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" and conforms in all material respects to the statements relating thereto contained in the Registration Statement and the Prospectus (and such statements correctly state the substance of the instruments defining the capitalization of the Company in all material respects); the Firm Shares and the Option Shares to be purchased from the Company hereunder have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company against payment therefor in accordance with the terms of this Agreement, will be duly and validly issued and fully paid and nonassessable, and will be sold free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest other than the lien in favor of Bank of America as the successor in interest to SeaFirst Bank; and no pre-emptive right, co-sale right, registration right, right of first refusal or other similar right of shareholders exists with respect to any of the Firm Shares or Option Shares to be purchased from the Company hereunder or the issuance and sale thereof other than those that have been expressly waived prior to the date hereof and those that will automatically expire upon or will not apply to the consummation of the transactions contemplated on the Closing Date (as defined in Section 4 hereof). No further approval or authorization of any shareholder, the Board of Directors of the Company or others is required for the issuance and sale or transfer of the Shares except as may be

required under the Act, state or other securities or blue sky laws or the bylaws, rules and regulations of the NASD. All issued and outstanding shares of capital stock of each subsidiary of the Company have been duly authorized and validly issued and are fully paid and nonassessable, and were not issued in violation of or subject to any pre-emptive right, or other rights to subscribe for or purchase shares and are owned by the Company free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest. Except as disclosed in the Prospectus and the financial statements of the Company, and the related notes thereto, included in the Prospectus, neither the Company nor any of its subsidiaries has outstanding any options to purchase, or any pre-emptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights, convertible securities or obligations. The description of the Company's stock option, stock bonus and other stock plans or arrangements, and the options or other rights granted and exercised thereunder, set forth in the Prospectus accurately and fairly presents the information required to be shown with respect to such plans, arrangements, options and rights.

(g) Deloitte & Touche LLP which has audited the financial statements of the Company, together with the related notes, as of December 31, 1997 and December 31, 1998 and for each of the years in the three (3) years ended December 31, 1998 filed with the Commission as a part of the Registration Statement and which are included in the Prospectus, are independent accountants within the meaning of the Act and the Rules and Regulations; KPMG Peat Marwick LLP, which has examined the financial statements of the Nautilus Business ("NAUTILUS"), substantially all the assets of which having been acquired by the Company in a transaction consummated on January 4, 1999, together with the related schedules and notes, as of June 28, 1997 and June 27, 1998 and for each of the two (2) years ended June 27, 1998, filed with the Commission as part of the Registration Statement and which are included in the Prospectus, are independent accountants within the meaning of the Act and the Rules and Regulations; the audited financial statements of the Company, together with the related schedules and notes, and the unaudited pro forma financial information, together with the related explanatory notes, forming part of the Registration Statement and Prospectus, fairly present the financial position and the results of operations of the Company and its subsidiaries at the respective dates and for the respective periods to which they apply; and all audited financial statements of the Company, together with the related schedules and notes, and the unaudited pro forma financial statements (other than the selected and summary financial and statistical data included in the Registration Statement), filed with the Commission as part of the Registration Statement, have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved except as may be otherwise stated therein. The selected and summary financial and statistical data included in the Registration Statement present fairly the information shown therein and have been compiled on a basis consistent with the audited financial statements presented therein. No other financial statements or schedules are required to be included in the Registration Statement.

(h) Subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been (i) any material adverse change in the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (ii) any transaction that is material to the Company and its subsidiaries considered as one enterprise, except transactions entered into in the ordinary course of business, (iii) any obligation, direct or contingent, that is material to the Company and its subsidiaries considered as one enterprise, incurred by the Company or its subsidiaries, except obligations incurred in the ordinary course of business, (iv) any change in the capital stock or (other than through the exercise of options or warrants disclosed in the Prospectus) outstanding indebtedness of the Company or any of its subsidiaries that is material to the Company and its subsidiaries considered as one enterprise, (v) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company or any of its subsidiaries, or (vi) any loss or damage (whether or not insured) to the property of the Company or any of its subsidiaries which has been sustained or will have been sustained which has a material adverse effect on the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(i) Except as set forth in the Registration Statement and Prospectus, (i) each of the Company and its subsidiaries has good and marketable title to all properties and assets described in the Registration Statement and Prospectus as owned by it, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest other than the lien in favor of SeaFirst Bank or its successor and, other than such as would not have a material adverse

effect on the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (ii) the agreements to which the Company or any of its subsidiaries is a party described in the Registration Statement and Prospectus are valid agreements, enforceable by the Company and its subsidiaries (as applicable), except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles and, to the best of the Company's knowledge, the other contracting party or parties thereto are not in material breach or material default under any of such agreements, and (iii) each of the Company and its subsidiaries has valid and enforceable leases for all properties described in the Registration Statement and Prospectus as leased by it, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles. Except as set forth in the Registration Statement and Prospectus, the Company owns or leases all such properties as are necessary to its operations as now conducted or as proposed to be conducted.

(j) The Company and its subsidiaries have timely filed all necessary federal, state and foreign income and franchise tax returns and have paid all taxes shown thereon as due, and there is no tax deficiency that has been or, to the best of the Company's knowledge, might be asserted against the Company or any of its subsidiaries that might have a material adverse effect on the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; and all tax liabilities are adequately provided for on the books of the Company and its subsidiaries.

(k) The Company and its subsidiaries maintain insurance with insurers of recognized financial responsibility of the types and in the amounts generally deemed adequate for their respective businesses and consistent with insurance coverage maintained by similar companies in similar businesses, including, but not limited to, (i) insurance covering real and personal property owned or leased by the Company or its subsidiaries against theft, damage, destruction, acts of vandalism and all other risks customarily insured against, and (ii) product liability insurance concerning the products sold by the Company, all of which insurance is in full force and effect; neither the Company nor any such subsidiary has been refused any insurance coverage sought or applied for; and neither the Company nor any such subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(l) To the best of the Company's knowledge, no labor disturbance by the employees of the Company or any of its subsidiaries exists or is imminent; and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its principal suppliers, value added resellers, authorized dealers or international distributors that might be expected to result in a material adverse change in the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise. No collective bargaining agreement exists with any of the Company's employees and, to the best of the Company's knowledge, no such agreement is imminent.

(m) Each of the Company and its subsidiaries owns or possesses adequate rights to use all patents, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names and copyrights which are necessary to conduct its businesses as described in the Registration Statement and Prospectus; the expiration of any patents, patent rights, trade secrets, trademarks, service marks, trade names or copyrights would not have a material adverse effect on the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; except to the extent described in the Registration Statement and the Prospectus, the Company has not received any notice of, and has no knowledge of, any infringement of or conflict with asserted rights of the Company by others with respect to any patent, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names or copyrights; and except to the extent described in the Registration Statement and the Prospectus, the Company has not received any notice of, and has no knowledge of, any infringement of or conflict with asserted rights of others with respect to any patent, patent rights,

inventions, trade secrets, know-how, trademarks, service marks, trade names or copyrights which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, might have a material adverse effect on the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(n) The Common Stock is registered pursuant to Section 12(g) of the Exchange Act and is approved for quotation on the Nasdaq National Market, and the Company has taken no action designed to, or likely to have the effect of, terminating the registration of the Common Stock under the 1934 Act or delisting the Common Stock from the Nasdaq National Market, nor has the Company received any notification that the Commission or the NASD is contemplating terminating such registration or listing.

(o) The Company has been advised concerning the Investment Company Act of 1940, as amended (the "1940 ACT"), and the rules and regulations thereunder, and has in the past conducted, and intends in the future to conduct, its affairs in such a manner as to ensure that it will not become an "investment company" or a company "controlled" by an "investment company" within the meaning of the 1940 Act and such rules and regulations.

(p) The Company has not distributed and will not distribute prior to the later of (i) the Closing Date, or any date on which Option Shares are to be purchased, as the case may be, and (ii) the completion of the distribution of the Shares, any offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectuses, the Prospectus, the Registration Statement and other materials, if any, permitted by the Act.

(q) Neither the Company nor any of its subsidiaries has at any time during the last five (5) years (i) made any unlawful contribution to any candidate for foreign office or failed to disclose fully any contribution in violation of law, or (ii) made any payment to any federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States or any jurisdiction thereof.

(r) The Company has not taken and will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(s) Each officer and director of the Company and each Selling Shareholder has agreed in writing that each such person will not, for a period of 180 days from the date that the Registration Statement is declared effective by the Commission (the "LOCK-UP PERIOD"), offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to (collectively, a "DISPOSITION") any shares of Common Stock, any options or warrants to purchase any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock (collectively, "SECURITIES") now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, or (ii) with the prior written consent of D.A. Davidson & Co. The foregoing restriction has been expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than such holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from Securities. Furthermore, such person has also agreed and consented to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by such person except in compliance with this restriction. The Company has provided to counsel for the Underwriters true, accurate and complete copies of all of the agreements pursuant to which its officers, directors and shareholders have agreed to such or similar restrictions (the "LOCK-UP AGREEMENTS") presently in effect or effected hereby. The Company hereby represents and warrants that it will not release any of its officers, directors or other shareholders from any Lock-up Agreements currently existing or hereafter effected without the prior written consent of D.A. Davidson & Co.

(t) Except as set forth in the Registration Statement and Prospectus, (i) the Company is in material compliance with all rules, laws and regulations applicable to its business, including, without limitation, laws, rules and regulations relating to the use, treatment, storage and disposal of toxic substances and protection of health or the environment ("Environmental Laws"), (ii) the Company has received no notice from any governmental authority or third party of an asserted claim under Environmental Laws, which claim is required to be disclosed in the Registration Statement and the Prospectus, (iii) the Company will not be required to make future material capital expenditures to comply with Environmental Laws, and (iv) no property which is owned, leased or occupied by the Company has been designated as a Superfund site pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601, et seq.), or otherwise designated as a contaminated site under applicable state or local law.

(u) The Company and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(v) There are no outstanding loans, advances (except normal advances for business expenses in the ordinary course of business) or guarantees of indebtedness by the Company to or for the benefit of any of the officers or directors of the Company or any of the members of the families of any of them, except as disclosed in the Registration Statement and the Prospectus.

(w) The minute books of the Company provided to the Underwriters' counsel contain a complete

summary of all meetings, consents and actions of the Board of Directors and shareholders of the Company since January 1, 1997, accurately reflecting all transactions referred to in such minutes in all material respects.

3. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE SELLING SHAREHOLDERS. Each Selling Shareholder, severally and not jointly, represents and warrants to and agrees with each Underwriter and the Company that:

(a) Such Selling Shareholder now has and on the Closing Date will have valid marketable title to the Shares to be sold by such Selling Shareholder, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest other than pursuant to this Agreement; and upon delivery of such Shares hereunder and payment of the purchase price as herein contemplated, each of the Underwriters will obtain valid marketable title to the Shares purchased by it from such Selling Shareholder, free and clear of any pledge, lien, security interest pertaining to such Selling Shareholder or such Selling Shareholder's property, encumbrance, claim or equitable interest, including any liability for estate or inheritance taxes, or any liability to or claims of any creditor, devisee, legatee or beneficiary of such Selling Shareholder.

(b) Such Selling Shareholder has duly authorized (if applicable), executed and delivered, in the form heretofore furnished to the Representative, an irrevocable Power of Attorney (the "POWER OF ATTORNEY") appointing Brian R. Cook and Rod W. Rice as attorneys-in-fact (collectively, the "ATTORNEYS" and individually, an "ATTORNEY") and a Letter of Transmittal and Custody Agreement (the "CUSTODY AGREEMENT") with _____, as custodian (the "CUSTODIAN"); each of the Power of Attorney and the Custody Agreement constitutes a valid and binding agreement on the part of such Selling Shareholder, enforceable in accordance with its terms, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; and each of such Selling Shareholder's Attorneys, acting alone, is authorized to execute and deliver this Agreement and the certificate referred to in Section 7(h) hereof on behalf of such Selling Shareholder, to determine the purchase price to be paid by the several Underwriters to such Selling Shareholder as provided in Section 4 hereof, to authorize the delivery of the Selling Shareholder Shares under this Agreement and to duly endorse (in blank or otherwise) the certificate or certificates representing such Shares or a stock power or powers with respect thereto, to accept payment therefor, and otherwise to act on behalf of such Selling Shareholder in connection with this Agreement.

(c) All consents, approvals, authorizations and orders required for the execution and delivery by such Selling Shareholder of the Power of Attorney and the Custody Agreement, the execution and delivery by or on behalf of such Selling Shareholder of this Agreement and the sale and delivery of the Selling Shareholder Shares under this Agreement, the issuance of the order of the Commission declaring the Registration Statement effective and such consents, approvals, authorizations or orders as may be necessary under state or other securities or Blue Sky laws and the bylaws, rules and regulations of the NASD) have been obtained and are in full force and effect; such Selling Shareholder, if other than a natural person, has been duly organized and is validly existing in good standing under the laws of the jurisdiction of its organization as the type of entity that it purports to be; and such Selling Shareholder has full legal right, power and authority to enter into and perform its obligations under this Agreement and such Power of Attorney and Custody Agreement, and to sell, assign, transfer and deliver the Shares to be sold by such Selling Shareholder under this Agreement.

(d) Such Selling Shareholder will not, during the Lock-up Period, effect the Disposition of any Securities now owned or hereafter acquired directly by such Selling Shareholder or with respect to which such Selling Shareholder has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, or (ii) with the prior written consent of D.A. Davidson & Co. The foregoing restriction is expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than the Selling Shareholder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option)

with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from Securities. Such Selling Shareholder also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by such Selling Shareholder except in compliance with this restriction.

(e) Certificates in negotiable form for all Shares and securities which are convertible into Shares to be sold by such Selling Shareholder under this Agreement, together with a stock power or powers duly endorsed in blank by such Selling Shareholder, have been placed in custody with the Custodian for the purpose of effecting delivery hereunder.

(f) This Agreement has been duly authorized by each Selling Shareholder that is not a natural person and has been duly executed and delivered by or on behalf of such Selling Shareholder and is a valid and binding agreement of such Selling Shareholder, enforceable in accordance with its terms, except as rights to indemnification hereunder may be limited by applicable law and except as the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; and the performance of this Agreement and the consummation of the transactions herein contemplated will not result in a breach or violation of any of the terms and provisions of or constitute a default under any material bond, debenture, note or other evidence of indebtedness, or under any material lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which such Selling Shareholder is a party or by which such Selling Shareholder, or any Selling Shareholder Shares hereunder, may be bound or, to the best of such Selling Shareholders' knowledge, result in any violation of any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over such Selling Shareholder or over the properties of such Selling Shareholder, or, if such Selling Shareholder is other than a natural person, result in any violation of any provisions of the charter, bylaws or other organizational documents of such Selling Shareholder.

(g) Such Selling Shareholder has not taken and will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(h) Such Selling Shareholder has not distributed and will not distribute any prospectus or other offering material in connection with the offering and sale of the Shares.

(i) All information furnished by or on behalf of such Selling Shareholder relating to such Selling Shareholder and the Selling Shareholder Shares that is contained in the representations and warranties of such Selling Shareholder in such Selling Shareholder's Power of Attorney or set forth in the Registration Statement or the Prospectus is, and at the time the Registration Statement became or becomes, as the case may be, effective and at all times subsequent thereto up to and on the Closing Date, was or will be, true, correct and complete, and does not, and at the time the Registration Statement became or becomes, as the case may be, effective and at all times subsequent thereto up to and on the Closing Date (hereinafter defined) will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information not misleading.

(j) Such Selling Shareholder will review the Prospectus and will comply with all agreements and satisfy all conditions on its part to be complied with or satisfied pursuant to this Agreement on or prior to the Closing Date and will advise one of its Attorneys and D.A. Davidson & Co. prior to the Closing Date if any statement to be made on behalf of such Selling Shareholder in the certificate contemplated by Section 7(i) would be inaccurate if made as of the Closing Date.

(k) Such Selling Shareholder does not have, or has waived prior to the date hereof, any pre-emptive right, co-sale right or right of first refusal or other similar right to purchase any of the Shares that are to be sold by the Company or any of the other Selling Shareholders to the Underwriters pursuant to this Agreement; such Selling Shareholder does not have, or has waived prior to the date hereof, any registration right or other similar right to

participate in the offering made by the Prospectus, other than such rights of participation as have been satisfied by the participation of such Selling Shareholder in the transactions to which this Agreement relates in accordance with the terms of this Agreement; and such Selling Shareholder does not own any warrants, options or similar rights to acquire, and does not have any right or arrangement to acquire, any capital stock, rights, warrants, options or other securities from the Company, other than those described in the Registration Statement and the Prospectus.

(l) Such Selling Shareholder is not aware (without having conducted any investigation or inquiry) that any of the representations and warranties of the Company set forth in Section 2 above is untrue or inaccurate in any material respect.

4. PURCHASE, SALE AND DELIVERY OF SHARES. On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company and the Selling Shareholders agree, severally and not jointly, to sell to the Underwriters, and each Underwriter agrees, severally and not jointly, to purchase from the Company and the Selling Shareholders, respectively, at a purchase price of $_____ per share (the per share price to public as set forth in the Registration Statement less the per share underwriting discounts and commissions) the respective number of Firm Shares set forth on Schedule A hereto. The obligation of each Underwriter to the Company and to each Selling Shareholder shall be to purchase from the Company or such Selling Shareholder that number of Company Shares or Selling Shareholder Shares, as the case may be, which (as nearly as practicable, as determined by you) is in the same proportion to the number of Company Shares or Selling Shareholder Shares, as the case may be, set forth opposite the name of the Company or such Selling Shareholder in Schedule B hereto as the number of Firm Shares which is set forth opposite the name of such Underwriter in Schedule A hereto (subject to adjustment as provided in Section 11) is to the total number of Firm Shares to be purchased by all the Underwriters under this Agreement.

The certificates in negotiable form for the Selling Shareholder Shares (or certificates representing securities convertible into such Shares) have been placed in custody (for delivery under this Agreement) under the Custody Agreement. Each Selling Shareholder agrees that the certificates for the Selling Shareholder Shares of such Selling Shareholder so held in custody are subject to the interests of the Underwriters hereunder, that the arrangements made by such Selling Shareholder for such custody, including the Power of Attorney, is to that extent irrevocable and that the obligations of such Selling Shareholder hereunder shall not be terminated by the act of such Selling Shareholder or by operation of law, whether by the death or incapacity of such Selling Shareholder or the occurrence of any other event, except as specifically provided herein or in the Custody Agreement. If any Selling Shareholder should die or be incapacitated, or if any other such event should occur, before the delivery of the certificates for the Selling Shareholder Shares hereunder, the Selling Shareholder Shares to be sold by such Selling Shareholder shall, except as specifically provided herein or in the Custody Agreement, be delivered by the Custodian in accordance with the terms and conditions of this Agreement as if such death, incapacity or other event had not occurred, regardless of whether the Custodian shall have received notice of such death or other event.

Delivery of definitive certificates for the Firm Shares to be purchased by the Underwriters pursuant to this Section 4 shall be made against payment of the purchase price therefor by the several Underwriters drawn in same-day funds, payable to the order of the Company with regard to the Shares being purchased from the Company, and to the order of the Custodian for the respective accounts of the Selling Shareholders with regard to the Shares being purchased from such Selling Shareholders, at the offices of _____ (or at such other place as may be agreed upon among the Representative and the Company), at _:__ _.M., _____ time (a) on the third (3rd) full business day following the first day that Shares are traded, (b) if this Agreement is executed and delivered after 1:30 P.M., Vancouver, Washington time, the fourth (4th) full business day following the day that this Agreement is executed and delivered or (c) at such other time and date not later than seven (7) full business days following the first day that Shares are traded as the Representative and the Company and the Attorneys may agree (or at such time and date to which payment and delivery shall have been postponed pursuant to Section 11 hereof), such time and date of payment and delivery being herein called the "CLOSING DATE;" provided, however, that if the Company has not made available to the Representative copies of the Prospectus within the time provided in Section 5(d) hereof, the Representative may,

in their sole discretion, postpone the Closing Date until no later than two (2) full business days following delivery of copies of the Prospectus to the Representative. The certificates for the Firm Shares to be so delivered will be made available to you at such office or such other location including, without limitation, in New York City, as you may reasonably request for checking at least one (1) full business day prior to the Closing Date and will be in such names and denominations as you may request, such request to be made at least two (2) full business days prior to the Closing Date. If the Representative so elects, delivery of the Firm Shares may be made by credit through full fast transfer to the account at The Depository Trust Company designated by the Representative.

It is understood that you, individually, and not as the Representative of the several Underwriters, may (but shall not be obligated to) make payment of the purchase price on behalf of any Underwriter or Underwriters whose check or checks shall not have been received by you prior to the Closing Date for the Firm Shares to be purchased by such Underwriter or Underwriters. Any such payment by you shall not relieve any such Underwriter or Underwriters of any of its or their obligations hereunder.

After the Registration Statement becomes effective, the several Underwriters intend to make an initial public offering (as such term is described in Section 12 hereof) of the Firm Shares at an initial public offering price of $_____ per share.

The information set forth in the second to last paragraph on the front cover page (insofar as such information relates to the Underwriters), and under all the paragraphs under the caption "Underwriting" in any Preliminary Prospectus and in the Prospectus constitutes the only information furnished by the Underwriters to the Company for inclusion in any Preliminary Prospectus, the Prospectus or the Registration Statement, and you, on behalf of the respective Underwriters, represent and warrant to the Company and the Selling Shareholders that the statements made therein do not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

5. FURTHER AGREEMENTS OF THE COMPANY. The Company agrees with the several underwriters that:

(a) The Company will use its best efforts to cause the Registration Statement and any amendment thereto, if not effective at the time and date that this Agreement is executed and delivered by the parties hereto, to become effective as promptly as possible; the Company will use its best efforts to cause any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations as may be required subsequent to the date the Registration Statement is declared effective to become effective as promptly as possible; the Company will notify you, promptly after it shall receive notice thereof, of the time when the Registration Statement, any subsequent amendment to the Registration Statement or any abbreviated registration statement has become effective or any supplement to the Prospectus has been filed; if the Company omitted information from the Registration Statement at the time it was originally declared effective in reliance upon Rule 430A(a) of the Rules and Regulations, the Company will provide evidence satisfactory to you that the Prospectus contains such information and has been filed, within the time period prescribed, with the Commission pursuant to subparagraph (1) or (4) of Rule 424(b) of the Rules and Regulations or as part of a post-effective amendment to such Registration Statement as originally declared effective which is declared effective by the Commission; if the Company files a term sheet pursuant to Rule 434 of the Rules and Regulations, the Company will provide evidence satisfactory to you that the Prospectus and term sheet meeting the requirements of Rule 434(b) or (c), as applicable, of the Rules and Regulations, have been filed, within the time period prescribed, with the Commission pursuant to subparagraph (7) of Rule 424(b) of the Rules and Regulations; if for any reason the filing of the final form of Prospectus is required under Rule 424(b)(3) of the Rules and Regulations, it will provide evidence satisfactory to you that the Prospectus contains such information and has been filed with the Commission within the time period prescribed; it will notify you promptly of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; as promptly as practicable upon your request, it will prepare and file with the Commission any amendments or supplements to the Registration Statement or Prospectus which, in the reasonable opinion of counsel for the several Underwriters ("UNDERWRITERS' COUNSEL"), may be necessary or advisable in connection with the distribution of the Shares by the Underwriters; it will promptly prepare and file with the Commission, and promptly notify you of the filing of, any amendments or supplements to the Registration Statement or Prospectus which may be necessary to correct any statements or omissions, if, at any time

when a prospectus relating to the Shares is required to be delivered under the Act, any event shall have occurred as a result of which the Prospectus or any other prospectus relating to the Shares as then in effect would include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; in case any Underwriter is required to deliver a prospectus nine (9) months or more after the effective date of the Registration Statement in connection with the sale of the Shares, it will prepare as promptly as practicable upon request, but at the expense of such Underwriter, such amendment or amendments to the Registration Statement and such prospectus or prospectuses as may be necessary to permit compliance with the requirements of Section 10(a)(3) of the Act; and it will file no amendment or supplement to the Registration Statement or Prospectus which shall not previously have been submitted to you a reasonable time prior to the proposed filing thereof or to which you shall reasonably object in writing, subject, however, to compliance with the Act and the Rules and Regulations and the provisions of this Agreement.

(b) The Company will advise you, promptly after it shall receive notice or obtain knowledge, of the issuance of any stop order by the Commission suspending the effectiveness of the Registration Statement or of the initiation or threat of any proceeding for that purpose; and it will promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal at the earliest possible moment if such stop order should be issued.

(c) The Company will use its best efforts to qualify the Shares for offering and sale under the securities laws of such jurisdictions as you may designate and to continue such qualifications in effect for so long as may be required for purposes of the distribution of the Shares, except that the Company shall not be required in connection therewith or as a condition thereof to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction in which it is not otherwise required to be so qualified or to so execute a general consent to service of process. In each jurisdiction in which the Shares shall have been qualified as above provided, the Company will make and file such statements and reports in each year as are or may be required by the laws of such jurisdiction.

(d) The Company will furnish to you, as soon as available, and, in the case of the Prospectus and any term sheet or abbreviated term sheet under Rule 434 of the Rules and Regulations, in no event later than the first (1st) full business day following the first day that Shares are traded, copies of the Registration Statement (three of which will be signed and which will include all exhibits), each Preliminary Prospectus, the Prospectus and any amendments or supplements to such documents, including any prospectus prepared to permit compliance with Section 10(a)(3) of the Act, all in such quantities as you may from time to time reasonably request. Notwithstanding the foregoing, if D.A. Davidson & Co., on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the Company shall provide to you copies of a Preliminary Prospectus updated in all respects through the date specified by you in such quantities as you may from time to time reasonably request.

(e) Unless the requirement has otherwise been satisfied in full, the Company will make generally available to its security holders as soon as practicable, but in any event not later than the forty-fifth (45th) day following the end of the fiscal quarter first occurring after the first anniversary of the effective date of the Registration Statement, an earnings statement (which will be in reasonable detail but need not be audited) complying with the provisions of Section 11(a) of the Act and covering a twelve (12) month period beginning after the effective date of the Registration Statement.

(f) During a period of five (5) years after the date hereof, the Company will furnish to you and the other several Underwriters hereunder, upon request (i) as soon as they are available, copies of all reports and financial statements furnished to or filed with the Commission, any securities exchange or the NASD, (ii) every material press release and every material news item or article in respect of the Company or its affairs which was prepared by the Company or any of its subsidiaries and generally released to shareholders; and (iii) any additional information of a public nature concerning the Company or its subsidiaries, or its business which you may reasonably request. During such five (5) year period, if the Company shall have active subsidiaries, the foregoing financial statements shall be on a consolidated basis to the extent that the accounts of the Company and its subsidiaries are consolidated, and shall be accompanied by similar financial statements for any significant subsidiary which is not so consolidated.

(g) The Company will apply the net proceeds from the sale of the Shares being sold by it in the manner set forth under the caption "Use of Proceeds" in the Prospectus.

(h) The Company will maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar (which may be the same entity as the transfer agent) for its Common Stock.

(i) If the transactions contemplated hereby are not consummated by reason of any failure, refusal or inability on the part of the Company or any Selling Shareholder to perform any agreement on their respective parts to be performed hereunder or to fulfill any condition of the Underwriters' obligations hereunder, or if the Company shall terminate this Agreement pursuant to Section 12(a) hereof, or if the Underwriters shall terminate this Agreement pursuant to Section 12(b)(i), the Company will reimburse the several Underwriters for all out-of-pocket expenses (including fees and disbursements of Underwriters' Counsel) incurred by the Underwriters in investigating or preparing to market or marketing the Shares within fifteen (15) days of the determination that the transactions contemplated hereby will not be consummated, provided that the amount of such reimbursement shall not exceed $100,000.

(j) If at any time during the ninety (90) day period after the Registration Statement becomes effective, any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your opinion the market price of the Common Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith consult with you concerning the timing and substance of a press release or other public statement, if any, responding to or commenting on such rumor, publication or event.

(k) During the Lock-up Period, the Company will not, without the prior written consent of D.A. Davidson & Co., effect the Disposition of, directly or indirectly, any Securities other than (i) the sale of the Firm Shares and the Option Shares to be sold by the Company hereunder, (ii) the issuance of shares pursuant to the exercise of outstanding options or warrants, (iii) the granting of options pursuant to a stock incentive plan approved by the Company's board of directors or (iv) the issuance of shares of Common Stock as consideration for the acquisition of one or more corporations or entities provided that (1) such shares in the aggregate represent less than 5% (or, following 90 days after the date of the Prospectus, 7.5%) of the total number of shares of the Company's Common Stock outstanding immediately after giving effect to the sales of Common Stock pursuant to this Agreement and (2) subject to applicable pooling of interests rules, the Company has taken reasonable steps to ensure that such shares may not be resold during the 180 days after the date of the Prospectus (provided that during the Lock-Up Period, the Company will in any event consult with D.A. Davidson & Co. concerning any such acquisition a reasonable time in advance thereof).

(l) During a period of ninety (90) days from the effective date of the Registration Statement, the Company will not file a registration statement registering shares under any employee benefit plan other than a stock incentive plan approved by the Company's Board of Directors.

6. EXPENSES.

(a) The Company and the Selling Shareholders agree with each Underwriter that:

(i) The Company will pay and bear all costs and expenses in connection with the preparation, printing and filing of the Registration Statement (including financial statements, schedules and exhibits), Preliminary Prospectuses and the Prospectus and any amendments or supplements thereto; the issuance and delivery of the Shares hereunder to the several Underwriters, including transfer taxes, if any, the cost of all certificates representing the Shares and transfer agents' and registrars' fees; the fees and disbursements of counsel for the Company; all fees and other charges of the Company's independent certified public accountants; the cost of furnishing to the several Underwriters copies of the Registration Statement (including appropriate exhibits), Preliminary Prospectus and the Prospectus, and any amendments or supplements to any of the foregoing; NASD filing fees and the cost of qualifying the Shares under

the laws of such jurisdictions as you may designate (including filing fees and fees and disbursements of Underwriters' Counsel in connection with such NASD filings and blue sky qualifications); and all other expenses directly incurred by the Company and the Selling Shareholders in connection with the performance of their obligations hereunder. Any additional expenses incurred as a result of the sale of the Shares by the Selling Shareholders will be borne by the Company. The provisions of this Section 6(a)(i) are intended to relieve the Underwriters from the payment of the expenses and costs which the Selling Shareholders and the Company hereby agree to pay, but shall not affect any agreement which the Selling Shareholders and the Company may make, or may have made, for the sharing of any of such expenses and costs. Such agreements shall not impair the obligations of the Company and the Selling Shareholders hereunder to the several Underwriters.

(ii) In addition to its other obligations under Section 6(a)(i) hereof, the Company will pay to you a non-accountable expense allowance equal to one half of one percent (0.5%) of the gross sales price of the Shares to the public. This non-accountable expense allowance with respect to the Firm Shares shall be paid to you on the Closing Date and the non-accountable expense allowance with respect to the Option Shares shall be paid to you on the closing of the sale to you of the Option Shares.

7. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the several Underwriters to purchase and pay for the Shares as provided herein shall be subject to the accuracy, as of the date hereof and the Closing Date and any later date on which Option Shares are to be purchased, as the case may be, of the representations and warranties of the Company and the Selling Shareholders herein, to the performance by the Company and the Selling Shareholders of their respective obligations hereunder and to the following additional conditions:

(a) The Registration Statement shall have become effective not later than _:__ _.M., _____ time, on the date following the date of this Agreement, or such later date as shall be consented to in writing by you; and no stop order suspending the effectiveness thereof shall have been issued and no proceedings for that purpose shall have been initiated or, to the knowledge of the Company, any Selling Shareholder or any Underwriter, threatened by the Commission, and any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the satisfaction of Underwriters' Counsel.

(b) All corporate proceedings and other legal matters in connection with this Agreement, the form of Registration Statement and the Prospectus, and the registration, authorization, issue, sale and delivery of the Shares, shall have been reasonably satisfactory to Underwriters' Counsel, and such counsel shall have been furnished with such papers and information as they may reasonably have requested to enable them to pass upon the matters referred to in this Section 7.

(c) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date, or any later date on which Option Shares are to be purchased, as the case may be, there shall not have been any change in the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse and that makes it, in your sole judgment, impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus.

(d) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, the following opinion of Garvey, Schubert & Barer, counsel for the Company and the Selling Shareholders, dated the Closing Date or such later date on which Option Shares are to be purchased, addressed to the Underwriters and with reproduced copies or signed counterparts thereof for each of the Underwriters (and stating that it might be relied upon by LeBoeuf, Lamb, Greene & MacRae, L.L.P., Underwriters Counsel, in rendering its opinion pursuant to Section 7(e) of this Agreement), to the effect that:

(i) The Company has been duly incorporated and is validly existing as a corporation under the laws of the jurisdiction of its incorporation;

(ii) The Company has the corporate power and corporate authority to own, lease and operate

its properties and to conduct its business as described in the Prospectus;

(iii) The Company is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction, if any, in which the ownership or leasing of its properties or maintenance of an office requires such qualification, except where the failure to be so qualified or be in good standing would not have a material adverse effect on the condition (financial or otherwise), results of operations, earnings, operations or business of the Company and its subsidiaries considered as one enterprise. To such counsel's knowledge, the Company does not own or control, directly or indirectly, any corporation, association or other entity other than Nautilus Fitness Products, Inc., Nautilus, Inc., Nautilus Human Performance Systems, Inc., Direct Focus Sales Corporation, Instant Comfort Corporation, Direct Focus FSC, Inc., DFI Properties, LLC and DFI Advertising, Inc.;

(iv) The authorized and, to such counsel's knowledge, issued and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" as of the dates stated therein; the issued and outstanding shares of capital stock of the Company (including the Selling Shareholder Shares) have been duly and validly issued, are fully paid and nonassessable and, to such counsel's knowledge, have not been issued in violation of or subject to any pre-emptive right, co-sale right, registration right, right of first refusal, or other similar right;

(v) The Firm Shares or the Option Shares, as the case may be, to be issued by the Company pursuant to the terms of this Agreement have been duly authorized and, upon issuance and delivery against payment therefor in accordance with the terms hereof, will be duly and validly issued and fully paid and nonassessable, and, to such counsel's knowledge, will not have been issued in violation of or subject to any pre-emptive right, co-sale right, registration right, right of first refusal or other similar right;

(vi) The Company has the corporate power and corporate authority to enter into this Agreement and to issue, sell and deliver to the Underwriters the Shares to be issued and sold by it hereunder;

(vii) This Agreement has been duly authorized by all necessary corporate action on the part of the Company and has been duly executed and delivered by the Company and, assuming due authorization, execution and delivery by you, is a valid and binding agreement of the Company, enforceable in accordance with its terms, except insofar as indemnification provisions may be limited by applicable law and except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally or by general equitable principles;

(viii) The Registration Statement has become effective under the Act and, to such counsel's knowledge, (a) no stop order suspending the effectiveness of the Registration Statement has been issued and (b) no proceedings for that purpose have been instituted or are pending or threatened under the Act;

(ix) The Registration Statement and the Prospectus, and each amendment or supplement thereto (in each case other than the financial statements (including notes and supporting schedules) and financial and statistical data included therein, as to which such counsel need express no opinion), as of the effective date of the Registration Statement, complied as to form in all material respects with the requirements of the Act and the applicable Rules and Regulations;

(x) The information in the Prospectus under the captions (a) "Management--Directors and Officers Indemnification and Liability" and "Management--Benefit Plans," and "Description of Capital Stock" and "Shares Eligible For Future Sale," to the extent that the same constitutes a matter of law or a legal conclusion, has been reviewed by such counsel and is a fair summary of such matters and conclusions;

(xi) The form of certificate evidencing the Common Stock and filed as an exhibit to the Registration Statement complies with Washington law;

(xii) The description in the Registration Statement and the Prospectus of the articles of

incorporation and bylaws of the Company and of any statutes are accurate and fairly present the information required to be presented by the Act and the applicable Rules and Regulations;

(xiii) To such counsel's knowledge, there are no agreements, contracts, leases or documents to which the Company is a party of a character required to be described or referred to in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement which are not described or referred to therein or filed as required;

(xiv) The performance of this Agreement and the consummation of the transactions herein contemplated (other than performance of the Company's indemnification and contribution obligations hereunder, concerning which no opinion need be expressed) does not as of the Closing Date (a) result in any violation of the Company's articles of incorporation or bylaws or (b) to such counsel's knowledge, result in a breach or violation of any of the terms and provisions of, or constitute a default under, any agreement, instrument or document known to such counsel to which the Company is a party or by which its properties or assets are bound, or any applicable statute, rule or regulation known to such counsel or, to such counsel's knowledge, any order, writ or decree of any court, government or governmental agency or governmental body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties, assets or operations;

(xv) No consent, approval, authorization or order of or qualification with any court, government or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties or operations is necessary in connection with the consummation by the Company of the transactions herein contemplated, except such as have been obtained under the Act or such as may be required under state or other securities or blue sky laws or the bylaws, rules or regulations of the NASD in connection with the purchase and the distribution of the Shares by the Underwriters;

(xvi) To such counsel's knowledge, there are no legal or governmental proceedings pending or threatened against the Company or any of its subsidiaries of a character required to be disclosed in the Registration Statement or the Prospectus by the Act or the Rules and Regulations, other than those described therein and the information contained in the Prospectus fairly summarizes such proceedings;

(xvii) To such counsel's knowledge, neither the Company nor any of its subsidiaries is presently (a) in material violation of its respective articles of incorporation or bylaws, or (b) in material breach of any applicable statute, rule or regulation known to such counsel or, to such counsel's knowledge, any order, writ or decree of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties, assets or operations;

(xviii) To such counsel's knowledge, except as set forth in the Registration Statement and Prospectus, no holders of Common Stock or other securities of the Company have registration rights with respect to securities of the Company and, except as set forth in the Registration Statement and Prospectus, all holders of securities of the Company having rights known to such counsel to registration of such shares of Common Stock or other securities, because of the filing of the Registration Statement by the Company have, with respect to the offering contemplated thereby, waived such rights or such rights have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement or have included securities in the Registration Statement pursuant to the exercise of and in full satisfaction of such rights;

(xix) Each Selling Shareholder which is not a natural person has full right, power and authority to enter into and to perform its obligations under the Power of Attorney and Custody Agreement to be executed and delivered by it in connection with the transactions contemplated herein; the Power of Attorney and Custody Agreement of each Selling Shareholder that is not a natural person has to such counsel's knowledge, been duly authorized by such Selling Shareholder; the Power of Attorney and Custody Agreement of each Selling Shareholder has been duly executed and delivered by or on behalf of such Selling Shareholder;

(xx) The Power of Attorney and Custody Agreement of each Selling Shareholder constitutes the valid and binding agreements of such Selling Shareholder, enforceable in accordance with their terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles;

(xxi) To such counsel's knowledge, each of the Selling Shareholders has full right, power and authority to enter into and to perform its obligations under this Agreement and to sell, transfer, assign and deliver the Shares to be sold by such Selling Shareholder hereunder;

(xxii) To such counsel's knowledge, this Agreement has been duly authorized by each Selling Shareholder that is not a natural person and has been duly executed and delivered by or on behalf of each Selling Shareholder; and

(xxiii) Upon the delivery of and payment for the Shares to be sold by the Selling Shareholders as provided in this Agreement, and upon registration of such Shares in the stock records of the Company in the names of the Underwriters or their nominees and the issuance by the Company of stock certificates therefor, each of the Underwriters will receive valid title to the Shares purchased by it from such Selling Shareholder, free and clear of any adverse claim as defined in RCW 62A.8.102(1)(a) (other than any right, title or interest in or to the Shares granted by the Underwriters to any person or entity in connection with the sale of such Shares to the public), provided that (a) the Underwriters are purchasing such Shares in good faith, and (b) the Underwriters, together with their nominees (if any), hold such Shares without notice of any adverse claim.

In addition, such counsel shall state that such counsel has participated in conferences with officials and other representatives of the Company, the Representative, Underwriters' Counsel and the independent certified public accountants of the Company, at which conferences the contents of the Registration Statement and Prospectus and related matters were discussed, and although they have not verified the accuracy or completeness of the statements contained in the Registration Statement or the Prospectus, nothing has come to the attention of such counsel which causes them to believe that, at the time the Registration Statement became effective and at all times subsequent thereto up to and on the Closing Date and (in the case of an Option Closing) on any later date on which Option Shares are to be purchased, the Registration Statement and any amendment or supplement thereto (other than the financial statements including notes and supporting schedules and the other financial and statistical information therein, as to which such counsel need express no comment) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or at the Closing Date or (in the case of an Option Closing) any later date on which the Option Shares are to be purchased, as the case may be, the Prospectus and any amendment or supplement thereto (except as aforesaid) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Counsel rendering the foregoing opinion may rely as to questions of law not involving the laws of the United States or the State of Washington upon opinions of local counsel, and as to questions of fact upon representations or certificates of officers of the Company, the Selling Shareholders or officers of the Selling Shareholders (when the Selling Shareholder is not a natural person), and of government officials, in which case their opinion is to state that they are so relying and that they have no knowledge of any material misstatement or inaccuracy in any such opinion, representation or certificate. Copies of any opinion, representation or certificate so relied upon shall be delivered to you, as the Representative of the Underwriters, and to Underwriters' Counsel.

In rendering their opinions, such counsel may rely solely and state that they are relying solely upon the representations and warranties of such Selling Shareholders in this Agreement and the Power of Attorney and Custody Agreement referred to in paragraph (xix), insofar as any of the same relate to factual matters, above, provided such counsel shall state that they believe that both you and they are justified in relying upon such representations and warranties.

(e) You shall have received on the Closing Date and on any later date on which Option Shares are

to be purchased, as the case may be, an opinion of LeBoeuf, Lamb, Greene & MacRae, L.L.P., in form and substance satisfactory to you, with respect to the sufficiency of all such corporate proceedings and other legal matters relating to this Agreement and the transactions contemplated hereby as you may reasonably require, and the Company shall have furnished to such counsel such documents as they may have reasonably requested for the purpose of enabling them to pass upon such matters.

(f) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, a letter from Deloitte & Touche LLP addressed to the Underwriters, dated the Closing Date and such later date on which Option Shares are to be purchased, as the case may be, confirming that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published Rules and Regulations and based upon the procedures described in such letter delivered to you concurrently with the execution of this Agreement (herein called the "DELOITTE ORIGINAL LETTER"), but carried out to a date not more than five (5) business days prior to the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, (i) confirming, to the extent true, that the statements and conclusions set forth in the Deloitte Original Letter are accurate as of the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, and (ii) setting forth any revisions and additions to the statements and conclusions set forth in the Deloitte Original Letter which are necessary to reflect any changes in the facts described in the Deloitte Original Letter since the date of such letter, or to reflect the availability of more recent financial statements, data or information. The letter shall not indicate that there has been any change in the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse and that makes it, in your sole judgment, impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus. The Deloitte Original Letter shall be addressed to or for the use of the Underwriters in form and shall be in substance satisfactory to the Underwriters and shall (i) represent, to the extent true, that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published Rules and Regulations, (ii) set forth their opinion with respect to their audit of the balance sheets of the Company as of December 31, 1997 and 1998 and related statements of operations, shareholders' equity, and cash flows for the three (3) years ended December 31, 1998, (iii) state that they have read the unaudited pro forma condensed balance sheet as of December 31, 1998 and the unaudited pro forma condensed statements of operations for the year ended December 31, 1998 included in the Registration Statement and the pro forma information included in the Summary and Selected Financial Data sections and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Registration Statement and that they have inquired of certain officials of the Company and of Nautilus who have responsibility for financial and accounting matters about the basis for their determination of the pro forma adjustments and whether all significant assumptions regarding the business combinations have been reflected in the pro forma adjustments and whether the unaudited pro forma condensed financial statements referred to herein comply as to form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X and they have proved the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the unaudited pro forma condensed financial statements; and (iv) address other matters agreed upon by Deloitte & Touche LLP and you. In addition, you shall have received from Deloitte & Touche LLP a letter addressed to the Company stating that their review of the Company's system of internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of the Company's financial statements as of December 31, 1998, did not disclose any weaknesses in internal controls that they considered to be material weaknesses.

(g) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, a letter from KPMG Peat Marwick LLP addressed to the Underwriters, dated the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, confirming that they are independent certified public accountants with respect to Nautilus within the meaning of the Act and the applicable published Rules and Regulations and based upon the procedures described in such letter delivered to you concurrently with the execution of this Agreement (herein called the "PEAT MARWICK ORIGINAL LETTER"), but carried out to a date not more than five (5) business days prior to the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, (i) confirming, to the extent true, that the statements and conclusions set forth in the Peat Marwick

Original Letter are accurate as of the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, and (ii) setting forth any revisions and additions to the statements and conclusions set forth in the Peat Marwick Original Letter which are necessary to reflect any changes in the facts described in the Peat Marwick Original Letter since the date of such letter, or to reflect the availability of more recent financial statements, data or information. The letter shall not indicate that there has been any change in the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse and that makes it, in your sole judgment, impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus. The Peat Marwick Original Letter shall be addressed to or for the use of the Underwriters in form and shall be in substance satisfactory to the Underwriters and shall (i) represent, to the extent true, that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published Rules and Regulations, (ii) set forth their opinion with respect to their examination of the consolidated balance sheets of Nautilus as of December 27, 1997 and January 4, 1999 and related consolidated statements of operations, shareholders' equity, and cash flows for the two (2) years ended January 4, 1999, and (iii) address other matters agreed upon by KPMG Peat Marwick LLP and you. In addition, you shall have received from KPMG Peat Marwick LLP a letter addressed to the Company stating that their review of the Nautilus' system of internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of Nautilus' consolidated financial statements as of and for the period ended January 4, 1999, did not disclose any weaknesses in internal controls that they considered to be material weaknesses.

(h) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, a certificate of the Company, dated the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, signed by the Chief Executive Officer and Chief Financial Officer of the Company, to the effect that, and you shall be satisfied that:

(i) The representations and warranties of the Company in this Agreement are true and correct in all material respects, as if made on and as of the Closing Date or any later date on which Option Shares are to be purchased, as the case may be, and the Company has complied in all material respects with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date or any later date on which Option Shares are to be purchased, as the case may be;

(ii) No stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or threatened under the Act;

(iii) When the Registration Statement became effective and at all times subsequent thereto up to the delivery of such certificate, the Registration Statement and the Prospectus, and any amendments or supplements thereto, contained all material information required to be included therein by the Act and the Rules and Regulations and in all material respects conformed to the requirements of the Act and the Rules and Regulations, the Registration Statement did not, and any amendment or supplement thereto, does not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, the Prospectus did not, and any amendment or supplement thereto, does not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and, since the effective date of the Registration Statement, there has occurred no event required to be set forth in an amended or supplemented Prospectus which has not been so set forth; and

(iv) Subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been (a) any material adverse change in the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (b) any transaction that is material to the Company and its subsidiaries considered as one enterprise, except transactions entered into in the ordinary course of business, (c) any obligation, direct or contingent, that is material to the Company and its subsidiaries considered as one enterprise, incurred by the Company or its subsidiaries, except obligations incurred in the ordinary course of business, (d) any change in the capital stock (other than exercises

of options and warrants) or outstanding indebtedness of the Company or any of its subsidiaries that is material to the Company and its subsidiaries considered as one enterprise, (e) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company or any of its subsidiaries, or (f) any loss or damage (whether or not insured) to the property of the Company or any of its subsidiaries which has been sustained or will have been sustained which has a material adverse effect on the condition (financial or otherwise), results of operations, earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(i) You shall be satisfied that, and you shall have received a certificate, dated the Closing Date, from the Attorneys for each Selling Shareholder to the effect that, as of the Closing Date, they have not been informed that:

(i) The representations and warranties made by such Selling Shareholder herein are not true or correct in any material respect on the Closing Date; or

(ii) Such Selling Shareholder has not complied, in any material respect, with any obligation or satisfied any condition which is required to be performed or satisfied on the part of such Selling Shareholder at or prior to the Closing Date.

(j) The Company shall have obtained and delivered to you a written agreement from each officer and director of the Company and each Selling Shareholder that each such person will not, during the Lock-up Period, effect the Disposition of any Securities now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, or (ii) with the prior written consent of D.A. Davidson & Co. The foregoing restriction shall have been expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than the such holder. Such prohibited hedging or other transactions would including, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from Securities. Furthermore, such person will have also agreed and consented to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by such person except in compliance with this restriction.

(k) The Company and the Selling Shareholders shall have furnished to you such further certificates and documents as you shall reasonably request (including certificates of officers of the Company, the Selling Shareholders or officers of the Selling Shareholders (when the Selling Shareholder is not a natural person)) as to the accuracy of the representations and warranties of the Company and the Selling Shareholders herein, as to the performance by the Company and the Selling Shareholders of its their respective obligations hereunder and as to the other conditions concurrent and precedent to the obligations of the Underwriters hereunder. All such opinions, certificates, letters and documents will be in compliance with the provisions hereof only if they are reasonably satisfactory to Underwriters' Counsel. The Company and the Selling Shareholders will furnish you with such number of conformed copies of such opinions, certificates, letters and documents as you shall reasonably request.

8. OPTION SHARES.

(a) On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company hereby grants to the several Underwriters, for the purpose of covering over-allotments in connection with the distribution and sale of the Firm Shares only, a nontransferable option to purchase up to an aggregate of 150,000 Option Shares at the purchase price per share for the Firm Shares set forth in Section 4 hereof. Such option may be exercised by the Representative on behalf of the several Underwriters on one or more occasions in whole or in part during the period of thirty days after the date on which the Firm Shares are initially offered to the public, by giving written notice to the Company. The number of Option Shares to be purchased by each Underwriter upon the exercise of such option shall be the same proportion of the total number of Option Shares to be

purchased by the several Underwriters pursuant to the exercise of such option as the number of Firm Shares purchased by such Underwriter (set forth in Schedule A hereto) bears to the total number of Firm Shares purchased by the several Underwriters (set forth in Schedule A hereto), adjusted by the Representative in such manner as to avoid fractional shares.

Delivery of definitive certificates for the Option Shares to be purchased by the several Underwriters pursuant to the exercise of the option granted by this Section 8 shall be made against payment of the purchase price therefor by the several Underwriters drawn in same-day funds, payable to the order of the Company. In the event of any breach of the foregoing, the Company shall reimburse the Underwriters for the interest lost and any other expenses borne by them by reason of such breach. Such delivery and payment shall take place at the offices of _____ or at such other place as may be agreed upon among the Representative and the Company (i) on the Closing Date, if written notice of the exercise of such option is received by the Company at least two (2) full business days prior to the Closing Date, or (ii) on a date which shall not be later than the third (3rd) full business day following the date the Company receives written notice of the exercise of such option, if such notice is received by the Company less than two (2) full business days prior to the Closing Date.

The certificates for the Option Shares to be so delivered will be made available to you at such office or such other location including, without limitation, in New York City, as you may reasonably request for checking at least one (1) full business day prior to the date of payment and delivery and will be in such names and denominations as you may request, such request to be made at least two (2) full business days prior to such date of payment and delivery. If the Representative so elects, delivery of the Option Shares may be made by credit through full fast transfer to the accounts at The Depository Trust Company designated by the Representative.

It is understood that you, individually, and not as the Representative of the several Underwriters, may (but shall not be obligated to) make payment of the purchase price on behalf of any Underwriter or Underwriters whose check or checks shall not have been received by you prior to the date of payment and delivery for the Option Shares to be purchased by such Underwriter or Underwriters. Any such payment by you shall not relieve any such Underwriter or Underwriters of any of its or their obligations hereunder.

(b) Upon exercise of any option provided for in Section 8(a) hereof, the obligations of the several Underwriters to purchase such Option Shares will be subject (as of the date hereof and as of the date of payment and delivery for such Option Shares) to the accuracy of and compliance with the representations, warranties and agreements of the Company herein, to the accuracy of the statements of the Company and officers of the Company made pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder, to the conditions set forth in Section 7 hereof, and to the condition that all proceedings taken at or prior to the payment date in connection with the sale and transfer of such Option Shares shall be reasonably satisfactory in form and substance to you and to Underwriters' counsel, and you shall have been furnished with all such documents, certificates and opinions as you may reasonably request in order to evidence the accuracy and completeness of any of the representations, warranties or statements, the performance of any of the covenants or agreements of the Company or the satisfaction of any of the conditions herein contained.

9. INDEMNIFICATION AND CONTRIBUTION.

(a) The Company agrees to indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject (including, without limitation, in its capacity as an Underwriter or as a "qualified independent underwriter" within the meaning of Schedule E of the Bylaws of the NASD), under the Act, the Exchange Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities (or actions in respect thereof) arising out of or based upon (i) any breach of any representation, warranty, agreement or covenant of the Company herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the

light of the circumstances under which they were made, not misleading, and agrees to promptly reimburse each Underwriter for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, such Preliminary Prospectus or the Prospectus, or any such amendment or supplement thereto, in reliance upon, and in conformity with, written information relating to any Underwriter or Selling Stckholder furnished to the Company by such Underwriter or Selling Shareholder, directly or through you, specifically for use in the preparation thereof and, provided further, that the indemnity agreement provided in this Section 9(a) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any losses, claims, damages, liabilities or actions based upon any untrue statement or alleged untrue statement of material fact or omission or alleged omission to state therein a material fact purchased Shares, if a copy of the Prospectus in which such untrue statement or alleged untrue statement or omission or alleged omission was corrected had not been sent or given to such person within the time required by the Act and the Rules and Regulations, unless such failure is the result of noncompliance by the Company with Section 5(d) hereof. The indemnity agreement in this Section 9(a) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls any Underwriter within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which the Company may otherwise have.

(b) Each Selling Shareholder, severally and not jointly, agrees to indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities (or actions in respect thereof), joint or several, to which such Underwriter may become subject (including, without limitation, in its capacity as an Underwriter or as a "qualified independent underwriter" within the meaning of Schedule E or the Bylaws of the NASD) under the Act, or otherwise, arising out of or based upon (i) any breach of any representation, warranty, agreement or covenant of such Selling Shareholder herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, in the case of subparagraphs (ii) and (iii) of this Section 9(b) to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished about such shareholder to the Company or such Underwriter by such Selling Shareholder, directly or through such Selling Shareholder's representatives, specifically for use in the preparation thereof, and agrees to promptly reimburse each Underwriter for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that (i) the indemnity agreement provided in this Section 9(b) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any losses, claims, damages, liabilities or actions based upon any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state therein a material fact purchased Shares, if a copy of the Prospectus in which such untrue statement or alleged untrue statement or omission or alleged omission was corrected had not been sent or given to such person within the time required by the Act and the Rules and Regulations, unless such failure is the result of noncompliance by the Company with Section 5(d) hereof, and (ii) the aggregate liability of each Selling Shareholder under this Section 9(b) shall be limited to an amount equal to the net proceeds (after deducting the aggregate Underwriters' discount, but before deducting expenses) received by such Selling Shareholder from the sale of his or her Securities pursuant to this Agreement. The indemnity agreement in this Section 9(b) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls any Underwriter within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which such Selling Shareholder may otherwise have.

(c) Each Underwriter, severally and not jointly, agrees to indemnify and hold harmless the Company and each Selling Shareholder against any losses, claims, damages or liabilities, joint or several, to which the Company or such Selling Shareholder may become subject under the Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities (or actions in respect thereof) arising out of or based upon (i) any breach of any

representation, warranty, agreement or covenant of such Underwriter herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, in the case of subparagraphs (ii) and (iii) of this Section 9(c) to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter, directly or through you, specifically for use in the preparation thereof, and agrees to reimburse the Company and each such Selling Shareholder for any legal or other expenses reasonably incurred by the Company and each such Selling Shareholder in connection with investigating or defending any such loss, claim, damage, liability or action. The indemnity agreement in this Section 9(c) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each officer of the Company who signed the Reistration Statement and each director of the Company, each Selling Shareholder and each person, if any, who controls the Company or any Selling Shareholder within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which each Underwriter may otherwise have.

(d) Promptly after receipt by an indemnified party under this Section 9 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Section 9, notify the indemnifying party in writing of the commencement thereof but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section 9. In case any such action is brought against any indemnified party, and it notified the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it shall elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party; provided, however, that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of the indemnifying party's election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under this Section 9 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel (together with appropriate local counsel) approved by the indemnifying party representing all the indemnified parties under Section 9(a), 9(b) or 9(c) hereof who are parties to such action), (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of the action, or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party. In no event shall any indemnifying party be liable in respect of any amounts paid in settlement of any action unless the indemnifying party shall have approved the terms of such settlement; provided that such consent shall not be unreasonably withheld. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnification could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on all claims that are the subject matter of such proceeding.

(e) In order to provide for just and equitable contribution in any action in which a claim for indemnification is made pursuant to this Section 9 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal)

that such indemnification may not be enforced in such case notwithstanding the fact that this Section 9 provides for indemnification in such case, all the parties hereto shall contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that, except as set forth in Section 9(f) hereof, the Underwriters severally and not jointly are responsible pro rata for the portion represented by the percentage that the underwriting discount bears to the initial public offering price, and the Company and the Selling Shareholders are responsible for the remaining portion, provided, however, that (i) no Underwriter shall be required to contribute any amount in excess of the amount by which the underwriting discount applicable to the Shares purchased by such Underwriter exceeds the amount of damages which such Underwriter has otherwise required to pay, and (ii) no person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. The contribution agreement in this Section 9(e) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls any Underwriter, the Company or any Selling Shareholder within the meaning of the Act or the Exchange Act and each officer of the Company who signed the Registration Statement and each director of the Company.

(f) The aggregate liability of each Selling Shareholder under the representations, warranties and agreements contained herein and under the indemnity, contribution and reimbursement agreements contained in the provisions of this Section 9 shall be limited to an amount equal to the lesser of (i) the initial public offering price of the Selling Shareholder Shares sold by such Selling Shareholder to the Underwriters minus the amount of the underwriting discount paid thereon to the Underwriters by such Selling Shareholder (the "SELLING SHAREHOLDER PROCEEDS"), less (if and only if clause (ii) immediately below is applicable) the amount of any income taxes described in clause (y) immediately below, and (ii) solely in the case of an indemnity, contribution or reimbursement claim arising out of or based upon any breach of the representation and warranty contained in Section 3(l) hereof, the result obtained by (x) multiplying the aggregate liability of all indemnifying parties by the proportion which such Selling Shareholder's Selling Shareholder Proceeds bear to the total of all Selling Shareholder Proceeds of all Selling Shareholders and (y) subtracting therefrom any applicable United States federal and state income taxes incurred by such Selling Shareholder as a result of the sale of such Selling Shareholder's Selling Shareholder Shares pursuant to this Agreement. The Company and such Selling Shareholders may agree, as among themselves and without limiting the rights of the Underwriters under this Agreement, as to the respective amounts of such liability for which they each shall be responsible.

(g) The parties to this Agreement hereby acknowledge that they are sophisticated business persons who were represented by counsel during the negotiations regarding the provisions hereof including, without limitation, the provisions of this Section 9, and are fully informed regarding said provisions. They further acknowledge that the provisions of this Section 9 fairly allocate the risks in light of the ability of the parties to investigate the Company and its business in order to assure that adequate disclosure is made in the Registration Statement and Prospectus as required by the Act and the Exchange Act. The parties are advised that federal or state public policy, as interpreted by the courts in certain jurisdictions, may be contrary to certain of the provisions of this Section 9, and the parties hereto hereby expressly waive and relinquish any right or ability to assert such public policy as a defense to a claim under this Section 9 and further agree not to attempt to assert any such defense.

10. REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS TO SURVIVE DELIVERY. All representations, warranties, covenants and agreements of the Company, the Selling Shareholders and the Underwriters herein or in certificates delivered pursuant hereto, and the indemnity and contribution agreements contained in Section 9 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter within the meaning of the Act or the Exchange Act, or by or on behalf of the Company or any Selling Shareholder, or any of their officers, directors or controlling persons within the meaning of the Act or the Exchange Act, and shall survive the delivery of the Shares to the several Underwriters hereunder or termination of this Agreement.

11. SUBSTITUTION OF UNDERWRITERS. If any Underwriter or Underwriters shall fail to take up and pay for the number of Firm Shares agreed by such Underwriter or Underwriters to be purchased hereunder upon tender of such Firm Shares in accordance with the terms hereof, and if the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters so agreed but failed to purchase does not exceed 10% of the Firm Shares, the remaining

Underwriters shall be obligated, severally in proportion to their respective commitments hereunder, to take up and pay for the Firm Shares of such defaulting Underwriter or Underwriters.

If any Underwriter (or Underwriters) so defaults and the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters agreed but failed to take up and pay for exceeds 10% of the Firm Shares, the remaining Underwriters shall have the right, but shall not be obligated, to take up and pay for (in such proportions as may be agreed upon among them) the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase. If such remaining Underwriters do not, at the Closing Date, take up and pay for the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase, the Closing Date shall be postponed for twenty-four (24) hours to allow the several Underwriters the privilege of substituting within twenty-four (24) hours (including non-business hours) another underwriter or underwriters (which may include any non-defaulting Underwriter) satisfactory to the Company. If no such underwriter or underwriters shall have been substituted as aforesaid by such postponed Closing Date, the Closing Date may, at the option of the Company, be postponed for a further twenty-four (24) hours, if necessary, to allow the Company the privilege of finding another underwriter or underwriters, satisfactory to you, to purchase the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase. If it shall be arranged for the remaining Underwriters or substituted underwriter or underwriters to take up the Firm Shares of the defaulting Underwriter or Underwriters as provided in this Section 11, (i) the Company shall have the right to postpone the time of delivery for a period of not more than seven (7) full business days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees promptly to file any amendments to the Registration Statement, supplements to the Prospectus or other such documents which may thereby be made necessary, and (ii) the respective number of Firm Shares to be purchased by the remaining Underwriters and substituted underwriter or underwriters shall be taken as the basis of their underwriting obligation. If the remaining Underwriters shall not take up and pay for all such Firm Shares so agreed to be purchased by the defaulting Underwriter or Underwriters or substitute another underwriter or underwriters as aforesaid and the Company shall not find or shall not elect to seek another underwriter or underwriters for such Firm Shares as aforesaid, then this Agreement shall terminate.

In the event of any termination of this Agreement pursuant to the preceding paragraph of this Section 11, neither the Company nor any Selling Shareholder shall be liable to any Underwriter (except as provided in Sections 6 and 9 hereof) nor shall any Underwriter (other than an Underwriter who shall have failed, otherwise than for some reason permitted under this Agreement, to purchase the number of Firm Shares agreed by such Underwriter to be purchased hereunder, which Underwriter shall remain liable to the Company, the Selling Shareholders and the other Underwriters for damages, if any, resulting from such default) be liable to the Company or any Selling Shareholder (except to the extent provided in Sections 6 and 9 hereof).

The term "Underwriter" in this Agreement shall include any person substituted for an Underwriter under this Section 11.

12. EFFECTIVE DATE OF THIS AGREEMENT AND TERMINATION.

(a) This Agreement shall become effective at the earlier of (i) _:__ _.M., _____ time, on the first full business day following the effective date of the Registration Statement, or (ii) the time of the initial public offering of any of the Shares by the Underwriters after the Registration Statement becomes effective. The time of the initial public offering shall mean the time of the release by you, for publication, of the first newspaper advertisement relating to the Shares, or the time at which the Shares are first generally offered by the Underwriters to the public by letter, telephone, telecopy or electronic mail transmission, with each telephone, telecopy or electronic mail transmission confirmed by letter, whichever shall first occur. By giving notice as set forth in Section 13 before the time this Agreement becomes effective, you, as the Representative of the several Underwriters, or the Company, may prevent this Agreement from becoming effective without liability of any party to any other party, except as provided in Sections 5(i), 6 and 9 hereof.

(b) You, as the Representative of the several Underwriters, shall have the right to terminate this Agreement by giving notice as hereinafter specified at any time on or prior to the Closing Date or on or prior to any later

date on which Option Shares are to be purchased, as the case may be, (i) if the Company or any Selling Shareholder shall have failed, refused or been unable to perform any agreement on its part to be performed, or because any other condition of the Underwriters' obligations hereunder required to be fulfilled is not fulfilled, including, without limitation, any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse, or (ii) if additional material governmental restrictions, not in force and effect on the date hereof, shall have been imposed upon trading in securities generally or minimum or maximum prices shall have been generally established on the New York Stock Exchange or on the American Stock Exchange or in the over the counter market by the NASD, or trading in securities generally shall have been suspended on either such exchange or in the over the counter market by the NASD, or if a banking moratorium shall have been declared by federal, New York, California, Washington or Montana authorities, or (iii) if the Company shall have sustained a loss by strike, fire, flood, earthquake, accident or other calamity of such character as to interfere materially with the conduct of the business and operations of the Company regardless of whether or not such loss shall have been insured, or (iv) if there shall have been a material adverse change in the general political or economic conditions or financial markets as in your reasonable judgment makes it inadvisable or impracticable to proceed with the offering, sale and delivery of the Shares, or (v) if there shall have been an outbeak or escalation of hostilities or of any other insurrection or armed conflict or the declaration by the United States of a national emergency which, in the reasonable opinion of the Representative, makes it impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus. In the event of termination pursuant to subparagraph (b)(i) above, the Company shall remain obligated to pay costs and expenses pursuant to Sections 5(i), 6 and 9 hereof. Any termination pursuant to any of subparagraphs (ii) through (v) above shall be without liability of any party to any other party except as provided in Sections 6 and 9 hereof.

If you elect to prevent this Agreement from becoming effective or to terminate this Agreement as provided in this Section 12, you shall promptly notify the Company by telephone, telecopy, telegram or electronic mail transmission, in each case confirmed by letter. If the Company shall elect to prevent this Agreement from becoming effective, the Company shall promptly notify you by telephone, telecopy, or electronic mail transmission, in each case, confirmed by letter.

13. NOTICES. All notices or communications hereunder, except as herein otherwise specifically provided, shall be in writing and if sent to you shall be mailed, delivered, or telecopied (and confirmed by letter) or sent by electronic mail (and confirmed by letter) to you c/o D.A. Davidson & Co., 8 Third Street North, Great Falls, Montana 59403, telecopy number (406) 791-7380, Attention: _____; if sent to the Company, such notice shall be mailed, delivered, or telecopied (and confirmed by letter) or sent by electronic mail (and confirmed by letter) to Direct Focus, Inc., 2200 NE 65th Avenue, Vancouver, Washington 98661, telecopy number (360) 906-6204, Attention: Brian R. Cook, President and Chief Executive Officer; if sent to one or more of the Selling Shareholders, such notice shall be sent mailed, delivered, or telecopied (and confirmed by letter) to Brian R. Cook and Rod W. Rice, as Attorneys-in-Fact for the Selling Shareholders, at 2200 NE 65th Avenue, Vancouver, Washington 98661, telecopy number (360) 906-6204.

14. PARTIES. This Agreement shall inure to the benefit of and be binding upon the several Underwriters and the Company and the Selling Shareholders and their respective executors, administrators, successors and assigns. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person or entity, other than the parties hereto and their respective executors, administrators, successors and assigns, and the controlling persons within the meaning of the Act or the Exchange Act, officers and directors referred to in Section 9 hereof, any legal or equitable right, remedy or claim in respect of this Agreement or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and their respective executors, administrators, successors and assigns and said controlling persons and said officers and directors, and for the benefit of no other person or entity. No purchaser of any of the Shares from any Underwriter shall be construed a successor or assign by reason merely of such purchase.

In all dealings with the Company and the Selling Shareholders under this Agreement, you shall act on behalf of each of the several Underwriters, and the Company and the Selling Shareholders shall be entitled to act and

rely upon any statement, request, notice or agreement made or given by you jointly or by D.A. Davidson & Co. on behalf of you.

15. APPLICABLE LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Washington.

16. COUNTERPARTS. This Agreement may be signed by facsimile and in several counterparts, each of which will constitute an original.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

If the foregoing correctly sets forth the understanding among the Company the Selling Shareholders and the several Underwriters, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among the Company, the Selling Shareholders and the several Underwriters.

Very truly yours,

DIRECT FOCUS, INC.

By: _____
Brian R. Cook
Its: President and Chief Executive Officer

SELLING SHAREHOLDERS

By: _____
Brian R. Cook

By: _____
Rod W. Rice

Attorneys-in-Fact for the Selling Shareholders named in Schedule B hereto

ACCEPTED AS OF THE DATE FIRST ABOVE WRITTEN:

D.A. DAVIDSON & CO.,
on its behalf and on behalf of each of the several Underwriters named in Schedule A attached hereto.

By: _____
Name: _____
Its: _____

SCHEDULE A

UNDERWRITERS	NUMBER OF FIRM SHARES TO BE PURCHASED
D.A. Davidson & Co.....	
[NAMES OF OTHER UNDERWRITERS].....	
TOTAL.....	1,000,000

SCHEDULE B

COMPANY	NUMBER OF COMPANY SHARES TO BE SOLD
Direct Focus, Inc.	
TOTAL	825,000

SELLING SHAREHOLDERS	NUMBER OF SELLING SHAREHOLDER SHARES TO BE SOLD
Brian R. Cook	25,000
Roland E. Wheeler	25,000
Paul Little and Westover Investments, Inc	100,000
Randal R. Potter	12,500
Rod W. Rice	12,500
TOTAL	175,000

EXACT COPY
FILED
STATE OF WASHINGTON
SEP 22 1992
RALPH MUNRO
SECRETARY OF STATE

ARTICLES OF INCORPORATION
OF
STRATFORD SOFTWARE CORPORATION, USA

ARTICLE I
NAME

The name of this corporation is Stratford Software Corporation, USA.

ARTICLE II
DURATION

This corporation is organized under the Washington Business Corporation Act and shall have perpetual existence.

ARTICLE III
PURPOSE

This corporation is organized for the purpose of engaging in any business, trade or activity which may be conducted lawfully by a corporation formed under the Washington Business Corporation Act.

ARTICLE IV
CAPITAL STOCK

4.1 The corporation shall have authority to issue in the aggregate 50,000,000 shares of common stock.

4.2 The Board of Directors shall have the authority to issue shares of this corporation's capital stock and the certificates therefor, subject to such transfer restrictions and other limitations as it may deem necessary to promote compliance with applicable federal and state securities laws, and to regulate the transfer thereof in such manner as may be calculated to promote such compliance.

ARTICLE V
CUMULATIVE VOTING

Shareholders entitled to vote at any election of directors shall have the right to vote, in person or by proxy, the number of shares they are entitled to cast for as many persons as there are directors to be elected. No cumulative voting for directors shall be permitted.

ARTICLE VI
PREEMPTIVE RIGHTS

No shareholder of this corporation shall have, as such holder, any preemptive or preferential right or subscription right to any stock of this corporation or to any obligations convertible into stock of this corporation, or to any warrant or option for the purchase thereof, except to the extent provided by resolution or resolutions of the Board of Directors establishing a series of preferred stock or by written agreement with this corporation.

ARTICLE VII
SHAREHOLDER VOTING REQUIREMENTS FOR CERTAIN TRANSACTIONS;
TRANSACTIONS WITH INTERESTED SHAREHOLDERS

7.1 To be adopted by the shareholders, the following actions must be approved by each voting group of shareholders entitled to vote thereon by two-thirds (2/3rds) of all the votes entitled to be cast by that voting group;

(a) Amendment of the Articles of Incorporation;
(b) A plan of merger or share exchange;
(c) The sale, lease, exchange or other disposition of all or substantially all of the corporation's assets, other than in the usual and regular course of business; or
(d) Dissolution of the corporation.

7.2 This corporation elects to be covered by the provisions of Section 23B.17.020 of the Washington Business Corporation Act concerning transactions with interested shareholders, as therein defined, and as such Section may be amended or replaced, whether or not this corporation may at any time have fewer than three hundred (300) holders of record of its shares.

ARTICLE VIII
DIRECTORS

8.1 The number of directors of the corporation shall be fixed as provided in the Bylaws and may be changed from time to time by amending the Bylaws.

8.2 The Board of Directors is expressly authorized to make, alter, and repeal the Bylaws of the corporation, subject to the power of the shareholders of the corporation to change or repeal such Bylaws.

8.3 Any vacancy occurring in the Board of Directors (whether caused by resignation, death, an increase in the number of directors, or otherwise) may be filled as specified in the Bylaws.

8.4 To the fullest extent permitted by the Washington Business Corporation Act, as it exists on the date hereof or may hereafter be amended, a director of this corporation shall not be personally liable to the corporation or its shareholders for monetary damages for conduct as a director. Any amendment to or repeal of this Article shall not adversely affect a director of this corporation with respect to any conduct of such director occurring prior to such amendment or repeal.

ARTICLE IX
INDEMNIFICATION

9.1 RIGHT TO INDEMNIFICATION. Each individual (hereinafter an "indemnitee") who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the corporation or, that while serving as a director or officer of the corporation, he or she is or was also serving at the request of the corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation or of a foreign or domestic partnership, joint venture, trust, employee benefit plan or other enterprise, whether the basis of the proceeding is alleged action in an official capacity as such a director, officer, employee, partner, trustee, or agent or in any other capacity while serving as such director, officer, employee, partner, trustee, or agent, shall be indemnified and held harmless by the corporation to the full extent permitted by applicable law as then in effect, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts to be paid in settlement) incurred or suffered by such indemnitee in connection therewith, and such indemnification shall continue as to an indemnitee who has ceased to be a director, officer, employee, partner, trustee, or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators; provided, however, that no indemnification shall be provided to any such indemnitee if the corporation is prohibited by the Washington Business Corporation Act or other applicable law as then in effect from paying such indemnification; and provided, further, that except as provided in Section 9.2 of this Article with respect to proceedings seeking to enforce rights to indemnification, the corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if a proceeding (or part thereof) was authorized or ratified by the Board of Directors. The right to indemnification conferred in this Section 9.1 shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending any proceeding in advance of its final disposition (hereinafter an "advancement of expenses"). Any advancement of expenses shall be made only upon delivery to the corporation of a

written undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Section 9.1 and upon delivery to the corporation of a written affirmation (hereinafter an "affirmation") by the indemnitee of his or her good faith belief that such indemnitee has met the standard of conduct necessary for indemnification by the corporation pursuant to this Article.

9.2 RIGHT OF INDEMNITEE TO BRING SUIT. If a written claim for indemnification under Section 9.1 of this Article is not paid in full by the corporation within sixty days after the corporation's receipt thereof, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days, the indemnitee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If successful in whole or in part, in any such suit or in a suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. The indemnitee shall be presumed to be entitled to indemnification under this Article upon submission of a written claim (and, in an action brought to enforce a claim for an advancement of expenses, where the required undertaking and affirmation have been tendered to the corporation) and thereafter the corporation shall have the burden of proof to overcome the presumption that the indemnitee is so entitled. Neither the failure of the corporation (including the Board of Directors, independent legal counsel or the shareholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances nor an actual determination by the corporation (including the Board of Directors, independent legal counsel or the shareholders) that the indemnitee is not entitled to indemnification shall be a defense to the suit or create a presumption that the indemnitee is not so entitled.

9.3 NONEXCLUSIVITY OF RIGHTS. The right to indemnification and the advancement of expenses conferred in this Article IX shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Articles of Incorporation or Bylaws of the corporation, general or specific action of the Board of Directors, contract or otherwise.

9.4 INSURANCE, CONTRACTS AND FUNDING. The corporation may maintain insurance, at its expense, to protect itself and any individual who is or was a director, officer, employee or agent of the corporation or who, while a director, officer, employee or agent of the corporation, is or was serving at the request of the corporation as a agent of another foreign or domestic corporation,

partnership, joint venture, trust, employee benefit plan or other enterprise against any expense, liability or loss asserted against or incurred by the individual in that capacity or arising from the individual's status as a director, officer, employee or agent, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Washington Business Corporation Act. The corporation may enter into contracts with any director, officer, employee or agent of the corporation in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

9.5 INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION. The corporation may, by action of the Board of Directors, grant rights to indemnification and advancement of expenses to employees and agents of the corporation with the same scope and effect as the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the corporation or pursuant to rights granted pursuant to, or provided by, the Washington Business Corporation Act or otherwise.

9.6 PERSONS SERVING OTHER ENTITIES. Any individual who is or was a director, officer or employee of the corporation who, while a director, officer or employee of the corporation, is or was serving (a) as a director or officer of another foreign or domestic corporation of which a majority of the shares entitled to vote in the election of its directors is held by the corporation, (b) as a trustee of an employee benefit plan and the duties of the director or officer to the corporation also impose duties on, or otherwise involve services by, the director or officer to the plan or to participants in or beneficiaries of the plan or (c) in an executive or management capacity in a foreign or domestic partnership, joint venture, trust or other enterprise of which the corporation or a wholly owned subsidiary of the corporation is a general partner or has a majority ownership or interest shall be deemed to be so serving at the request of the corporation and entitled to indemnification and advancement of expenses under this Article.

ARTICLE X
OTHER MATTERS

10.1 The initial Board of Directors of this corporation shall consist of the following person:

Name	Address
Tom McKie	c/o Michael Varabioff 999 Canada Place, Suite 500 Vancouver, B.C., Canada V6C 3C8

10.2 The initial registered office of the corporation shall be 1011 Western Avenue, 10th Floor, Seattle, Washington, 98104-1023; and the registered agent at such address shall be Keven J. Davis.

10.3 The incorporator is Keven J. Davis, whose address is 1011 Western Avenue, 10th Floor, Seattle, Washington, 98104-1023. The powers and liabilities of the incorporator shall terminate upon the filing of these Articles of Incorporation.

10.4 Except as otherwise provided in these Articles, as amended from time to time, the corporation reserves the right to amend, alter, change, or repeal any provision contained in these Articles in any manner now or hereafter prescribed or permitted by statute. All rights of shareholders of the corporation are subject to this reservation.

Executed this 21st day of September, 1992.

/s/ Keven J. Davis

Keven J. Davis, Incorporator

CONSENT TO SERVE AS REGISTERED AGENT

I hereby consent to serve as Registered Agent in the State of Washington for the above-named corporation. I understand that as agent for the corporation it will be my responsibility to receive service of process in the name of the corporation, to forward all mail to the corporation, and immediately to notify the office of the Secretary of State in the event of my resignation or of any change in the registered office address of the corporation for which I am agent.

/s/ Keven J. Davis

Keven J. Davis, Registered Agent
1011 Western Avenue, 10th Floor
Seattle, WA 98104-1023

[STAMP]

ARTICLES OF MERGER

The undersigned corporations, pursuant to RCW 23B.11.050, hereby execute in triplicate the following Articles of Merger, pertaining to the merger ("Merger") of Bow-Flex of America, Inc., a California corporation ("Bow-Flex") and Stratford Software Corporation, a corporation organized under the laws of Wyoming ("Stratford") into and with Stratford Software Corporation, USA, a Washington corporation and a wholly-owned subsidiary of Stratford ("Subsidiary").

1. The merging corporations shall be merged into a single corporation by Bow-Flex and Stratford merging into and with the Subsidiary (the Surviving Corporation) which shall survive the merger pursuant to the provisions of RCW 23B.11.010 ET SEQ. The Agreement and Plan of Merger (the "Plan") is attached hereto as Exhibit A and incorporated herein by this reference.

2. As to each of the undersigned corporations, the number of outstanding shares is as follows:

Name of Corporation	Number of Shares Outstanding	
Bow-Flex	Common stock (no par value)	1,015,200
	Total	1,015,200
Stratford	Common (no par value)	3,592,267
	Preferred Stock ($1.00 par value)	0
	Total	3,592,267
Subsidiary	Common stock	1
	Total	1

3. As to each of the applicable undersigned corporations, the total number of shares voted for and against the Plan respectively, is as follows:

Name of Corporation	Class	For	Against	Total Shares
Bow-Flex	Common	957,376	0	957,376
Total		957,376	0	957,376
Stratford	Common	885,533	6,285	891,818
Total		885,533	6,285	891,818

Subsidiary	Common	1	0	1
Total		1	0	1

4. The adoption of the Plan and the performance of its terms were duly adopted, approved and authorized by the Board of Directors and Shareholders of the Subsidiary pursuant to RCW 23B.11.010 and RCW 23B.11.030, respectively, and by the Board of Directors and Shareholders of Stratford and Bow-Flex pursuant to RCW 23B.11.070. All other necessary corporate action has been taken to effectuate the merger outlined in such Plan.

5. The Articles of Merger may be executed in one or more counterparts, all of which shall be considered one and the same document, and shall become a binding document when one or more counterparts have been signed by each of the undersigned corporations.

BOW-FLEX OF AMERICA, INC.

By /s/ Roland Wheeler

Roland Wheeler
Its Secretary and Chief Financial Officer

STRATFORD SOFTWARE CORPORATION

By /s/ Thompson Joseph McKie

Thompson Joseph McKie
Its President

STRATFORD SOFTWARE CORPORATION, USA

By /s/ Thompson Joseph McKie

Thompson Joseph McKie
Its President

Val: 05/13/1998 - 109834
$50.00 on 05/13/1998
Check - 05/12/1998 - 1920

FOR OFFICE USE ONLY

[LOGO] STATE OF WASHINGTON
SECRETARY OF STATE
RALPH MUNRO, SECRETARY OF STATE

ARTICLES OF AMENDMENT
WASHINGTON
PROFIT CORPORATION
(PER CHAPTER 23B.10 RCW)
FEE: $30

- - Please PRINT or TYPE in black ink
- - Sign, date and return original AND ONE COPY to:

EXPEDITED (24-HOUR) SERVICE AVAILABLE - $20 PER ENTITY
INCLUDE FEE AND WRITE "EXPEDITE" IN BOLD LETTERS
ON OUTSIDE OF ENVELOPE

CORPORATIONS DIVISION
605 E. UNION - PO BOX 40234
OLYMPIA, WA 98504-0234

- - BE SURE TO INCLUDE FILING FEE. Checks should be made payable to "Secretary of State"

FOR OFFICE USE ONLY
FILED: 5/13/98

IMPORTANT! Person to contact about this filing: Roger J. Sharp
Daytime Phone Number (with area code): (360) 699-1400

AMENDMENT TO ARTICLES OF INCORPORATION

FILED
STATE OF WASHINGTON
MAY 13, 1998

NAME OF CORPORATION (AS CURRENTLY RECORDED WITH THE OFFICE OF THE SECRETARY OF STATE)

Bow Flex, Inc.

UBI NUMBER: 601 414 569

CORPORATION NUMBER (IF KNOWN):

AMENDMENTS TO ARTICLES OF INCORPORATION WERE ADOPTED ON
Date: May 8, 1998

EFFECTIVE DATE OF ARTICLES OF AMENDMENT (SPECIFIED EFFECTIVE DATE MAY BE UP TO 30 DAYS AFTER RECEIPT OF THE DOCUMENT BY THE SECRETARY OF STATE)
/ / Specific Date: ____
/X / Upon filing by the Secretary of State

ARTICLES OF AMENDMENT WERE ADOPTED BY (PLEASE CHECK ONE OF THE FOLLOWING)

/ / Incorporators. Shareholders action was not required
/ / Board of Directors. Shareholders action was not required
/X/ Duly approved shareholder action in accordance with Chapter 23B.10 RCW

AMENDMENTS TO THE ARTICLES OF INCORPORATION ARE AS FOLLOWS
IF AMENDMENT PROVIDES FOR AN EXCHANGE, RECLASSIFICATION, OR CANCELLATION OF ISSUED SHARES, PROVISIONS FOR IMPLEMENTING THE AMENDMENT MUST BE INCLUDED. IF NECESSARY, ATTACH ADDITIONAL AMENDMENTS OR INFORMATION.

The Articles of Incorporation are amended by deleting Article I in its entirety and substituting the following therefor:

ARTICLE I
NAME

The name of this Corporation is Direct Focus, Inc.

SIGNATURE OF OFFICER

THIS DOCUMENT IS HEREBY EXECUTED UNDER PENALTIES OF PERJURY, AND IS, TO THE BEST OF MY KNOWLEDGE, TRUE AND CORRECT.

/s/ Brian R. Cook Brian R. Cook President 5/12/98

SIGNATURE OF OFFICER PRINTED NAME DATE

- ---

INFORMATION AND ASSISTANCE - 360/753-7115 (TDD - 360/753-1485) 006-002 (8/97)

1998 3339 7845 002

BYLAWS OF

STRATFORD SOFTWARE CORPORATION, USA

Garvey, Schubert & Barer
1011 Western Avenue, 10th Floor
Seattle, WA 98104-1023
(206) 464-3939

BYLAWS OF
STRATFORD SOFTWARE CORPORATION, USA

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BYLAWS OF

STRATFORD SOFTWARE CORPORATION, USA

ARTICLE I - SHAREHOLDERS

1.1 ANNUAL MEETING. The annual meeting of the shareholders of the corporation for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held each year on a date and at a time and place to be set by the Board of Directors.

1.2 SPECIAL MEETINGS. Special meetings of the shareholders for any purpose or purposes may be called at any time by a majority of the Board of Directors or by the Chairperson of the Board (if one be elected) or by the President or by one or more shareholders holding not less than one-tenth (1/10) of all the votes entitled to be cast on any issue proposed to be considered at the proposed special meeting. The Board of Directors may designate any place as the place of any special meeting called by the Chairperson, the President or the Board, and special meetings called at the request of shareholders shall be held at such place as may be determined by the Board and placed in the notice of such meetings.

If a special meeting is called by any person or persons other than the Board of Directors or the President or the Chairperson of the Board (if one be elected), then the request shall be in writing, specifying the time of such meeting, to be held not less than twenty (20) nor more than seventy (70) days after the giving of the request for such meeting, and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the President or the Secretary of the corporation. Upon receipt of such a request, the Secretary shall cause notice of such meeting to be promptly given to the shareholders entitled to vote, in accordance with the provisions of Section 1.3 of these Bylaws. If the notice is not given by the Secretary within ten (10) days after receipt of the request, then the person or persons requesting the meeting may give notice.

1.3 NOTICE OF MEETINGS. Except as otherwise provided in Subsections 1.3.2 and 1.3.3 below, the Secretary, Assistant Secretary, or any transfer agent of the corporation shall deliver, either personally or by mail, private carrier, telegraph or teletype, or telephone, wire or wireless equipment which transmits a facsimile of the notice, not less than ten (10) nor more than

sixty (60) days before the date of any meeting of shareholders, written notice stating the place, day, and time of the meeting to each shareholder of record entitled to vote at such meeting. If mailed in the United States, such notice shall be deemed to be delivered when deposited in the United States mail, with first-class postage thereon prepaid, addressed to the shareholder at his address as it appears on the corporation's record of shareholders. If mailed outside the United States, such notice shall be deemed to be delivered five (5) days after being deposited in the mail, with first-class airmail postage thereon, return receipt requested, addressed to the shareholder at the shareholder's address as it appears on the corporation's record of shareholders.

1.3.1 NOTICE OF SPECIAL MEETING. In the case of a special meeting, the written notice shall also state with reasonable clarity the purpose or purposes for which the meeting is called and the actions sought to be approved at the meeting. No business other than that specified in the notice may be transacted at a special meeting.

1.3.2 PROPOSED ARTICLES OF AMENDMENT OR DISSOLUTION. If the business to be conducted at any meeting includes any proposed amendment to the Articles of Incorporation or the proposed voluntary dissolution of the corporation, then the written notice shall be given not less than twenty (20) nor more than sixty (60) days before the meeting date and shall state that the purpose or one of the purposes is to consider the advisability thereof, and, in the case of a proposed amendment, shall be accompanied by a copy of the amendment.

1.3.3 PROPOSED MERGER, CONSOLIDATION, EXCHANGE, SALE, LEASE, OR DISPOSITION. If the business to be conducted at any meeting includes any proposed plan of merger or share exchange, or any sale, lease, exchange, or other disposition of all or substantially all of the corporation's property otherwise than in the usual or regular course of its business, then the written notice shall state that the purpose or one of the purposes is to consider the proposed plan of merger or share exchange, sale, lease, or disposition, as the case may be, shall describe the proposed action with reasonable clarity, and, if required by law, shall be accompanied by a copy or a detailed summary thereof; and written notice shall be given to each shareholder of record, whether or not entitled to vote at such meeting, not less than twenty (20) nor more than sixty (60) days before such meeting, in the manner provided in Section 1.3 above.

1.3.4 DECLARATION OF MAILING. A declaration of the mailing or other means of giving any notice of any shareholders' meeting, executed by the Secretary, Assistant Secretary, or any transfer agent of the corporation giving the notice, shall be prima facie evidence of the giving of such notice.

1.3.5 WAIVER OF NOTICE. Notice of any shareholders' meeting may be waived in writing by any shareholder at any time, either before or after the meeting. Except as provided below, the waiver must be signed by the shareholder entitled to the notice, and be delivered to the corporation for inclusion in the minutes or filing with the corporate records. A shareholder's attendance at a meeting waives objection to lack of notice, or defective notice, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting.

1.4 QUORUM. A quorum shall exist at any meeting of shareholders if a majority of the shares entitled to vote is represented in person or by proxy. Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. The shareholders present at a duly organized meeting may continue to transact business at such meeting and at any adjournment of such meeting (unless a new record date is or must be set for the adjourned meeting), notwithstanding the withdrawal of enough shareholders from either meeting to leave less than a quorum. Once a share is represented for any purpose at a meeting other than solely to object to holding the meeting or transacting business at the meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for the adjourned meeting.

1.5 VOTING OF SHARES. Except as otherwise provided in the Articles of Incorporation or these Bylaws, every shareholder of record shall have the right at every shareholders' meeting to one vote for every share standing in his name on the books of the corporation. If a quorum exists, action on a matter, other than the election of directors, is approved by a voting group if the votes cast within the voting group favoring the action exceed the votes cast within the voting group opposing the action, unless a greater number is required by the Articles of Incorporation or the Washington Business Corporation Act.

1.6 ADJOURNED MEETINGS. A majority of the shares represented at a meeting, even if less than a quorum, may adjourn the meeting from time to time without further notice. However, if the adjournment is for more than one hundred twenty (120) days from the date set for the original meeting, a new record date for the

adjourned meeting shall be fixed and a new notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting, in accordance with the provisions of Section 1.3 of these Bylaws. At any adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting.

1.7 RECORD DATE. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or any adjournment thereof, or entitled to receive payment of any dividend, the Board of Directors may fix in advance a record date for any such determination of shareholders, such date to be not more than seventy (70) days prior to the meeting or action requiring such determination of shareholders. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the day before the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof, unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned more than one hundred twenty (120) days after the date is fixed for the original meeting.

1.8 RECORD OF SHAREHOLDERS ENTITLED TO VOTE. After fixing a record date for a shareholders' meeting, the corporation shall prepare an alphabetical list of the names of all shareholders on the record date who are entitled to notice of the shareholders' meeting. The list shall be arranged by voting group, and within each voting group by class or series of shares, and show the address of and number of shares held by each shareholder. A shareholder, shareholder's agent, or a shareholder's attorney may inspect the shareholders list, beginning ten days prior to the shareholders' meeting and continuing through the meeting, at the corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held during regular business hours and at the shareholder's expense. The shareholders list shall be kept open for inspection during such meeting or any adjournment. Failure to comply with the requirements of this section shall not affect the validity of any action taken at such meeting.

1.9 ACTION BY SHAREHOLDERS WITHOUT A MEETING. Any action which may be or which is required by law to be taken at any annual or special meeting of shareholders may be taken without a meeting, without prior notice having been given and without a vote having

been taken, if one or more written consents, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote on the action. Such consent shall have the same force and effect as a unanimous vote of shareholders and may be described as such in any articles or other document filed with the Secretary of State of the State of Washington. Action taken by consent is effective when all consents have been delivered to the corporation, unless the consent specifies a later effective date.

1.10 TELEPHONIC MEETINGS. Shareholders may participate in a meeting by means of a conference telephone or other communications equipment by which all persons participating in the meeting can hear each other during the meeting, and participation by such means shall constitute presence in person at a meeting.

1.11 PROXIES. At all meetings of shareholders, a shareholder may vote by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the secretary of the corporation before or at the time of the meeting. No proxy shall be valid after eleven (11) months from the date of its execution, unless otherwise provided in the proxy.

ARTICLE II - BOARD OF DIRECTORS

2.1 MANAGEMENT RESPONSIBILITY. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the Board of Directors, except as may be otherwise provided in the Articles of Incorporation or the Washington Business Corporation Act.

2.2 NUMBER OF DIRECTORS, QUALIFICATION. The number of directors of the corporation shall be not less than one (1) nor more than five (5), the specific number to be set by resolution of the Board of Directors or the shareholders. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires. No director need be a shareholder of the corporation or a resident of the State of Washington.

2.3 ELECTION, TERM OF OFFICE. At the first annual meeting of shareholders and at each annual meeting thereafter, the shareholders shall elect directors to hold office until the next annual meeting, except in the case of the classification of directors as permitted by RCW 23B.08.060. If, for any reason, the directors shall not have been elected at an annual meeting, they may be elected at a special meeting of shareholders called for that purpose in accordance with these Bylaws. Despite the expiration of

a director's term, the director continues to serve until the director's successor shall have been elected and qualified or until there is a decrease in the number of directors.

2.4 VACANCIES. Any vacancy occurring in the Board of Directors (whether caused by resignation, death, an increase in the number of directors, or otherwise) may be filled by the shareholders or the Board of Directors. If the directors in office constitute fewer than a quorum of the Board, they may fill the vacancy by the affirmative vote of a majority of all the directors in office. A director elected to fill any vacancy shall hold office until the next shareholders meeting at which directors are elected.

2.5 REMOVAL. One or more members of the Board of Directors (including the entire Board) may be removed, with or without cause, at a meeting of shareholders called expressly for that purpose. If the Articles of Incorporation do not permit cumulative voting, a director may be removed only if the number of votes cast to remove the director exceeds the number of votes cast not to remove the director. If the Articles of Incorporation permit cumulative voting in the election of directors, no one of the directors may be removed if the votes cast against his removal would be sufficient to elect him if then cumulatively voted at an election of the entire Board.

2.6 ANNUAL MEETING. The first meeting of each newly elected Board of Directors shall be known as the annual meeting thereof and shall be held without notice immediately after the annual shareholders' meeting or any special shareholders' meeting at which a Board is elected. Said meeting shall be held at the same place as such shareholders' meeting unless some other place shall be specified by resolution of the shareholders.

2.7 REGULAR MEETINGS. Regular meetings of the Board of Directors or of any committee designated by the Board may be held at such place and such day and hour as shall from time to time be fixed by resolution of the Board or committee, without other notice than the delivery of such resolution as provided in Section 2.9 below.

2.8 SPECIAL MEETINGS. Special meetings of the Board of Directors or any committee designated by the Board may be called by the President or the Chairperson of the Board (if one be elected) or any director or committee member, to be held at such place and such day and hour as specified by the person or persons calling the meeting.

2.9 NOTICE OF MEETING. Notice of the date, time, and place of all special meetings of the Board of Directors or any committee designated by the Board shall be given by the Secretary, or by the person calling the meeting, by mail, private carrier, telegram, facsimile transmission, or personal communication over the telephone or otherwise, provided such notice is received at least two (2) days prior to the day upon which the meeting is to be held.

No notice of any regular meeting need be given if the time and place thereof shall have been fixed by resolution of the Board of Directors or any committee designated by the Board and a copy of such resolution has been delivered by mail, private carrier, telegram or facsimile transmission to every director or committee member and is received at least two (2) days before the first meeting held in pursuance thereof.

Notice of any meeting of the Board of Directors or any committee designated by the Board need not be given to any director or committee member if it is waived in a writing signed by the director entitled to the notice, whether before or after such meeting is held.

A director's attendance at or participation in a meeting waives any required notice to the director of the meeting unless the director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors or any committee designated by the Board need be specified in the notice or waiver of notice of such meeting unless required by the Articles of Incorporation or these Bylaws.

Any meeting of the Board of Directors or any committee designated by the Board shall be a legal meeting without any notice thereof having been given if all of the directors or committee members have received valid notice thereof, are present without objecting, or waive notice thereof in a writing signed by the director and delivered to the corporation for inclusion in the minutes or filing with the corporate records, or any combination thereof.

2.10 QUORUM OF DIRECTORS. Unless a greater number is required by the Articles of Incorporation, a majority of the number of directors fixed by or in the manner provided by these Bylaws shall constitute a quorum for the transaction of business. If a quorum is present when a vote is taken, the affirmative vote of a majority

of directors present is the act of the Board of Directors unless the Articles of Incorporation or these Bylaws require the vote of a greater number of directors.

A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place. If the meeting is adjourned for more than forty-eight (48) hours, then notice of the time and place of the adjourned meeting shall be given before the adjourned meeting takes place, in the manner specified in Section 2.9 of these Bylaws, to the directors who were not present at the time of the adjournment.

2.11 PRESUMPTION OF ASSENT. Any director who is present at any meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless (a) the director objects at the beginning of the meeting, or promptly upon the director's arrival, to holding the meeting or transacting business at the meeting; (b) the director's dissent or abstention from the action taken is entered in the minutes of the meeting; or (c) the director delivers written notice of dissent or abstention to the presiding officer of the meeting before the adjournment thereof or to the corporation within a reasonable time after adjournment of the meeting. Such right to dissent or abstain shall not be available to any director who voted in favor of such action.

2.12 ACTION BY DIRECTORS WITHOUT A MEETING. Any action required by law to be taken or which may be taken at a meeting of the Board of Directors or of a committee thereof may be taken without a meeting if one or more written consents, setting forth the action so taken, shall be signed by all of the directors or all of the members of the committee, as the case may be, either before or after the action taken and delivered to the corporation for inclusion in the minutes or filing with the corporate records. Such consent shall have the same effect as a unanimous vote at a meeting duly held upon proper notice on the date of the last signature thereto, unless the consent specifies a later effective date.

2.13 TELEPHONIC MEETINGS. Members of the Board of Directors or any committee designated by the Board may participate in a meeting of the Board or committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other during the meeting. Participation by such means shall constitute presence in person at a meeting.

2.14 COMPENSATION. By resolution of the Board of Directors, the directors and committee members may be paid their expenses, if any, or a fixed sum or a stated salary as a director or committee member for attendance at each meeting of the Board or of such committee as the case may be. No such payment shall preclude any director or committee member from serving the corporation in any other capacity and receiving compensation therefor.

2.15 COMMITTEES. The Board of Directors, by resolution adopted by a majority of the full Board, may from time to time designate from among its members one or more committees, each of which must have two or more members and, to the extent provided in such resolution, shall have and may exercise all the authority of the Board of Directors, except that no such committee shall have the authority to:

(a) authorize or approve a distribution except according to a general formula or method prescribed by the Board of Directors;

(b) approve or propose to shareholders action that the Washington Business Corporation Act requires to be approved by shareholders;

(c) fill vacancies on the Board of Directors or on any of its committees;

(d) adopt any amendment to the Articles of Incorporation;

(e) adopt, amend or repeal these Bylaws;

(f) approve a plan of merger; or

(g) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a committee, or a senior executive officer of the corporation, to do so within limits specifically prescribed by the Board of Directors.

Meetings of such committees shall be governed by the same procedures as govern the meetings of the Board of Directors. All committees so appointed shall keep regular minutes of their meetings and shall cause them to be recorded in books kept for that purpose at the office of the corporation.

ARTICLE III - OFFICERS

3.1 APPOINTMENT. The officers of the corporation shall be appointed annually by the Board of Directors at its annual meeting held after the annual meeting of the shareholders. If the appointment of officers is not held at such meeting, such appointment shall be held as soon thereafter as a Board meeting conveniently may be held. Except in the case of death, resignation or removal, each officer shall hold office until the next annual meeting of the Board and until his successor is appointed and qualified.

3.2 QUALIFICATION. None of the officers of the corporation need be a director, except as specified below. Any two or more of the corporate offices may be held by the same person.

3.3 OFFICERS DESIGNATED. The officers of the corporation shall be a President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be appointed by the [Board of Directors] [President].

The Board of Directors may, in its discretion, appoint a Chairperson of the Board of Directors; and, if a Chairperson has been appointed, the Chairperson shall, when present, preside at all meetings of the Board of Directors and the shareholders and shall have such other powers as the Board may prescribe.

3.3.1 The President shall be the chief executive officer of the corporation and, subject to the direction and control of the Board, shall supervise and control all of the assets, business, and affairs of the corporation. The President shall vote the shares owned by the corporation in other corporations, domestic or foreign, unless otherwise prescribed by resolution of the Board. In general, the President shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board from time to time.

The President shall, unless a Chairperson of the Board of Directors has been appointed and is present, preside at all meetings of the shareholders and the Board of Directors.

3.3.2 VICE PRESIDENTS. In the absence of the President or his inability to act, the Vice Presidents, if any, in order of their rank as fixed by the Board of Directors or, if not ranked a Vice President designated by the Board shall perform all the duties of the President and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President;

provided that no such Vice President shall assume the authority to preside as Chairperson of meetings of the Board unless such Vice President is a member of the Board. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be respectively prescribed for them by the Board, these Bylaws or the President.

3.3.3 SECRETARY. The Secretary shall:

(a) keep the minutes of meetings of the shareholders and the Board of Directors in one or more books provided for that purpose;

(b) see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law;

(c) be custodian of the corporate records and seal of the corporation, if one be adopted;

(d) keep a register of the post office address of each shareholder and director;

(e) sign with the President, or a Vice President, certificates for shares of the corporation, the issuance of which shall have been authorized by resolution of the Board of Directors;

(f) have general charge of the stock transfer books of the corporation; and

(g) in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned by the President or the Board of Directors.

In the absence of the Secretary, an Assistant Secretary may perform the duties of the Secretary.

3.3.4 TREASURER. Subject to the direction and control of the Board of Directors, the Treasurer shall have charge and custody of and be responsible for all funds and securities of the corporation; and, at the expiration of his term of office, he shall turn over to his successor all property of the corporation in his possession.

In the absence of the Treasurer, an Assistant Treasurer may perform the duties of the Treasurer.

3.4 DELEGATION. In case of the absence or inability to act of any officer of the corporation and of any person herein authorized to act in his place, the Board of Directors may from time to time

delegate the powers or duties of such officer to any other officer or director or other person whom it may select.

3.5 RESIGNATION. Any officer may resign at any time by delivering written notice to the Corporation. Any such resignation shall take effect when the notice is delivered unless the notice specifies a later date. Unless otherwise specified in the notice, acceptance of such resignation by the corporation shall not be necessary to make it effective. Any resignation shall be without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

3.6 REMOVAL. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board at any time with or without cause. Election or appointment of an officer or agent shall not of itself create contract rights.

3.7 VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification, creation of a new office, or any other cause may be filled by the Board of Directors for the unexpired portion of the term or for a new term established by the Board.

3.8 COMPENSATION. Compensation, if any, for officers and other agents and employees of the corporation shall be determined by the Board of Directors, or by the President to the extent such authority may be delegated to him by the Board. No officer shall be prevented from receiving compensation in such capacity by reason of the fact that he is also a director of the corporation.

ARTICLE IV - CONTRACTS, LOANS, CHECKS AND DEPOSITS

4.1 CONTRACTS. The Board of Directors may authorize any officer or officers or agent or agents to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation. Such authority may be general or confined to specific instances.

4.2 LOANS. The corporation shall not borrow money and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

4.3 CHECKS, DRAFTS, ETC. All checks, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the corporation shall be signed by such

officer or officers or agent or agents of the corporation and in such manner as may be determined from time to time by resolution of the Board of Directors.

4.4 DEPOSITS. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies, or other depositories as the Board of Directors may select.

ARTICLE V - STOCK

5.1 ISSUANCE OF SHARES. No shares of the corporation shall be issued unless authorized by the Board of Directors, which authorization shall include the maximum number of shares to be issued, the consideration to be received for each share, and, if the consideration is in a form other than cash, the determination of the value of the consideration and a statement that such consideration is adequate.

5.2 CERTIFICATES OF STOCK. Certificates of stock shall be issued in numerical order, and each shareholder shall be entitled to a certificate signed by the President or a Vice President, attested to by the Secretary or Assistant Secretary, and sealed with the corporate seal, if any. Every certificate of stock shall be in such form as is consistent with the provisions of the Washington Business Corporation Act and shall state:

(a) The name of the corporation and that the corporation is organized under the laws of this state;

(b) The name of the registered holder of the shares represented thereby; and

(c) The number and class of shares, and the designation of the series, if any, which such certificate represents.

If the corporation is authorized to issue different classes of shares or different series within a class, the designations, preferences, limitations, and relative rights applicable to each class and the variations in rights, preferences and limitations determined for each series, and the authority of the Board of Directors to determine variations for future series, must be summarized on the front or back of each certificate. Alternatively, each certificate may state conspicuously on its front or back that the corporation will furnish the shareholder this information without charge on request in writing.

If the shares are subject to transfer or other restrictions under applicable securities laws or contracts with the corporation, either a complete description of or a reference to the existence and general nature of such restrictions shall be placed on the face or back of the certificate.

5.3 RESTRICTIONS ON TRANSFER. Except to the extent that the corporation has obtained an opinion of counsel acceptable to the corporation that transfer restrictions are not required under applicable securities laws, all certificates representing shares of the corporation shall bear the following legend (or a legend of substantially the same import) on the face of the certificate or on the reverse of the certificate if a reference to the legend is contained on the face:

NOTICE: RESTRICTIONS ON TRANSFER

"The securities evidenced by this certificate have not been registered under the Securities Act of 1933 or any applicable state law, and no interest therein may be sold, distributed, assigned, offered, pledged or otherwise transferred unless (a) there is an effective registration statement under such Act and applicable state securities laws covering any such transaction involving said securities, or (b) this corporation receives an opinion of legal counsel for the holder of these securities (concurred in by legal counsel for this corporation) stating that such transaction is exempt from registration or this corporation otherwise satisfies itself that such transaction is exempt from registration. Neither the offering of the securities nor any offering materials have been reviewed by any administrator under the Securities Act of 1933, or any applicable state law."

5.4 TRANSFERS. Shares of stock may be transferred by delivery of the certificates therefor, accompanied by:

(a) an assignment in writing on the back of the certificate, or an assignment separate from certificate, or a written power of attorney to sell, assign, and transfer the same, signed by the record holder of the certificate, and

(b) such additional documents, instruments, or other items or evidence as may be reasonably necessary to satisfy the requirements of any transfer restrictions applicable to such shares, whether arising under applicable securities or other laws, or by contract, or otherwise.

Except as otherwise specifically provided in these Bylaws, no shares of stock shall be transferred on the books of the corporation until the outstanding certificate therefor has been surrendered to the corporation. All certificates surrendered to the corporation for transfer shall be cancelled, and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed, or mutilated certificate a new one may be issued therefor upon such terms (including indemnity to the corporation) as the Board of Directors may prescribe.

ARTICLE VI - BOOKS AND RECORDS

6.1 BOOKS OF ACCOUNTS, MINUTES AND SHARE REGISTER. The corporation shall keep as permanent records minutes of all meetings of its shareholders and Board of Directors, a record of all actions taken by the shareholders or Board of Directors without a meeting, and a record of all actions taken by a committee of the Board of Directors exercising the authority of the Board of Directors on behalf of the corporation. The corporation shall maintain appropriate accounting records. The corporation or its agent shall maintain a record of its shareholders, in a form that permits preparation of a list of the names and addresses of all shareholders, in alphabetical order by class of shares showing the number and class of shares held by each. The corporation shall keep a copy of the following records at its principal office: the Articles or Restated Articles of Incorporation and all amendments to them currently in effect; the Bylaws or Restated Bylaws and all amendments to them currently in effect; the minutes of all shareholders' meetings, and records of all actions taken by shareholders without a meeting, for the past three years; its financial statements for the past three years, including balance sheets showing in reasonable detail the financial condition of the corporation as of the close of each fiscal year, and an income statement showing the results of its operations during each fiscal year prepared on the basis of generally accepted accounting principles or, if not, prepared on a basis explained therein; all written communications to shareholders generally within the past three years; a list of the names and business addresses of its current directors and officers; and its most recent annual report delivered to the Secretary of State of Washington.

6.2 COPIES OF RESOLUTIONS. Any person dealing with the corporation may rely upon a copy of any of the records of the proceedings, resolutions, or votes of the Board of Directors or shareholders, when certified by the President or Secretary.

ARTICLE VII - FISCAL YEAR

The fiscal year of the corporation shall be set by resolution of the Board of Directors.

ARTICLE VIII - DIVIDENDS

The Board of Directors may from time to time declare, and the corporation may pay, dividends on its outstanding shares in the manner and to the extent prescribed and permitted by law and the Articles of Incorporation.

ARTICLE IX - CORPORATE SEAL

The Board of Directors may adopt a corporate seal for the corporation which shall have inscribed thereon the name of the corporation, the year and state of incorporation and the words "corporate seal".

ARTICLE X - INDEMNIFICATION

10.1 RIGHT TO INDEMNIFICATION. Each individual (hereinafter an "indemnitee") who was or is made a party or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal (hereinafter a "proceeding"), by reason of the fact that he or she is or was a director or officer of the corporation or that, while serving as a director or officer of the corporation, he or she is or was also serving at the request of the corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation or of a foreign or domestic partnership, joint venture, trust, employee benefit plan or other enterprise, whether the basis of the proceeding is alleged action in an official capacity as such a director, officer, employee, partner, trustee, or agent or in any other capacity while serving as such director, officer, employee, partner, trustee, or agent, shall be indemnified and held harmless by the corporation to the full extent permitted by applicable law as then in effect, against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts to be paid in settlement) incurred or suffered by such indemnitee in connection therewith, and such indemnification shall continue as to an indemnitee who has ceased to be a director, officer, employee, partner, trustee, or agent and shall inure to

the benefit of the indemnitee's heirs, executors and administrators; provided, however, that no indemnification shall be provided to any such indemnitee if the corporation is prohibited by the Washington Business Corporation Act or other applicable law as then in effect from paying such indemnification; and provided, further, that except as provided in Section 10.2 of this Article with respect to proceedings seeking to enforce rights to indemnification, the corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized or ratified by the Board of Directors. The right to indemnification conferred in this Section 10.1 shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending any proceeding in advance of its final disposition (hereinafter an "advancement of expenses"). Any advancement of expenses shall be made only upon delivery to the corporation of a written undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Section 10.1 and upon delivery to the corporation of a written affirmation (hereinafter an "affirmation") by the indemnitee of his or her good faith belief that such indemnitee has met the standard of conduct necessary for indemnification by the corporation pursuant to this Article.

10.2 RIGHT OF INDEMNITEE TO BRING SUIT. If a written claim for indemnification under Section 10.1 of this Article is not paid in full by the corporation within sixty days after the corporation's receipt thereof, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days, the indemnitee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If successful, in whole or in part, in any such suit or in a suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expenses of prosecuting or defending such suit. The indemnitee shall be presumed to be entitled to indemnification under this Article upon submission of a written claim (and, in an action brought to enforce a claim for an advancement of expenses, where the required undertaking and affirmation have been tendered to the corporation) and thereafter the corporation shall have the burden of proof to overcome the presumption that the indemnitee is so entitled. Neither the failure of the corporation (including the Board of Directors, independent legal counsel or the shareholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances

nor an actual determination by the corporation (including the Board of Directors, independent legal counsel or the shareholders) that the indemnitee is not entitled to indemnification shall be a defense to the suit or create a presumption that the indemnitee is not so entitled.

10.3 NONEXCLUSIVITY OF RIGHTS. The right to indemnification and the advancement of expenses conferred in this Article X shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Articles of Incorporation or Bylaws of the corporation, general or specific action of the Board of Directors, contract or otherwise.

10.4 INSURANCE, CONTRACTS AND FUNDING. The corporation may maintain insurance, at its expense, to protect itself and any individual who is or was a director, officer, employee or agent of the corporation or who, while a director, officer, employee or agent of the corporation, is or was serving at the request of the corporation as a agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any expense, liability or loss asserted against or incurred by the individual in that capacity or arising from the individual's status as a director, officer, employee or agent, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Washington Business Corporation Act. The corporation may enter into contracts with any director, officer, employee or agent of the corporation in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

10.5 INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION. The corporation may, by action of the Board of Directors, grant rights to indemnification and advancement of expenses to employees and agents of the corporation with the same scope and effect as the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the corporation or pursuant to rights granted pursuant to, or provided by, the Washington Business Corporation Act or otherwise.

10.6 PERSONS SERVING OTHER ENTITIES. Any individual who is or was a director, officer or employee of the corporation who, while a director, officer or employee of the corporation, is or was serving (a) as a director or officer of another foreign or domestic corporation of which a majority of the shares entitled to vote in the election of its directors is held by the corporation,

(b) as a trustee of an employee benefit plan and the duties of the director or officer to the corporation also impose duties on, or otherwise involve services by, the director or officer to the plan or to participants in or beneficiaries of the plan or (c) in an executive or management capacity in a foreign or domestic partnership, joint venture, trust or other enterprise of which the corporation or a wholly owned subsidiary of the corporation is a general partner or has a majority ownership or interest shall be deemed to be so serving at the request of the corporation and entitled to indemnification and advancement of expenses under this Article.

ARTICLE XI - MISCELLANY

11.1 INSPECTOR OF ELECTIONS. Before any annual or special meeting of Shareholders, the Board of Directors may appoint an inspector of elections to act at the meeting and any adjournment thereof. If no inspector of elections is so appointed by the Board, then the chairperson of the meeting may appoint an inspector of elections to act at the meeting. If any person appointed as inspector fails to appear or fails or refuses to act, then the chairperson of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy.

Such inspector of elections shall:

(a) determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and, with the advice of legal counsel to the corporation, the authenticity, validity, and effect of proxies;

(b) receive votes, ballots, or consents;

(c) hear and determine all challenges and questions in any way arising in connection with the right to vote;

(d) count and tabulate all votes or consents;

(e) determine the result; and

(f) do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

11.2 RULES OF ORDER. The rules contained in the most recent edition of Robert's Rules of order, Newly Revised, shall govern all meetings of shareholders and directors where those rules are not inconsistent with the Articles of Incorporation or Bylaws, subject to the following:

(a) The chairperson of the meeting shall have absolute authority over matters of procedure, and there shall be no appeal from the ruling of the chairperson. If the chairperson deems it advisable to dispense with the rules of parliamentary procedure for any meeting or any part thereof, the chairperson shall so state and shall clearly state the rules under which the meeting or appropriate part thereof shall be conducted.

(b) If disorder should arise which prevents continuation of the legitimate business of the meeting, the chairperson may quit the chair and announce the adjournment of the meeting; upon his so doing, the meeting shall be deemed immediately adjourned, subject to being reconvened in accordance with Section 1.6 of these Bylaws.

(c) The chairperson may ask or require that anyone not a bona fide shareholder or proxy leave the meeting of shareholders.

(d) A resolution or motion at a meeting of shareholders shall be considered for vote only if proposed by a shareholder or duly authorized proxy and seconded by an individual who is a shareholder or duly authorized proxy other than the individual who proposed the resolution or motion.

11.3 REGISTERED OFFICE AND REGISTERED AGENT. The registered office of e corporation shall be located in the State of Washington at such place as may be fixed from time to time by the Board of Directors upon filing of such notices as may be required by law, and the registered agent shall have a business office identical with such registered office. Any change in the registered agent or registered office shall be effective upon filing such change with the office of the Secretary of State of the State of Washington.

ARTICLE XII - AMENDMENT OF BYLAWS

12.1 BY THE SHAREHOLDERS. These Bylaws may be amended, altered, or repealed at any meeting of the shareholders, provided that in case of a special meeting, notice of the proposed alteration or amendment was contained in the notice of the meeting.

12.2 BY THE BOARD OF DIRECTORS. These Bylaws may be amended, altered, or repealed by the affirmative vote of the majority of the whole Board of Directors at any regular or special meeting of the Board unless (a) the Articles of Incorporation or the Washington Business Corporation Act reserve the power to amend exclusively to the shareholders in whole or part; or (b) the shareholders, in amending or repealing a particular bylaw, provide expressly that the Board of Directors may not amend or repeal that bylaw. Any action of the Board with respect to the amendment, alteration or repeal of these Bylaws is hereby made expressly subject to change or repeal by the shareholders.

ARTICLE XIII - AUTHENTICATION

The foregoing Bylaws were read, approved, and duly adopted by the Board of Directors, of Stratford Software Corporation, USA, on the 8th day of October 1992, and the President of the corporation was empowered to authenticate such Bylaws by his signature below.

/s/ T. J. McKie

Thompson J. McKie
President

EXHIBIT 3.5

AMENDMENT TO BYLAWS OF REGISTRANT

RESOLVED, that the first sentence of Section 2.2 of the bylaws of Bow Flex, Inc. is hereby amended, effective as of the expiration of the term of the current directors of Bow Flex, Inc., to provide as follows:

> The number of directors of the corporation shall be not less than one (1) nor more than six (6), the specific number to be set by resolution of the Board of Directors or the shareholders.

DATED February 27, 1998.

/s/ Roger J. Sharp

Roger J. Sharp

DIRECT FOCUS, INC.
(FORMERLY: BOW FLEX, INC.)
STOCK OPTION PLAN
June 20, 1995, as amended June 30, 1998, and February 20, 1999

1. STATEMENT OF PURPOSE

1.1 The principal purposes of this Stock Option Plan (the "Plan") are to secure to Direct Focus, Inc. (the "Company") the advantages of the incentive inherent in stock ownership on the part of employees, officers, directors and consultants responsible for the continued success of the Company and to create in such individuals a proprietary interest in, and a greater concern for, the welfare of the Company through the grant of options to acquire shares of the common stock of the Company (the "Common Stock"). Each incentive stock option ("ISO") granted hereunder is intended to constitute an "incentive stock option", as such term is defined in Section 422 of the United States Internal Revenue Code of 1986, as the same may be amended from time to time (the "Code"), and this Plan and each such ISO are intended to comply with all of the requirements of said Section 422 and of all other provisions of the Code applicable to incentive stock options and to plans issuing the same. Each non-statutory stock option ("Non-ISO") granted hereunder is intended to constitute a non-statutory stock option that does not comply with the requirements of Section 422 of the Code. ISOs and Non-ISOs shall sometimes hereinafter be referred to collectively as "Options". The Plan is expected to benefit shareholders by enabling the Company to attract and retain personnel of the highest calibre by offering to them an opportunity to share in any increase in the value of the Common Stock to which such personnel have contributed.

2. ADMINISTRATION

2.1 The Plan shall be administered by the Board of Directors of the Company (the "Board") or by a committee of the Board appointed in accordance with Section 2.2 or 2.4.2 below (the Board, or such committee, if appointed, will be referred to in this Plan as the "Committee").

2.2 The Board may at any time appoint a Committee, consisting of not less than two (2) of its members, to administer the Plan on behalf of the Board in accordance with such terms and conditions not inconsistent with this Plan as the Board may prescribe. Once appointed, the Committee shall continue to serve until otherwise directed by the Board. From time to time the Board may increase the size of the Committee and appoint additional members, remove members (with or without cause) and appoint new members in their place, fill vacancies, however caused, and/or remove all members of the Committee and thereafter directly administer the Plan.

2.3 A majority of the members of the Committee shall constitute a quorum and, subject to the limitations in this Section 2, all actions of the Committee shall require the affirmative vote of members who constitute a majority of such quorum. Members of the Committee who are not Disinterested Persons (as defined in Section 2.5) may vote on any matters affecting the administration of the Plan or the grant of Options pursuant to the Plan, except that no such member shall act upon the granting of an Option to himself (but any such member may be counted in determining the existence of a quorum at any meeting of the Committee during which action is taken with respect to the granting of Options to him).

2.4

2.5 The Committee shall have the authority to do the following:

2.5.1 To administer the Plan in accordance with its express terms;

2.5.2 To determine all questions arising in connection with the administration, interpretation and application of the Plan, including all questions relating to the value of the Common Stock;

2.5.3 To correct any defect, supply any information or reconcile any inconsistency in such manner and to such extent as shall be deemed necessary or advisable to carry out the purposes of the Plan;

2.5.4 To prescribe, amend and rescind rules and regulations relating to the administration of the Plan;

2.5.5 To determine the duration and purposes of leaves of absence which may be granted to participants without constituting a termination of employment for purposes of the Plan;

2.5.6 To do the following with respect to the granting of Options:

(a) based on the eligibility criteria in Section 3 below, to determine the employees, officers, directors or consultants to whom Options shall be granted;

(b) to determine whether such Options shall be ISOs or Non-ISOs;

(c) to determine the terms and provisions of the Option Agreement, as defined in Section 5 below, to be entered into with any Optionee (which need not be identical with the terms of any other Option Agreement), and, with the consent of such Optionee and with the prior consent of The Toronto Stock Exchange, to modify and amend such terms and provisions;

(d) to determine when such Options shall be granted;

(e) to determine the number of shares of Common Stock subject to each Option; and

2.5.7 To make all other determinations necessary or advisable for administration of the Plan.

2.6 The Committee's exercise of the authority set out in Section 2.6 shall be consistent with the intent that the ISOs issued under the Plan be qualified under the terms of Section 422 of the Code, and that the Non-ISOs shall not be so qualified. All determinations made by the Committee in good faith on matters referred to in Section 2.6 shall be final, conclusive and binding upon all persons. The Committee shall have all powers necessary or appropriate to accomplish its duties under this Plan. In addition, the Committee's administration of the Plan shall in all respects be consistent with the policies and rules of The Toronto Stock Exchange (the "TSE") governing the granting of the stock options for so long as the Common Stock is listed on the TSE.

3. ELIGIBILITY

3.1 ISOs may be granted to any employee of the Company or of an Affiliate of the Company, as defined in Section 3.2 below. Non-ISOs may be granted to any employee, officer or director (whether or not also an employee) or consultant of the Company or of an Affiliate of the Company. Each employee, officer, director or consultant selected by the Committee to receive an Option shall sometimes hereinafter be referred to as an "Optionee".

3.2 As used in this Plan, an "Affiliate" of a corporation shall refer to a "parent corporation" of such corporation as described in Section 424(e) of the Code or a "subsidiary corporation" of such corporation as described in Section 424(f) of the Code.

3.3 An Optionee who is not an employee of the Company or of an Affiliate of the Company shall not be eligible to receive an ISO under the Plan and no ISOs shall be granted to any such non-employee Optionee.

3.4 No Option shall be granted hereunder to any Optionee unless the Committee shall have determined, based on the advice of counsel, that the grant of such Option (and the exercise thereof by the Optionee) will not violate the securities law of the jurisdiction where the Optionee resides.

4. SHARES SUBJECT TO THE PLAN

4.1 The Committee, from time to time, may provide for the option and sale in the aggregate of up to 1,857,961 shares of Common Stock, to be made available from authorized, but unissued, or re-acquired shares of Common Stock. The number of such shares shall be adjusted so as to take account of the events referred to in Section 10 hereof. Notwithstanding the foregoing, for so long as the Company's Common Stock is listed on the TSE, the maximum number of shares of Common Stock which may be reserved for issuance under Options granted to any one person under the Plan, shall not exceed five percent (5%) of the Common Stock outstanding (on a non-diluted basis) less the aggregate number of shares of Common Stock reserved for issuance to such person under any other option to purchase Common Stock from treasury granted as a compensation or incentive mechanism.

4.2 Upon exercise of an Option, the number of shares of Common Stock thereafter available under the Plan and under the Option shall decrease by the number of shares as to which the Option was exercised.

4.3 If any Option granted under the Plan shall expire or terminate for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for the purposes of the Plan.

4.4 The Company will at all times during the term of this Plan reserve and keep available such number of shares as shall be sufficient to satisfy the requirements of the Plan.

4.5 Except with the further approval of the shareholders of the Company given by the affirmative vote of a majority of the votes cast at a meeting of the shareholders of the Company, excluding the votes of Insiders (as defined in section 4.6), such approval not being sought at the time of adoption of this Plan, the Company may not cause:

4.5.1 The number of shares of Common Stock reserved for issuance pursuant to Options granted to Insiders (as defined in section 4.6 hereof) to exceed 15% of the Outstanding Issue (as defined in section 4.7);

4.5.2 the issuance to Insiders, within a one-year period, of shares of Common Stock under Share Compensation Arrangements (as defined in section 4.8) to exceed 15% of the Outstanding Issue; and

4.5.3 subject always to section 4.1 of this Plan, the issuance to any one Insider and such Insider's Associates (as defined in Section 1(1) of the SECURITIES ACT (Ontario), within a one-year period, of shares of common stock under share compensation arrangements to exceed 5% of the outstanding issue.

Any entitlement granted prior to a participant becoming an insider of the Company shall be excluded in determining the number of common shares issuable to insiders.

4.6 "Insider" means:

(i) an insider as defined under Section 1(1) of the SECURITIES ACT (ONTARIO), other than a person who falls within that definition solely by virtue of being a director or senior officer of a subsidiary of the Company; and

(ii) an associate as defined under Section 1(1) of the SECURITIES ACT (ONTARIO) of any person who is an insider by virtue of (i) above.

4.7 "Outstanding Issue" means number of shares of Common Stock that are outstanding immediately prior to the share issuance or grant of option in question, excluding shares issued pursuant to Share Compensation Arrangements over the preceding one year period.

4.8 "Share Compensation Arrangements" means any stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism involving the issuance or potential issuance of shares of Common Stock, including a share purchase from treasury which is financially assisted by the Company by way of a loan, guarantee or otherwise.

5. OPTION TERMS

5.1 With respect to each Option to be granted to an Optionee, the Committee shall specify the following terms in a written agreement (the "Option Agreement") to be executed by the Company and the Optionee:

5.1.1 Whether such Option is an ISO or a Non-ISO;

5.1.2 The number of shares of Common Stock subject to purchase pursuant to such Option;

5.1.3 The date on which the grant of such Option shall be effective (the "Date of Grant");

5.1.4 The period of time during which such Option shall be exercisable, which shall in no event be more than ten (10) years following its Date of Grant; provided, however, that if an ISO is granted to an Optionee who on the Date of Grant owns, either directly or indirectly within the meaning of Section 424(d) of the Code, more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or an Affiliate of the Company, the period of time during which such Option shall be exercisable shall in no event be more than five (5) years following its Date of Grant;

5.1.5 The price at which such Option shall be exercisable by the Optionee (the "Option Price"); provided, however, that the Option Price specified in ISOs shall in no event be less than the Fair Market Value (as defined in Section 5.2 below) on the Date of Grant, of the shares of Common Stock subject thereto; and provided further that, if such Option is granted to an Optionee who on the Date of Grant owns, either directly or indirectly within the meaning of Section 424(d) of the Code, more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or an Affiliate of the Company, then the Option Price specified in such Option shall be at least one hundred ten percent (110%) of the fair market value, on the Date of Grant, of the Common Stock subject thereto;

5.1.6 Any vesting schedule upon which the exercise of an Option is contingent; provided that the Committee shall have complete discretion with respect to the terms of any vesting schedule upon which the exercise of an Option is contingent, including, without limitation, discretion:

(a) to allow full and immediate vesting upon grant of such Option;

(b) to permit partial vesting in stated percentage amounts based on the length of the holding period of such Option; or

(c) to permit full vesting after a stated holding period has passed; and

5.1.7 Such other terms and conditions as the Committee deems advisable and as are consistent with the purpose of this Plan.

5.2 "Fair Market Value" means, with respect to a share of Common Stock subject to Option, the closing price of the Common Stock on the Toronto Stock Exchange on the trading day immediately preceding the date of grant or if there were no trades in the Common Stock on the day immediately preceding the grant, the average of the bid and ask price for that day, or, if the Common Stocks are not listed on such exchange, on such other exchange or exchanges on which the Common Stock are listed. If no Common Shares have been traded on such day, the Fair Market Value shall be established on the same basis on the last previous day for which a trade was reporting by such exchange. If the Common Stock are not listed and posted for trading on such exchange, on such day, the Fair Market Value shall be such price per Common Stock as the Committee, acting in good faith, may determine.

5.3 No Option granted under the Plan shall be exercisable more than ten (10) years following said date. Except as expressly provided herein, nothing contained in this Plan shall require that the terms and conditions of Options granted under the Plan be uniform.

5.4 The Option Agreement for any Option granted to a person who, on the Date of Grant, is subject to Section 16 of the Exchange Act shall provide that at least six (6) months must elapse from the Date of Grant of the Option to the date of disposition, as defined in Section 424(c) of the Code, of the Common Stock issued upon exercise of such Option.

6. LIMITATION ON GRANTS OF OPTIONS

6.1 In the event that the aggregate fair market value of Common Stock and other stock with respect to which ISOs granted to an Optionee under this Plan or incentive stock options granted to such Optionee under any other plan of the Company or any of its Affiliates are exercisable for the first time during any calendar year, exceeds the maximum permitted under Section 422(d) of the Code, then to the extent of such excess such Options shall be treated as Non-ISOs.

7. EXERCISE OF OPTION

7.1 Subject to any limitations or conditions imposed upon an Option pursuant to Section 5 above, an Optionee may exercise an Option, or any part thereof (unless partial exercise is specifically prohibited by the terms of the Option), by giving written notice thereof to the Company at its principal place of business.

7.2 The notice described in Section 7.1 shall be accompanied by full payment of the Option Price to the extent the Option is so exercised, and full payment of any amounts the Company determines must be withheld for tax purposes from the Optionee pursuant to the Option Agreement. Such payment shall be:

7.2.1 In lawful money of the United States in cash or by cheque; or

7.2.2 At the discretion of the Committee, through delivery of shares of Common Stock having a fair market value equal as of the date of the exercise to the cash exercise price of the Option; or

7.2.3 At the discretion of the Committee, by any combination of Sections 7.2.1 or 7.2.2, provided however that no financial assistance will be provided to an Optionee by the Company to exercise the Option.

7.3 As soon as practicable after exercise of an Option in accordance with Sections 7.1 and 7.2 above, the Company shall issue a stock certificate evidencing the Common Stock with respect to which the Option has been exercised. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of such stock certificate, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to such Common Stock, notwithstanding the exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 10 below.

8. TRANSFERABILITY OF OPTIONS

8.1 Except as provided otherwise in this Section 8, no option shall be transferable or exercisable by any person other than the Optionee to whom such Option was originally granted.

8.2 If an Optionee to whom an ISO has been granted (an "ISO Optionee") ceases to be employed by the Company or by any Affiliate of the Company by reason of such Optionee's death, any ISOs held by such Optionee shall pass to the person or persons entitled thereto pursuant to the will of the Optionee or the applicable laws of descent and distribution (such person or persons are sometimes herein referred to collectively as the "Qualified Successor" of the Optionee), and shall be exercisable by the Qualified Successor on the earlier of six (6) months following such death and ten (10) years from the Date of Grant.

8.3 If the employment of an ISO Optionee is terminated by the Company or by any Affiliate of the Company by reason of such Optionee's disability, as defined in Section 22(e)(3) of the Code, any ISO held by such Optionee that could have been exercised immediately prior to such termination of employment shall be exercisable by such Optionee, or, if a guardian (the "Guardian") is appointed for such Optionee, by the Guardian of such Optionee on the earlier of twelve (12) months following the termination of employment of such Optionee and ten (10) years from the Date of Grant.

8.4 If an ISO Optionee who has ceased to be employed by the Company or by any Affiliate of the Company by reason of such Optionee's disability, as defined in Section 22(e)(3) of the Code, dies within six (6) months after the termination of such employment, any ISO held by such Optionee that could have been exercised immediately prior to his or her death shall pass to the Qualified Successor of such Optionee, and shall be exercisable by the Qualified

Successor on the earlier of six (6) months following the termination of employment of such Optionee and ten (10) years from the Date of Grant.

8.5 If an Optionee to whom a Non-ISO has been granted dies, any Non-ISO held by such Optionee shall pass to the person or persons entitled thereto pursuant to the will of the Optionee or the applicable laws of descent and distribution, and shall be exercisable by such person or persons in accordance with the terms of the applicable Option Agreement.

8.6 Options held by a Qualified Successor or exercisable by a Guardian shall, during the period prior to their termination that such Options are held by the Qualified Successor or exercisable by the Guardian, continue to vest in accordance with any vesting schedule under Section 5.1.6 to which such Options are subject.

8.7 In the event that two or more persons constitute the Qualified Successor or the Guardian of an Optionee, all rights of such Qualified Successor or such Guardian shall be exercisable, if at all, by the unanimous agreement of such persons.

8.8 Employment shall be considered as continuing intact during any military or sick leave or other bona fide leave of absence if the period of such leave does not exceed ninety (90) days or, if longer, for so long as the Optionee's right to re-employment with the Company or an Affiliate thereof is guaranteed either by statute or by contract. If the period of such leave exceeds ninety (90) days and his or her re-employment is not so guaranteed, then his or her employment shall be deemed to have terminated on the ninety-first (91st) day of such leave.

9. TERMINATION OF OPTIONS

To the extent not earlier exercised, an Option shall terminate at the earliest of the following dates:

9.1 The termination date specified for such Option in the respective Option Agreement;

9.2 With respect to ISOs, six (6) months after the date of termination of the Optionee's employment with the Company or any Affiliate of the Company by reason of such Optionee's disability (within the meaning of Section 22(e)(3) of the Code) or such Optionee's death;

9.3 With respect to ISOs, thirty (30) days, or at the discretion of the Committee up to three (3) months, after the date of termination of the Optionee's employment with the Company or any Affiliate of the Company for any reason other than disability (within the meaning of Section 22(e)(3) of the Code) or death;

9.4 The date of any sale, transfer or hypothecation, or any attempted sale, transfer or hypothecation, of such Option in violation of Section 8.1 above; or

9.5 The date specified in Section 10.2 below for such termination in the event of a Terminating Event.

10. ADJUSTMENTS TO OPTIONS

10.1. In the event of a material alteration in the capital structure of the Company on account of a recapitalization, stock split, reverse stock split, stock dividend or otherwise, then the Committee shall make such adjustments to this Plan and to the Options then outstanding and thereafter granted under this Plan as the Committee determines to be appropriate and equitable under the circumstances, so that the proportionate interest of each holder of any such Option shall, to the extent practicable, be maintained as before the occurrence of such event. Such adjustments may include, without limitation:

(a) a change in the number or kind of shares of stock of the Company covered by such Options; and

(b) a change in the Option Price payable per share;

provided, however, that the aggregate Option Price applicable to the unexercised portion of the existing Options shall not be altered, it being intended that any adjustments made with respect to such Options shall apply only to the price per share and the number of shares subject thereto. For the purposes of this Section 10.1, neither:

(i) the issuance of additional shares of stock of the Company in exchange for adequate consideration (including services); nor

(ii) the conversion of outstanding preferred shares of the Company into Common Stock shall be deemed material alterations of the capital structure of the Company.

In the event the Committee shall determine that the nature of a material alteration in the capital structure of the Company is such that it is not practical or feasible to make appropriate adjustments to this Plan or to the Options granted hereunder, such event shall be deemed a Terminating Event as defined in Section 10.2 below.

10.2 Subject to Section 10.3, all Options granted under the Plan shall terminate upon the occurrence of any of the following events (the "Terminating Events"):

(a) the dissolution or liquidation of the Company; or

(b) a material change in the capital structure of the Company that is subject to this Section 10.2 by virtue of the last sentence of Section 10.1 above.

10.3 The Committee shall give notice to Optionees not less than thirty (30) days prior to the consummation of:

(a) a Terminating Event as defined in Section 10.2 above;

(b) a merger or consolidation of the Company with one or more corporations as a result of which, immediately following such merger or consolidation, the shareholders of the Company as a group will hold less than a majority of the outstanding capital stock of the surviving corporation; or

(c) the sale or other disposition of all or substantially all of the assets of the Company.

Upon the giving of such notice, all Options granted under the Plan shall become immediately exercisable, without regard to any contingent vesting provision to which such Options may have otherwise been subject.

10.4 All Options granted under the Plan shall become immediately exercisable, without regard to any contingent vesting provision to which such Options may have otherwise been subject, upon the occurrence of any event whereby any person or entity, including any "person" as such term is used in Section 13(d)(3) of the Exchange Act, becomes the "beneficial owner", as defined in the Exchange Act, of Common Stock representing fifty percent (50%) or more of the combined voting power of the voting securities of the Company.

10.5 In the event of a reorganization as defined in this Section 10.5 in which the Company is not the surviving or acquiring company, or in which the Company is or becomes a wholly-owned subsidiary of another company after the effective date of the reorganization, then the plan or agreement respecting the reorganization shall include

appropriate terms providing for the assumption of each Option granted under this Plan, or the substitution of an option therefor, such that no "modification" of any such Option occurs under Section 424 of the Code. For purposes of this Section 10.5, reorganization shall mean any statutory merger, statutory consolidation, sale of all or substantially all of the assets of the Company, or sale, pursuant to an agreement with the Company, of securities of the Company pursuant to which the Company is or becomes a wholly-owned subsidiary of another corporation after the effective date of the reorganization.

10.6 The Committee shall have the right to accelerate the date of exercise of any installment of any Option; provided that, without the consent of the Optionee with respect to any Option, the Committee shall not accelerate the date of any installment of any Option granted to an employee as an ISO (and not previously converted into a Non-ISO pursuant to Section 12 below) if such acceleration would violate the annual vesting limitation contained in Section 422(d) of the Code, as described in Section 6 above.

10.7 Adjustments and determinations under this Section 10 shall be made by the Committee (upon the advice of counsel), whose decisions as to what adjustments or determinations shall be made, and the extent thereof, shall be final, binding and conclusive.

11. TERMINATION AND AMENDMENT

11.1 Unless earlier terminated as provided in Section 10 above, the Board may at any time terminate, suspend or amend the terms of the Plan in accordance with applicable legislation, and subject to any required approval; provided, however, that, except as provided in Section 10 above, the Board may not do any of the following without obtaining, within twelve (12) months either before or after the Board's adoption of a resolution authorizing such action, approval by the affirmative votes of the holders of a majority of the securities of the Company present, or represented, and entitled to vote at a meeting duly held in accordance with the applicable corporate laws or by the written consent of the holders of a majority of the securities of the Company entitled to vote:

11.1.1 Increase the aggregate number of shares which may be issued under the Plan;

11.1.2 Materially modify the requirements as to eligibility for participation in the Plan, or change the designation of the employees or class of employees eligible to receive ISOs under the Plan;

11.1.3 Materially increase the benefits accruing to participate under the Plan; or

11.1.4 Make any change in the terms of the Plan that would cause the ISOs granted hereunder to lose their qualification as incentive stock options under Section 422 of the Code.

11.2 No Option may be granted during any suspension or after termination of the Plan. Amendment, suspension or termination of the Plan shall not, without the consent of the Optionee, alter or impair any rights or obligations under any Option theretofore granted.

12. CONVERSION OF ISOs INTO NON-ISOs

At the written request of any ISO Optionee, the Committee may in its discretion take such actions as may be necessary to convert such Optionee's ISOs (or any installments or portions of installments thereof) that have not been exercised on the date of conversion into Non-ISOs at any time prior to the expiration of such ISOs, regardless of whether the Optionee is an employee of the Company or of an Affiliate of the Company at the time of such conversion. Such actions may include, but shall not be limited to, extending the exercise period or reducing the exercise price of the appropriate installments of such ISOs. At the time of such conversion, the Committee, with the consent of the Optionee,

may impose such conditions on the exercise of the resulting Non-ISOs as the Committee in its discretion may determine, provided that such conditions shall not be inconsistent with this Plan. Nothing in the Plan shall be deemed to give any Optionee the right to have such Optionee's ISOs converted into Non-ISOs and no such conversion shall occur until and unless the Committee takes appropriate action. The Committee, with the consent of the Optionee, may also terminate any portion of any ISO that has not been exercised at the time of such conversion.

13. CONDITIONS UPON ISSUANCE OF SHARES

13.1 Shares shall not be issued pursuant to the exercise of any Option unless the exercise of such Option and the issuance and delivery of such shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, any applicable state securities law, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed or otherwise traded, and such compliance has been confirmed by counsel for the Company.

13.2 As a condition to the exercise of any Option, the Company may require the participant exercising the Option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such representations and warranties are required by any relevant provision of law.

13.3 The Company's inability to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares hereunder, shall relieve the Company of any liability with respect to the failure to issue or sell such shares.

14. USE OF PROCEEDS

Proceeds from the sale of Common Stock pursuant to the Options granted and exercised under the Plan shall constitute general funds of the Company and shall be used for general corporate purposes.

15. NOTICES

All notices, requests, demands and other communications required or permitted to be given under this Plan and the Options granted under this Plan shall be in writing and shall be either served personally on the party to whom notice is to be given (in which case notice shall be deemed to have been duly given on the date of such service), or mailed to the party to whom notice is to be given, by first class mail, registered or certified, return receipt requested, postage prepaid, and addressed to the party at his or its most recent known address, in which case such notice shall be deemed to have been duly given on the third (3rd) postal delivery day following the date of such mailing.

16. MISCELLANEOUS PROVISIONS

16.1 Optionees shall be under no obligation to exercise Options granted under this Plan.

16.2 Nothing contained in this Plan shall obligate the Company to retain an Optionee as an employee, officer, director or consultant for any period, nor shall this Plan interfere in any way with the right of the Company to reduce such Optionee's compensation.

16.3 The provisions of this Plan, each Option issued to an Optionee under the Plan and each Option Agreement shall be binding upon such Optionee, the Qualified Successor or Guardian of such Optionee, and the heirs, successors and assigns of such Optionee.

16.4 Where the context so requires, references herein to the singular shall include the plural, and vice versa, and references to a particular gender shall include either or both genders.

17. EFFECTIVE DATE OF PLAN AND AMENDMENTS

17.1 This Plan was adopted by the Board of Directors on February 27, 1998 and approved by the Shareholders of the Company on May 8, 1998.

DIRECT FOCUS, INC.

NONSTATUTORY STOCK OPTION AGREEMENT

Direct Focus, 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. This 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 Act 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 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 in accordance with the provisions of the Plan as follows:

(i) VESTING PERIOD OF OPTION. This Option shall vest 1/3 each year from grant date.

(ii) EXERCISABLE PERIOD. This Option may not be exercised more than 5 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 is only exercisable during their employment/term with the Company.

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 over 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: _____

DIRECT FOCUS, INC.

By

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)

DIRECT FOCUS, INC.

INCENTIVE STOCK OPTION AGREEMENT

Direct Focus, 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. This 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 Act 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 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 in accordance with the provisions of the Plan as follows:

(i) VESTING PERIOD OF OPTION. This Option shall vest 1/3 each year from grant date.

(ii) EXERCISABLE PERIOD. This Option may not be exercised more than 5 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 is only exercisable during their employment/term with the Company.

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 over 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: ----------

DIRECT FOCUS, INC.

By ----------

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)

LEASE AGREEMENT

PARTIES

The parties to this Lease (herein "Lease") are CHRISTENSEN GROUP, INC. herein "Lessor," and BOW-FLEX OF AMERICA, INC., herein "Lessee."

RECITALS

The parties by this Agreement desire to provide for the Lease by Lessee from Lessor of manufacturing space in the building described below on a "triple net" basis.

AGREEMENT

Lessor and Lessee agree as follows:

ARTICLE I

PREMISES AND TERM

1.1 PREMISES: Lessor, in consideration of rents hereinafter reserved and of the agreements of Lessee herein to be kept, performed and fulfilled, leases to Lessee the following described premises located in the OGDEN BUSINESS PARK, hereinafter known as "Park," City of Vancouver, Clark County, Washington bounded and described as follows:

> A portion of Building No. 1, known as 2200 Northeast 65th Avenue, Vancouver, Washington 98661, consisting of approximately 17,325 square feet as represented by the area outlined in Red on the attached Exhibit A, attached hereto and made a part hereof, together with the right of ingress and egress thereto across those portions of the Park designated from time to time as streets and roadways.

The aforesaid property shall herein be referred to as the "Premises"

1.2 COMMON AREAS. It is understood that the Premises constitute a portion of a multiple occupancy area of warehouse and office buildings (herein the "Complex"). During the term hereof and subject to the covenants, terms and conditions hereof, Lessee, and its agents, employees, customers, invitees, and licensees, shall have the nonexclusive right to use, in common with Lessor and the other lessees of space in the Complex, and their agents, employees, customers, invitees, and licensees, all automobile and truck parking

areas, driveways, entrances and exits thereto, pedestrian sidewalks and ramps, landscaped areas and other facilities now or hereafter furnished by Lessor in or near the Complex, for the general use, in common, of the Lessor and the lessees of space in the Complex and their agents, employees, customers, invitees, and licensees (herein "Common Areas").

1.3 LIGHT AND AIR. This Lease does not grant any rights of access to light and air over property.

1.4 TERM. The term of this Lease shall commence on May 1, 1992 and end on April 30, 1997 unless earlier terminated hereunder.

If this Lease is executed before the Premises becomes vacant or otherwise available and ready for occupancy, Lessor shall not be deemed to be in default hereunder, and Lessee agrees to accept possession of the Premises at such time as Lessor is able to tender the same, which date shall thenceforth be deemed the commencement date as to such space; and Lessor hereby waives payment of rent for the Premises covering any period prior to the tendering of possession to Lessee hereunder.

For purposes of this Lease, the word "term" shall mean and include the original term of this Lease, as provided herein, and any extensions thereof, unless the context otherwise requires.

ARTICLE II

RENT, TAXES AND CHARGES

2.1 RENT AND LATE CHARGES. During the term hereof, Lessee shall pay to Lessor, without deduction or offset by Lessee, rent for the Premises in the sum of FOUR THOUSAND FOUR HUNDRED FORTY-TWO AND 25/100 DOLLARS ($4,442.25) PLUS BASE YEAR ESTIMATED TRIPLE NET CHARGES IN THE SUM OF FIVE HUNDRED TWENTY AND NO/100 DOLLARS ($520.00) FOR A TOTAL PAYMENT IN THE SUM OF FOUR THOUSAND NINE HUNDRED SIXTY-TWO AND 25/100 DOLLARS ($4,962.25) per month beginning May 1, 1992 through April 30, 1993. The rents shall be payable monthly in advance on the first day of each and every calendar month during the term hereof, commencing on the first day of the first calendar month following the commencement of the lease term. Any rental payment for any fractional month during the term hereof shall be prorated and payable on the next rent payment date. All rent payments more than ten (10) days past due shall bear a late charge of ten percent (10%) of the amount due plus Five Dollars ($5.00) per day from the tenth day following the date such payment became due until the entire amount and late charges are paid in full.

In conjunction with monthly rent payments, Lessee shall each month pay a sum representing Lessee's proportionate share of real property taxes, insurance and common area expenses for the Premises. Such amount shall annually be estimated by Lessor in good faith to reflect actual or anticipated costs. Upon termination of this Lease or at periodic intervals during the term hereof, Lessor shall compute its actual costs for such expenses during such period. Any overpayment by Lessee shall be refunded or credited to Lessee at Lessee's option, and any deficiency shall be paid by Lessee within 15 days after receipt of Lessor's statement. Lessor's records of expenses for taxes, insurance and common area expenses may be inspected by Lessee at reasonable times and intervals. At any one year the charges for common area expenses excluding taxes and insurance shall not exceed more than six percent of previous year charges for common area excluding base year.

2.2 RENT ADJUSTMENT. The rent to be paid by Lessee to Lessor during the term hereof, or any extended or renewed term, shall be adjusted on September 1, 1993, (the end of the base year) and automatically without notice on September 1 of each year thereafter during the term hereof and during any extended or renewed term hereof, which date is sometimes referred to herein as the adjustment date. The intervals between adjustment dates are sometimes referred to herein as adjustment intervals. On each adjustment date, the rent shall be adjusted as provided below in this paragraph provided, however, that the monthly rent as adjusted, shall not be less than the sum set forth in Paragraph 2 hereof. The rental adjustment shall be limited to a six percent maximum annual increase including common area charges after the base year. During each adjustment interval, rent shall be paid at the adjusted rate from the preceding adjustment date until the next adjustment date or until the sooner expiration of the term hereof, or as the same may be extended.

Such adjustments shall be made so that the rent payable hereunder each month during the next adjustment interval shall bear the same relationship to the sum set forth in Paragraph 2 hereof as the Consumer Price Index, U. S. City Average, of the Bureau of Labor Statistics of the U. S. Department of Labor (U.S. Index of All Items for All Urban Consumers - 1982-84 equals 100), sometimes referred to herein as the Index. If publication of said Index is discontinued or if said Index or the base thereof is changed, then there shall be used in lieu thereof such Index as may be adopted by agreement of the parties hereto.

2.3 SECURITY DEPOSIT. As partial consideration for the execution of this Lease, the Lessee has this day paid the Lessor the sum of ONE THOUSAND NINE HUNDRED TWENTY-THREE AND 50/100 DOLLARS ($1,923.50) (herein "Deposit"), the receipt of which is hereby acknowledged. The Deposit shall be held by Lessor, without obligation of Lessor for interest, as security for the performance of Lessee's covenants and obligations hereunder; however, it is expressly understood and agreed that such Deposit is not an advance rental deposit or a measure of Lessor's damages in case of Lessee's default. Upon the occurrence of any event of default by Lessee, Lessor may, at its option and without prejudice to any other right

or remedy hereunder or at law or equity, use such funds to the extent necessary to make good any arrears of rent or other payment due Lessor hereunder, and any other damage, injury, expense or liability caused by such event of default; and Lessee shall pay to Lessor on demand the amount so applied in order to restore the Deposit to its original amount. At the expiration or termination hereof, Lessor shall account for the Deposit and, if Lessee is not in default hereunder, return the entire remaining balance of such Deposit to Lessee.

2.4 PROPORTIONATE SHARE. Lessee's proportionate share of real property taxes shall mean that percentage of the total assessment affecting the Premises which is the same as the percentage which the rentable area of the Premises bears to the total rentable area of all buildings covered by the tax statement. Lessee's proportionate share of insurance and common area expenses for the Building shall be computed by dividing the rentable area of the Premises by the total rentable area of the Building. If in Lessor's reasonable judgment either of these methods of allocation results in an inappropriate allocation to Lessee, Lessor shall select some other reasonable method of determining Lessee's proportionate share.

2.5 REAL PROPERTY TAXES. During the term hereof, Lessor shall pay and discharge all real property taxes, assessments, and charges lawfully imposed by any governmental unit on the Complex, or any taxes imposed in lieu thereof (herein "Real Property Taxes"), before the same become delinquent. Lessor may elect to let any such Real Property Taxes to go to bond in accordance with applicable law. If at any time in the future (there being no such charges or taxes at present) there shall be levied on Lessor a capital levy, tax, franchise or excise tax, assessment, levy or charge measured by or based, in whole or in part, upon the rentals to be paid hereunder, then all such taxes, assessments, levies or charges or the part thereof so measured or based, shall be included in the term Real Property Taxes.

As provided in paragraph 2.1 of this Lease, Lessee shall pay to Lessor as additional rent, Lessee's Proportionate Share of the Real Property Taxes paid by Lessor. Real Property Taxes shall be pro-rated during the first and last year of the Lease based on the period for which the subject Real Property Taxes are assessed.

Lessor shall, at the request of lessees of fifty percent (50%) of the leasable space in the subject tax lot, in Lessor's and Lessee's name, contest or review in legal proceedings or in such manner as it deems suitable any Real Property Tax, the cost of which shall be shared by all directly affected Lessees in proportion to the amount of space leased. Lessor may pay under protest any such contested tax to the appropriate public authority. Lessee will join and assist Lessor in any contest or protest of Real Property Taxes provided for herein at the request of Lessor.

Lessor may, at its option and expense, endeavor to obtain a lowering of the assessed valuation of the Complex, or any part thereof, and Lessee agrees to cooperate and

join in such endeavor.

2.6 LESSEE'S TAXES. During the term hereof, Lessee shall pay and discharge all taxes, assessments, impositions, and charges imposed by any governmental unit on Lessee's leasehold interest hereunder, on Lessee's personalty, or on Lessee's use or occupancy of the Premises.

2.7 COMMON AREAS EXPENSES. During the term hereof, Lessor shall repair, maintain and keep the Common Areas throughout the Complex in good order and condition. Lessee shall pay to Lessor as additional rental as provided in paragraph 2.1 of this Lease, Lessee's Proportionate Share of the expense of such repair, maintenance, and upkeep during each calendar year, or portion thereof, during the term of this Lease.

2.8 UTILITIES. During the term hereof, Lessor shall provide all connections to the Premises for water, sewer, electricity and telephone service. During the term hereof, Lessee shall procure and pay for garbage collection services, janitorial services and all utilities except water used or consumed on the Premises and all charges for maintenance associated therewith.

Water shall be furnished by the Lessor. Notwithstanding the foregoing, if Lessee's use of the Leased Premises shall require water in excess of that usually supplied for use of the Leased Premises as warehouse area, Lessee shall first procure the consent of Lessor, which consent Lessor may withhold, for such altered use. If Lessor consents to Lessee's proposed use, Lessee must either (1) cause a separate water meter or meters to be installed for the Leased Premises, so as to measure the amount of water consumed thereon, and the cost of any such meter and of installation, maintenance and repair thereof shall be paid for by Lessee and Lessee shall pay promptly all charges for water usage assessed on account of such meter; or (2) Lessor may charge Lessee, as additional rent, an amount calculated by estimating on a monthly basis Lessee's excess water consumption over the average rate of water consumption for the Building exclusive of the Leased Premises. In no event shall Lessor be liable for an interruption or failure in the supply of any service or utilities to the Premises, whether or not being furnished by Lessor.

ARTICLE III

GENERAL COVENANTS

3.1 USE. Lessee shall use the Premises solely for the purposes of manufacturing, marketing and distribution. Lessee shall not use, or permit or suffer the use of, the Premises for any other business or purpose without the consent of Lessor.

Lessee shall not store materials or equipment nor park vehicles (other than vehicles used for daily transportation) outside of the leased premises without the prior written consent of Lessor. If Lessee does so, Lessee shall be considered to have abandoned such property and Lessor may, at its option and without prejudice to any of Lessor's other rights or remedies hereunder or at law or equity, remove or retain the property, whereupon all rights of the Lessee with respect to it shall cease. If Lessor removes and/or stores the property in public storage for the Lessee's account, the Lessee shall be liable to the Lessor for, and shall pay to Lessor forthwith on demand, the cost of removal and storage, with interest at ten percent (10%) per annum on all such expenses from the date of expenditure by the Lessor.

Lessee shall not receive, store, or otherwise handle anything which is explosive or highly inflammable in or from the Premises. No auction, fire or bankruptcy sales may be conducted in or from the Premises without the previous written consent of Lessor.

Lessee shall not use, or permit or suffer in the Premises anything that will increase the rate of fire insurance thereon or prevent the procuring of fire insurance, or prevent the taking advantage of any ruling of the State Insurance Rating Bureau, or its successors, which would allow the Lessor to obtain reduced rates for long term insurance policies; or maintain anything that may be dangerous to life or limb; or overload the floors; or permit any objectionable noise or odor to escape or to be emitted from the Premises; or permit anything to be done upon the Premises in any way tending to create a safety hazard or nuisance or to disturb any other lessees of Lessor in the Complex; or to use or permit the use of the Premises for lodging or sleeping purposes, or for any immoral or illegal purposes.

3.2 WASTE AND UNLAWFUL USE. Lessee shall not make, permit or suffer any strip or waste, or damage or defacement, or unlawful, improper or offensive use of the Premises or of the Complex.

3.3 COMPLIANCE WITH LAWS. Lessee, at Lessee's expense, shall at all times comply with all laws, ordinances, rules and regulations whether now or hereafter made by any governmental authority and pertaining to the use of the Premises, including obtaining all business licenses and permits, and shall indemnify and save harmless Lessor against all costs, attorney's fees, expenses, actions, suits, claims and damages arising by reason of the nonobservance or nonperformance of said laws, ordinances, rules and regulations or of this covenant.

Lessee shall have the right to contest the validity of or seek variance from or review of said legal requirements, or any of them, by administrative or court proceedings or in such other manner as Lessee deems suitable, and, if able, may have said legal requirements, or any of them, cancelled, removed or revoked without actual compliance with the same. If such actions or proceedings are instituted, they shall be conducted promptly at the expense of Lessee and free of expense to Lessor.

3.4 MAINTENANCE AND REPAIR. Lessee, at Lessee's expense, shall at all times maintain the Premises in a strictly clean, safe, and insurable condition.

Lessor shall repair and maintain the roof, gutters, downspouts, exterior walls, building structure, foundation, exterior paved areas, and curbs of the Premises in good condition unless repairs are required due to damage caused by Lessee's negligent acts, or omission to act. Except for such obligations of Lessor, Lessee shall keep the Premises neatly maintained and in good order and repair. Lessee's responsibility shall include maintenance and repair of the electrical system, plumbing, drainpipes to sewers, air-conditioning and heating systems, overhead and personnel doors, and the replacement of all broken or cracked glass with glass of the same quality. Lessee shall refrain from any discharge that will damage the septic tank or sewers serving the Premises. If Lessor elects to make repairs necessitated by Lessee's negligent acts or omission to act, Lessor may add the cost of such repairs to the rent which shall become due upon billing by Lessor therefor.

Lessee shall keep the sidewalks abutting the Premises or the separate entrance free and clear of snow, ice, debris, and obstructions of every kind. Lessee shall keep the roof and drains leading from the roof free and clear of snow, ice, debris, or other obstructions.

Notwithstanding the foregoing, the expense of the repair and maintenance of any party wall shall be shared equally by Lessee and the lessee in the adjacent premises; provided, however, that Lessee shall not damage any party wall or disturb the integrity and support provided by any party wall and shall, at its sole expense, promptly repair any damage or injury to any party wall caused by Lessee or its agents, employees, customers, invitees, or licensees.

3.5 Omitted.

3.6 ALTERATIONS BY LESSEE. Lessee shall not remodel, replace, alter, or make any addition to the Premises within or without, unless Lessor shall consent prior thereto in writing. Any such activities shall be strictly in accordance with the plans, specifications, and elevations approved in writing by Lessor in advance thereof and shall be completed with all reasonable dispatch. Notwithstanding the foregoing, Lessee may install or erect such

partitions, shelves, bins, machinery, and trade fixtures as may be necessary or appropriate to any permitted uses; provided, however, that such installation or erection shall not alter the basic character of the Premises or overload the floor or otherwise damage the Premises.

Lessee warrants that any construction, remodeling, replacement, alteration, addition, erection or installation in, on or to the Premises, whether done with or without Lessor's consent, shall be done in a good and workmanlike manner with new materials and shall be done in complete compliance with all other applicable covenants, terms and conditions hereof, that all workmanship and materials shall be free from defects, and that all fixtures erected or installed by Lessee shall be new or completely reconditioned.

All construction, replacements, remodeling, alterations, additions, erections and installations done by Lessee, or done by Lessor on Lessee's behalf hereunder, and all fixtures of whatever type and kind, except moveable trade fixtures, shall become and remain part of the Premises and the property of the Lessor upon installation thereof and shall be treated as such for all purposes hereof, excepting risk of loss and insurance as provided in Section 5.3, and shall be surrendered to Lessor as part of the Premises in accordance with Section 3.13.

3.7 SIGNS AND AWNINGS. Lessee shall neither place nor suffer to be placed or maintained on the roof or on any exterior door, wall or window of the Premises any sign, decoration, awning or canopy, or advertising matter or other thing of any kind, nor place or maintain any decoration, lettering or advertising matter on the glass of any window or door of the demised premises without first obtaining Lessor's written approval and consent. Lessee shall install and remove such sign, awning, canopy, decoration, lettering, advertising matter or other things as may be approved in such a manner as to avoid injury to or defacement of the Premises and shall maintain the same in good condition and repair at all times.

3.8 OVERLOADING OF FLOORS. The Lessee will not overload the floors of the Leased Premises in such a way as to cause any undue or serious stress or strain upon the Building or any part thereof, and Lessor shall have the right, at any time, to call upon any competent engineer or architect whom the Lessor may choose, to decide whether or not the floors of the Leased Premises, or any part thereof, are being overloaded so as to cause any undue or serious stress or strain on the Building, or any part thereof. The decision of said engineer or architect shall be final and binding upon the Lessee and in the event that the engineer or architect shall decide that in his opinion the stress or strain is such as to endanger or injure the Building or any part thereof, the Lessee agrees immediately to relieve the stress or strain either by reinforcing the Building or by lightening the load which causes such stress or strain in a manner satisfactory to the Lessor.

3.9 RULES AND REGULATIONS. Lessor, for the proper maintenance of the Premises, Common Areas, and Complex, the rendering of good service thereon, and the providing of safety, order and cleanliness thereof, may make and enforce such rules and regulations as Lessor may reasonably deem necessary or appropriate for such purposes but not in enlargement of or inconsistent with the covenants, terms and conditions hereof. Lessee's failure to keep and observe said rules and regulations shall constitute a breach hereof in the manner as if the same were contained herein as covenants. Lessor reserves the right from time to time to revoke, alter, amend, supplement and add to said rules and regulations. Notice of such revocations, alterations, amendments, supplements and additions, if any, shall be given to Lessee, and Lessee shall upon receipt thereof immediately comply therewith.

3.10 ADMITTANCE BY PASS-KEY. Lessor shall not be liable for the consequences of admitting to the Premises by pass-key the Lessee or any of Lessee's agents, or refusing to admit to the Premises any persons claiming the right of admittance, including the Lessee or any of Lessee's agents.

3.11 LESSOR'S CONTROL OF COMMON AREAS. The Common Areas shall at all times be subject to the exclusive control and management of Lessor. Lessor shall have the right to change the area, level, location and arrangement of such facilities and areas; to enforce parking regulations; to close temporarily all or any portion of such areas or facilities; and to do and perform such other acts in and to said areas and facilities as, in the use of good business judgment, the Lessor shall determine to be advisable with a view to the improvement of the convenience and use thereof by the lessees of the Complex, and their agents, employees, customers, invitees, and licensee.

3.12 ALTERATIONS BY LESSOR. Lessor hereby reserves the right, from time to time, to make alterations to, to make additions to, to build additional stories on, the building in which the Premises are contained, provided that such construction shall not materially interfere with the physical use to be made of the Premises by Lessee. Lessor also reserves the right to construct other buildings or improvements in the Complex from time to time and to make alterations to, to make additions to, to build additional stories on, and to build adjoining, any existing or future building in the Complex, and to enlarge the area of the Complex itself.

3.13 INSPECTION AND RIGHT OF ENTRY. At all reasonable times, Lessor and its agents shall have the right to enter the Premises and any part thereof and to examine the same and its contents for the following purposes: (1) to determine Lessee's compliance with the covenants, terms and conditions hereof; (2) to fulfill Lessor's obligations hereunder; (3) to exhibit the Premises to others for purposes of leasing during the last six months of the term hereof; (4) to gain entry to adjoining premises and roof areas for repairs and otherwise;

and (5) to exercise any right of Lessor hereunder reasonably requiring such entry or examination.

If Lessee shall not be personally present to open and permit an entry into said Premises, at any time, when for any reason an entry therein shall be necessary or permissible, Lessor or its agents may enter the same by a master key, or may forcibly enter the same, without rendering Lessor or such agents liable therefor, and without in any manner affecting the obligations and covenants of this Lease.

During the six months prior to the expiration of the term of this Lease or any renewal term, Lessor may place upon the Premises the usual "for rent" notices advertising the availability of the Premises for lease which notices Lessee shall permit to remain thereon without molestation.

3.14 QUIET ENJOYMENT. Lessor covenants and agrees with Lessee that, conditioned upon Lessee's paying the rent herein reserved and faithfully performing and fulfilling all the covenants, agreements, conditions and provisions herein to be kept, observed or performed by Lessee, Lessee shall and may at all times during the term hereby granted peaceably, quietly and exclusively have, hold and enjoy the Premises, without hindrance or molestation for Lessor or anyone claiming by, through or under Lessor.

3.15 NO WARRANTY OF FITNESS FOR USE. Lessee and not Lessor is responsible for determining the fitness of the Leased Premises for the use to which Lessee intends to put them. In particular, Lessee hereby acknowledges that there is no noise control in the Building containing the Leased Premises and that the internal security is minimal, since persons other than Lessee will have access to the Building and the division of the Leased Premises from other portions of the Building is by means of materials not resistant to fire, water or other such elements and not secure from entry by persons other than Lessee.

3.16 ACCEPTANCE AND SURRENDER. By entry hereunder, Lessee acknowledges that it has examined the Leased Premises and accepts the same as being in good, sanitary order, condition and repair.

Immediately upon expiration or termination of this Lease, Lessee shall peaceably deliver up to Lessor possession of the Premises hereby demised, together with any and all improvements and fixtures, other than moveable trade fixtures, thereon, in good repair, order and condition, and broom clean, subject to reasonable wear and tear and damage by fire or casualty as provided in Section 5.3, and shall surrender all keys for the Premises to Lessor at the place then fixed for the payment of rent and shall inform Lessor of all combinations on locks, safes and vaults, if any, in the Premises.

Lessor may, at its option exercised within ten (10) days after termination or expiration of this Lease, require Lessee expeditiously to remove any or all improvements and fixtures placed on the Premises by Lessee and which would otherwise remain the property of the Lessor and to repair any physical damage resulting from such removal, or Lessor may elect to do so itself and charge the cost to the Lessee with interest at ten percent (10%) per annum from the date of expenditure, which shall be payable by Lessee forthwith on demand.

Prior to the termination of expiration of this Lease, Lessee shall remove from the Premises all moveable trade fixtures of Lessee and all personal property thereon. If Lessee fails to do so, Lessee shall be considered to have abandoned such property and Lessor may, at its option and without prejudice to any of Lessor's other rights or remedies hereunder or at law or equity, remove or retain the property, whereupon all rights of the Lessee with respect to it shall cease. If Lessor removes and/or stores the property in public storage for the Lessee's account, the Lessee shall be liable to the Lessor for, and shall pay to Lessor forthwith on demand, the cost of removal and storage, with interest at ten percent (10%) per annum on all such expenses from the date of expenditure by the Lessor.

3.17 RIGHT TO RELOCATE. Lessor reserves the right to relocate Lessee to an equal or better location within the Business Park at Lessor's expense, such expenses to include reimbursements to Lessee for Lessee's cost for changing address.

3.18 HOLDING OVER. If Lessee shall, with the written consent of Lessor, remain in possession of the demised Premises after the expiration of said term and without executing any extension or renewal of this Lease, Lessee shall be deemed to occupy said Premises as a tenant from month to month at the monthly rental herein reserved, upon and subject to all other covenants, conditions and provisions herein, as amended pursuant hereto. No such holding over shall be deemed to vest any rights in Lessee to a renewal of this Lease unless specifically agreed to in writing by Lessor.

ARTICLE IV

ENCUMBRANCES AND ASSIGNMENTS

4.1 ENCUMBRANCES BY LESSEE. Lessee shall keep the Premises and Lessee's leasehold interest therein free and clear of, and shall indemnify and hold harmless Lessor against, all liens, charges, mortgages, and encumbrances which may result from any act or neglect of Lessee, including but not limited to liens for utility charges and mechanics and materialman liens, and all expenses in connection therewith, including attorneys' fees; it being expressly agreed that the Lessee or any transferee, assignee, delegate or sublessee shall have no power or authority to create any such lien, charge, mortgage or encumbrance except with the prior written approval of Lessor.

4.2 SUBORDINATION. Lessor shall have the absolute right to sell, transfer, assign and encumber its interest in this Lease and its estate in the Premises, or any part thereof, and to delegate all or any portion of its obligations hereunder, from time to time as it sees fit, without obtaining any approval from Lessee.

This Lease shall be subject and subordinate to any encumbrance and to any extensions or renewals thereof which are now, or may hereafter be placed by Lessor, upon the whole or any part of the Complex and which includes the Premises. From time to time the Lessee shall execute and deliver any instrument which may be reasonably required by the Lessor in confirmation of such subordination promptly upon the Lessor's request, and without expense to the Lessor; and if the Lessee shall fail at any time to execute and deliver any such subordination, the Lessor, in addition to any other remedy available to it in consequence thereof, may execute and deliver such instrument as the attorney-in-fact of the Lessee, and the Lessee hereby appoints the Lessor as attorney-in-fact for such purpose; provided, however, that so long as the Lessee is not in default in the payment of rent or in the performance of any of the covenants, terms and conditions of the Lease, Lessee's possession of the leased premises and the Lessee's rights and privileges under the Lease or any renewal thereof shall not be diminished or interfered with by the secured party under such encumbrance.

In the event that Lessor sells or assigns its interest or estate absolutely, Lessee shall be bound to the purchaser or assignee under all of the covenants, terms and conditions of this Lease for the balance of the term hereof remaining with the same force and effect as if such purchaser or assignee was the Lessor under the Lease and Lessee hereby attorns to such purchaser or assignee as its landlord, such attornment to be effective and self-operative without the execution of any further instrument on the part of either of the parties hereto immediately upon such purchaser or assignee succeeding to the interest or estate of Lessor.

In the event that Lessor assigns or encumbers its interest or estate for security purposes and such assignment or encumbrance is "foreclosed" for any reason and Lessor's interest or estate is sold as upon execution in the manner provided by law or Lessor's interest or estate is sold at public or private sale by the secured party, Lessee shall be bound to the purchaser at such sale under all of the covenants, terms and conditions of this Lease for the balance of such term hereof remaining with the same force and effect as if such purchaser was the Lessor under the Lease and Lessee hereby attorns to such purchaser as its landlord, such attornment to be effective and self-operative without the execution of any further instrument on the part of either of the parties hereto immediately upon such purchaser succeeding to the interest or estate of Lessor. If during the pendency of foreclosure proceedings or otherwise, there is appointed by the court a receiver for the property of which the lease Premises are a part, Lessee hereby attorns to the receiver as its landlord during the pendency of such foreclosure proceeding, such attornment to be effective and self-operative

without the execution of any further instrument on the part of either of the parties hereto immediately upon the appointment of the receiver and his qualification as such.

4.3 ASSIGNMENTS AND SUBLEASES. Lessee may not transfer or assign all or any portion of its estate or interest under this Lease, or delegate all or any portion of its obligations under this Lease, or sublet all or any portion of the Premises, without the prior written approval of Lessor, which approval shall not be unreasonably withheld. No transferee, assignee, delegate, or sublessee of this Lease may transfer, assign, delegate, or sublease except to an affiliated company and on the same terms and conditions as the Lessee hereunder may transfer, assign, delegate, or sublease. This prohibition against transferring, assigning, delegating, and subleasing shall be construed to include a prohibition against any transfer, assignment, delegation, or sublease by operation of law.

ARTICLE V

RISK OF LOSS, INDEMNITY, AND INSURANCE

5.1 LIMITATION OF LIABILITY. Lessor shall not be liable for any damage to property of Lessee or of others located on the Premises, nor for the loss of or damage to any property of Lessee or of others by theft or otherwise regardless of whether such loss or damage was caused or contributed to by the negligence of the Lessor. Lessor shall not be liable for any injury or damage to persons or property resulting from fire, explosion, or other casualty, falling plaster, steam, gas, electricity, water, rain or snow or leaks from any part of the Premises or Complex or from the pipes, appliances or plumbing works or from the roof, street or sub-surface or from any other place or by dampness or by any other cause of whatsoever nature. Lessor shall not be liable for any such damage caused by other lessees or persons in the Complex, caused by occupants of adjacent property, caused by members of the public, or caused by operations in construction of any private, public or quasi-public work. Lessor shall not be liable for any latent defect in the Premises or in the building of which they form a part. All property of Lessee or others kept or stored on the Premises shall be so kept or stored at the risk of Lessee and the others only and Lessee shall indemnify and hold Lessor harmless from any claims arising out of any loss or damage to the same.

5.2 INDEMNIFICATION AND LIABILITY INSURANCE. Lessee shall indemnify and save Lessor harmless from all claims and demands of any and every character that may be made, presented, or allowed against Lessor by reason or on account of any injuries or damage received or sustained from the date hereof by any person or property arising out of or related to any activity of Lessee on the Premises, or any condition of the Premises in the possession of or under the control of Lessee including but not limited to water leakage from the roof, walls, basement or other portion of the Leased Premises or the Building, or caused by gas, fire, oil, electricity or any cause whatsoever in, on or about the Leased Premises or the

Building or any part thereof, except for any such claim, loss or liability which may be caused or contributed to in whole or in part by Lessor's own negligence; and in the event that any suit or action for damages resulting therefrom shall be brought against Lessor by any person whomsoever, Lessee agrees at Lessee's own cost and expense to defend Lessor against any such suit or action and all appeals therefrom, to satisfy and discharge any judgment or decree that may be awarded against Lessor in any such proceeding, and to pay all costs, expenses and reasonable attorney's fees incurred or paid by Lessor in connection with such litigation including such costs, expenses and reasonable attorney's fees incurred on any appeal in such litigation.

Lessee shall, at its expense, procure and maintain public liability and property damage insurance against liability for injuries to persons and property with respect to the Premises, and the business operated by Lessee and by any licensees, concessionaires and sublessees of Lessee, with limits, as to injuries to the person (including death) of $500,000 as to one or more than one person in any one occurrence, and $250,000 for property damage for any one occurrence. Lessor may require Lessee to increase the aforesaid maximum limits of coverage to keep pace with the trend in insurance coverage during the term of this Lease and any extension thereof. The policy or policies shall name Lessor and any persons, firms or corporations designated by Lessor as additional insureds. Failure to obtain or maintain the above-described insurance shall constitute an event of default.

5.3 FIRE AND OTHER CASUALTY.

(a) DEFINITIONS. For purposes of this Section, the term "Alterations" shall mean and include all construction, replacements, remodeling, alterations, additions, erections, and installations done in, on or to the Premises by Lessee or on Lessee's behalf, as described in Section 3.5, including fixtures and trade fixtures, whether or not done with Lessor's consent as required by Section 3.5, unless the context otherwise requires.

For purposes of this Section, the term "Building" shall mean the building of which the "Premises" are a part exclusive of all Alterations, but including all repairs and replacements described in Section 3.4, unless the context otherwise requires.

(b) BUILDING.

(1) INSURANCE. Lessor shall procure and maintain insurance covering the subject Building in an amount not less than 90% (or such greater percentage as may be necessary to comply with the provisions of any clauses of the policy negating co-insurance) of the full replacement cost thereof as such term is defined in the Replacement Cost Endorsement to be attached thereto, insuring against the perils of Fire, Lightning, Vandalism and Malicious Mischief, extended by Special Extended Coverage Endorsement to insure against all other Risks of Direct Physical Loss. Such insurance shall be for the sole

benefit of Lessor and under its sole control. Lessee shall reimburse Lessor for Lessor's cost of maintaining such insurance as additional rental as provided in paragraph 2.1 of this Lease. Any payment to be made pursuant to this subsection with respect to the year in which this Lease commences or terminates shall bear the same ratio to the payment which would be required to be made for the full year as that part of such year covered by the term of this Lease bears to a full year.

(2) DAMAGE OF LESS THAN 50%. If the subject Building is less than 50% destroyed, as determined by Lessor, by fire or other casualty, the parties shall proceed as follows:

(A) If the damage is caused by a risk which would be covered by the required insurance policy, repairs shall be performed by and at the expense of the Lessor whether or not the damage occurred as the result of fault on the part of Lessee or the agents, invitees, licensees, concessionaires or lessees of Lessee, except that Lessee shall pay Lessor upon demand all applicable deductible amounts specified in any required insurance then in effect.

(B) If the damage occurred from a risk which would not be covered by Lessor's insurance, repairs shall be performed by and at the expense of the Lessor unless the damage was the result of the fault of Lessee or the agents, employees, customers, invitees, licensees, or sublessees of Lessee, in which case repairs shall be performed by and at the expense of Lessee.

(3) DAMAGE OF 50% OR MORE. If the subject Building is 50% or more destroyed, as determined by Lessor, by fire or other casualty, the parties shall proceed as follows:

(A) Lessor may elect to terminate the Lease as of the date of the damage or destruction by notice given to Lessee in writing not more than 60 days following the date of damage. In such event, Lessee shall be entitled to the reimbursement of any prepaid rent.

(B) If Lessor does not elect to terminate the Lease, the parties shall proceed as in the case of less than 50% destruction of the subject Building.

(4) ABATEMENT OF RENT. The rent herein reserved shall be abated in proportion to the extent of the Premises rendered untenantable, from the date damage occurs until repairs are substantially completed, except when damage occurs because of the fault of Lessee or the agents, employees, customers, invitees, licensees, or sublessees of Lessee, in which case there shall be no abatement of rent.

(5) MORTGAGE RESTRICTIONS. Notwithstanding anything herein to the contrary, in the event the holder of any indebtedness secured by a mortgage or deed of trust covering the Premises restricts or prohibits the use as contemplated hereunder of the proceeds of any insurance covering the subject Building, then the Lessor shall have the right to terminate this Lease by delivering written notice of termination to Tenant within fifteen (15) days after such restriction or prohibition is enforced by any such holder, whereupon all rights and obligations hereunder shall cease and terminate.

(c) ALTERATIONS. Lessee shall procure and maintain insurance covering all Alterations in an amount not less than 90% (or such greater percentage as may be necessary to comply with the provisions of any clause of the policy negating co-insurance) of the full replacement cost thereof as such term is defined in the Replacement Cost Endorsement to be attached thereto. Such insurance shall insure against the perils and be in the form, including endorsements, specified in subsection 5.3(b)(1). Such insurance shall be for the sole benefit of Lessee and under its sole control. All repairs to Alterations damaged by fire or other casualty shall be by and at the expense of Lessee.

(d) MANNER OF REPAIR. Repairs required by either party under this Section shall be accomplished with all reasonable dispatch and both parties shall cooperate with each other to effectuate repair and restoration. Neither party shall be liable or responsible for any delays in rebuilding or repairs due to strikes, riots, Acts of God, national emergency, acts of public enemy, governmental laws or regulations, inability to procure materials or labor or both, or any causes beyond its control.

5.4 WORKER'S COMPENSATION INSURANCE. Lessee, at its expense, shall procure, maintain and timely pay the premiums for such worker's compensation insurance as is or may be required by any applicable law in connection with the use or occupancy of the Premises by Lessee.

5.5 GENERAL INSURANCE PROVISIONS. As to all policies of insurance required hereunder to be procured and maintained by Lessee.

(a) Each policy shall be issued by a licensed and reputable insurance company satisfactory to and approved by Lessor, such approval not to be unreasonably withheld.

(b) Lessee, without prior demand, shall cause to be furnished to Lessor promptly upon issuance thereof, original or certified copies of each policy of insurance and all renewals thereof and copies of every receipt for premium paid therefor;

(c) Each insurance policy shall contain a promise by the insurer that it will not cancel the policy except upon thirty (30) days prior written notice to Lessor and any permitted mortgagee of the leased premises; and

5.6 WAIVER OF SUBROGATION. Each of the parties hereto hereby releases the other from any and all liability or responsibility to the releasing party or anyone claiming through or under such party by way of subrogation or otherwise for any injury or damage to person or property which is insured against by, or on behalf of, the releasing party, even if such injury or damage shall have been caused by the fault or negligence of the other party, or anyone for whom such party may be responsible.

ARTICLE VI

CONDEMNATION

6.1 TOTAL TAKING OF PREMISES. In the event that the entire Premises, or a substantial part thereof rendering the balance reasonably unusable for Lessee's purposes, shall be taken or condemned by any authority having the power of eminent domain or be sold in lieu thereof, then the entire estate and interest of Lessee in the Premises shall upon such taking or sale cease and determine and Lessee shall have no further rights or obligations hereunder.

6.2 PARTIAL TAKING OF PREMISES. In the event that an insubstantial part of the Premises shall be taken or condemned by any authority having the power of eminent domain or be sold in lieu thereof, then the estate and interest of Lessee in the part so taken or sold shall upon such taking or sale cease and determine; and the rent herein reserved for the Premises shall be reduced for and during the unexpired balance of Lessee's term hereunder, effective as of the date when, by reason of such taking or sale, Lessee shall lose the right to possession of the part so taken or sold, to a sum which shall bear the same ratio to the rent payable immediately before the taking or sale as the value of the Premises immediately after the taking or sale bears to the value of the Premises immediately before the taking or sale. Lessor shall restore the Premises with all reasonable dispatch to a condition comparable to their condition on the date of such taking or sale less the portion lost in such taking or sale. Such work shall be accomplished with new materials and shall be done in a good and workmanlike manner. Lessor shall not be liable or responsible for any delays in rebuilding or repairing due to strikes, riots, Acts of God, national emergency, acts of public enemy, governmental laws or regulations, inability to procure materials or labor or both, or any

causes beyond its control. Rent shall be abated in proportion to Lessee's dispossession during the period of repair.

6.3 COMPENSATION AND DAMAGES. In every case of taking or sale of the Premises, or any part thereof, the entire compensation, damages, or sales proceeds therefrom shall belong to the Lessor except that Lessee shall be entitled to receive any award for moving expenses.

ARTICLE VII

DEFEASANCE

7.1 EVENTS OF DEFAULT. Events of default include, but are not limited to, the following:

(a) Failure of Lessee to pay the rent herein (including payments specified as rent) reserved, or any part thereof, within ten (10) days after the same becomes due;

(b) Failure of Lessee to observe or perform any other covenant, term, or condition hereof to be observed or performed by Lessee within twenty (20) days of the receipt of written notice of such failure and diligently to prosecute performance to completion if the failure cannot reasonably be cured within the twenty (20) day period;

(c) Insolvency of Lessee or any guarantor of Lessee's obligations hereunder (herein "Guarantor"); an assignment by Lessee or Guarantor for the benefit of creditors; the filing by Lessee or Guarantor of a voluntary petition in bankruptcy; an adjudication that Lessee or Guarantor is bankrupt or the appointment of a receiver of the properties of Lessee or Guarantor; the filing of an involuntary petition of bankruptcy against Lessee or Guarantor and failure of Lessee or Guarantor to secure a dismissal of the petition within sixty (60) days after filing; attachment of or the levying of execution on the leasehold interest and failure to the Lessee or Guarantor to secure discharge of the attachment of release of the levy of execution within thirty (30) days; or

(d) Lessee's abandonment of the Premises or any part thereof; or

(e) Falsification by Lessee of any document required or permitted to be furnished to Lessor by Lessee hereunder.

7.2 REMEDIES UPON DEFAULT:

(a) INJUNCTION. In the event of any default by Lessee or any person claiming under, by, or through Lessee, or any threatened or attempted default by such person, Lessor shall be entitled to an injunction against such person enjoining such default. Nothing herein contained precludes Lessor from pursuing any other remedies available hereunder or at law or equity to Lessor for such breach, including eviction and the recovery of damages.

(b) TERMINATION. In the event of a default by Lessee, Lessor may, during the continuance of such default and at its option, terminate this Lease by notice in writing to Lessee. No act of Lessor or its agents shall be deemed a termination of this Lease and no agreement of Lessor to terminate this Lease shall be valid, effective, or enforceable unless in writing and signed by Lessor.

(c) RE-ENTRY AFTER TERMINATION. Upon termination of this Lease, Lessor shall have the right to re-enter the Premises.

(d) DAMAGES. Lessor shall be entitled to recover damages from Lessee for any default by Lessee, without prejudice to any of Lessor's other rights or remedies hereunder or at law or equity, including Lessor's right to terminate this Lease. If this Lease is terminated for any reason, Lessee's liability to Lessor for damages shall survive such termination. In the event of termination on default, Lessor shall be entitled to recover immediately without waiting until the due date of any future rent or until the date fixed for expiration of the lease term, the following amounts as damages:

(1) Any excess of the value of all of Lessee's obligations under this Lease, including the obligation to pay rent, from the date of default until the end of the term, over the reasonable rental value of the Premises for the same period figured as of the date of default, the net result to be discounted to the date of default at the rate of five percent (5%) per annum.

(2) The loss of reasonable rental value from the date of default until a new Lessee has been, or with the exercise of reasonable efforts could have been, secured; and

(3) The reasonable costs of re-entry and re-letting including without limitation the cost of any clean-up, refurbishing, removal of Lessee's property and fixtures, and any other expense occasioned by Lessee's failure to quit the Premises upon termination or to leave them in the required condition, and any remodeling costs, broker commissions and advertising costs.

(e) RE-LETTING FOLLOWING TERMINATION. Following termination on default and re-entry, Lessor shall use reasonable diligence in re-letting the Premises to a new tenant. Lessor shall in no event be required, however, to alter substantially any of the covenants, terms, and conditions of this Lease, or to re-let to any tenant whom it reasonably considers unqualified, or at a rental which is less than the fair rental value of the Premises.

(f) RE-LETTING WITHOUT TERMINATION. In the event of any default during the term hereof, and during the continuance of such default, and upon ten (10) days prior written notice to Lessee, Lessor may, from time to time, at its option and without prejudice to any of Lessor's other rights or remedies hereunder, including its right to terminate, and without thereby terminating this Lease, relet for the account of the Lessee the demised premises or any part thereof to any person, firm or corporation for all or any portion of the remainder of said term, or any extension thereof, with the right in Lessor to put the Premises in reasonably good order and condition and to make alterations and repairs reasonably required for said reletting at Lessee's expense, together with ten percent (10%) interest thereon from the date of expenditure by Lessor. The Lessor shall receive such rentals for the Premises applying them, first, to the payment of the expense of recovering possession of the demised premises and the rerenting thereof, together with such expense as the Lessor may have incurred in putting the Premises in good condition or in making alterations and repairs, and then to the payment of the rent due by these presents and to the fulfillment of the covenants of the Lessee; the balance, if any, to be paid over to the Lessee. If such rentals received from reletting during any month be less than that to be paid during that month by Lessee hereunder, Lessee shall pay any such deficiency to Lessor forthwith upon demand, together with ten percent (10%) interest thereon from the date of demand until paid. Such deficiency shall be calculated and paid monthly. No such reentry or taking possession of the Premises by Lessor shall be construed as an election on its part to terminate this Lease unless a written notice of such intention be given to Lessee. Notwithstanding any such reletting without termination, Lessor may at any time thereafter elect to terminate this Lease for such previous breach.

(g) REMEDIES CUMULATIVE AND NONEXCLUSIVE. The foregoing rights and remedies shall be in addition to and not exclude any other rights or remedies available to Lessor hereunder or at law or equity. Lessor's election to pursue any right or remedy hereunder or at law or equity for any breach, or any attempted or threatened breach, of this Lease, shall not preclude it from pursuing at the same time or any other time any other right or remedy hereunder or at law or equity for the same breach or any right or remedy hereunder or at law or equity for any other breach.

7.3 LESSOR'S DEFAULT PROVISION. Before Lessee may declare a default by Lessor, Lessee must give Lessor written notice thereof and twenty (20) days in which to cure the alleged default.

ARTICLE VIII

MISCELLANEOUS

8.1 LESSOR'S PERFORMANCE OF LESSEE'S OBLIGATIONS. If Lessee shall default in the observance or performance of any covenant, term, or condition contained herein to be observed or performed by Lessee, then Lessor may, at its option and without prejudice to any of Lessor's rights or remedies hereunder or at law or equity for such default, perform the same for the account of Lessee and Lessee shall reimburse Lessor for all costs and expenses incurred by Lessor in such performance forthwith upon demand, together with interest at ten percent (10%) per annum from date of incurrence of expense by Lessor until the entire amount, principal and interest, is paid.

8.2 NEGATION OF WAIVER. Any waiver by either party of any breach by the other party of any provision of this Lease shall not operate or be construed as waiver by the waiving party of any breach of any other provision or of a subsequent breach of the same provision by the breaching party.

8.3 NEGATION OF LESSOR'S REPRESENTATIONS. Lessor makes no warranty or representation with respect to the condition of the Premises, the same being leased "as is" and "where is," except as expressly set forth herein.

8.4 SUCCESSOR INTERESTS. This Lease is binding upon and shall inure to the benefit of the heirs, executors, administrators, successors and assigns of Lessor and Lessee; provided, however, that Lessee may not assign its rights nor delegate its obligations hereunder except as expressly provided herein.

8.5 JOINT AND SEVERAL LIABILITY. If more than one person constitutes the Lessee, all such persons shall be jointly and severally liable for the observance and performance of all of the covenants, terms, and conditions hereof to be observed and performed by Lessee, including the covenant to pay rent.

8.6 NOTICES AND PAYMENTS. Any notice required or permitted by the terms of this Lease shall be sufficient if in writing and delivered personally or deposited in the U. S. Certified Mail with postage fully prepaid, return receipt requested, and if addressed to Lessor, then if addressed at QUANTUM COMMERCIAL MANAGEMENT, INC. 1104 Main Street, Suite 100, Vancouver, Washington 98660, (206) 699-2333, and if addressed to Lessee, then if addressed at 2200 Northeast 65th Avenue, Vancouver, Washington 98661. Any such notice shall be deemed conclusively received by the addressee on the third business day after posting. Any payment required or permitted by the terms of this Lease shall be deemed sufficiently given if delivered or mailed in the manner provided in this Section for the giving

of notices. Any party may change the address to which notices and payments may be sent by giving written notice to the other party in the manner provided in this Section.

8.7 ENTIRE AGREEMENT. This Lease constitutes the entire, final, and complete agreement between the parties relevant to the subject matter hereof, and it supersedes and replaces all written and oral agreements relevant to the subject matter hereof heretofore made or existing by and between the parties or their representatives, and there shall be no modification hereto unless it is in written form and signed by the parties.

8.8 NUMBER, GENDER AND CAPTIONS. Unless the context otherwise requires, as used herein, the singular shall include the plural, the plural shall include the singular, the masculine and neuter shall each include the masculine, feminine, and neuter, and generally all grammatical changes shall be made, assumed, and implied to make the provisions hereof apply equally to one or more individuals and/or Firms. All captions used herein are intended solely for convenience of reference and shall in no way have the effect of defining, diminishing, or enlarging the rights or obligations of the parties or affecting the construction or interpretation of any part of this contract.

8.9 COUNTERPARTS. This Lease may be executed in one or more counterparts all of which shall be considered one and the same Lease and shall be effective when one or more counterparts have been signed and delivered by each of the parties.

8.10 SEVERABILITY. The invalidity or unenforceability of any provision of this Agreement shall in no way affect the validity or enforceability of any other provision hereof.

8.11 GOVERNING LAW. Validity, interpretation, performance, remedies, and all other issues arising under or out of this Agreement shall be governed by the internal law of the state in which the Premises are situated.

8.12 RECORDING. Lessee shall not record this Lease without the prior written consent of Lessor; upon the request of either party hereto, the other party shall join in the execution of a memorandum or so-called "short form" of this Lease, and the requesting party may then record such memorandum. Said memorandum or short form of this Lease shall describe the parties, the Premises and the duration of this Lease and shall incorporate this Lease by reference.

8.13 LEGAL COSTS. If any legal proceeding is brought for the enforcement of this Lease, or for recovery of possession of the Premises, or because of an alleged dispute, breach, default or misrepresentation in connection with any of the covenants, conditions, and provisions of this Lease, the successful or prevailing party shall be entitled to recover from the losing party reasonable attorneys' fees and other costs incurred in that action or

proceeding and in any appellate proceedings relating thereto, in addition to any other relief to which such party may be entitled.

8.15 TIME OF ESSENCE. Time is of the essence hereof.

Executed this 16th day of Sept., 1992.

LESSOR:	LESSEE:
CHRISTENSEN GROUP, INC.	BOW-FLEX OF AMERICA, INC.
By /s/ D. H. Christensen	By /s/ Brian R. Cook, President

STATE OF WASHINGTON
ss.
COUNTY OF CLARK

THIS IS TO CERTIFY that on this 16th day of September, 1992, before me, the undersigned, a notary public in and for the State of Washington, duly commissioned and sworn personally appeared D. H. Christensen, to me known to be the President of CHRISTENSEN GROUP, INC., the corporation that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said corporation for the uses and purposes therein mentioned, and on oath stated that he was authorized to execute said instrument, and that the seal affixed is the corporate seal of said corporation.

WITNESS my hand and official seal the day and year in this certificate first above written.

/s/ Marian Gross

Notary public in and for the State of Washington, residing at Portland, Oregon
Commission expires November 19, 1995

CHRISTENSEN GROUP, Inc.
4400 E. Columbia Way
Vancouver, Washington 98661
(206) 696-0381

- ---

[LOGO]

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September 16, 1992

Mr. Brian Cook
BOW-FLEX OF AMERICA, INC.
Bldg. #1
2200 N.E. 65th Ave
Vancouver, WA 98661

RE: Lease September 16, 1992
Ogden Business Park

This document shall serve as a binding agreement between the landlord "Christensen Group, Inc." and the tenant, "Bow-Flex of America, Inc." The tenant has the option to terminate the attached lease each year on its anniversary date upon 90 days written notice prior to each anniversary date, in the event the leased space becomes inadequate or tenant needs change so that the leased space is no longer suitable.

/s/ D.H. Christensen

D.H. Christensen
President, Christensen Group, Inc.

/s/ Brian R. Cook

Brian Cook - President
Bow-Flex of America, Inc.

AMENDMENT TO BOWFLEX, INC.
LEASE EXTENSION
AUGUST 27,1996

The certain Lease between Ogden Business Park, a Washington General Partnership, Lessor, and Bowflex, Inc., Lessee, dated May 1, 1992, for the Premises located at 2200 NE 65th Avenue, Building 1, Vancouver, WA 98661 (approximately 17,325 square feet, of which 4,100 square feet is office), is hereby extended and amended as follows:

1 a. Current lease expires April 30, 1997.
b. Expiration of said Lease is extended to April 30, 2002.

2. Monthly rental is increased as follows:

a. May 1, 1997 to April 30, 1998: $4,851.00 + Triple Net

b. Rent Adjustment. The rent to be paid by Lessee to Lessor during the term hereof, or any extended or renewed term, shall be adjusted on April 30, 1998 (the end of the base year) and automatically without notice on April 30th of each year thereafter during the term hereof and during any extended or renewed term hereof, which date is sometime referred to herein as the adjustment date. The intervals between adjustment dates are sometimes referred to herein as adjustment intervals. On each adjustment date, the rent shall be adjusted as provided below in this paragraph provided, however, that the monthly rent as adjusted, shall not be less than $4,851.00. The rental adjustment shall be limited to a six percent maximum annual increase after the base year. During each adjustment interval, rent shall be paid at the adjusted rate from the preceding adjustment date until the next adjustment date or until the sooner expiration of the term hereof, or as the same may be extended.

Such adjustments shall be made so that the rent payable hereunder each month during the next adjustment interval shall bear the same relationship to the sum set forth in Section 2.a. of the lease as the Consumer Price Index, U. S. City Average, of the Bureau of Labor Statistics of the U. S. Department of Labor (U. S. Index of All Items for All Urban Consumers - 1982-84 equals 100), sometimes referred to herein as the Index. If publication of said Index is discontinued or if said Index or the base thereof is changed, then there shall be used in lieu thereof such Index as may be adopted by agreement of the parties hereto.

3. The current lease dated May 1, 1992, states that common area expenses for the Premises shall not exceed more than six percent of previous year charges for common area excluding base year. The six percent cap shall be terminated and Lessee shall pay Lessor for their pro-rata share of actual common area expenses incurred as of May 1, 1997.

4. Lessee, at Lessee's expense, shall be allowed, with Lessor's prior approval, to remodel and/or expand office area of Premises. Lessor shall not charge office rental surcharge for said office expansion. Lessor reserves the right, at Lessor's sole discretion, to have Lessee remove, at Lessee's expense, additional office buildout constructed during lease extension.

5. OPTION TO EXTEND TERM: If Lessee has not been in material default of lease terms, then Lessee shall have an option to extend the terms hereof for an additional period of five (5) years which said option shall be exercised by giving written notice to Landlord not less than 120 days prior to the termination of the term hereof. Upon the exercise of said option by Lessee, the term of this Lease shall be extended for the additional period of five (5) years upon all of the terms, covenants and conditions herein contained, provided, however, that the monthly rental due and payable hereunder shall increase at the Consumer Price Index as stated in paragraph 2.b., not to exceed six (6%) percent per year.

All other provisions, terms, and conditions of the Lease remain the same.

BC/sj
bowflxle.doc

AGREED AND ACCEPTED LESSEE: Bowflex, Inc.	AGREED AND ACCEPTED LESSOR: Ogden Business Park Partnership
By: /s/ Brian R. Cook Brian Cook	By: _____ D. H. Christensen
Date: 8/28/96	Date: _____
	By: _____ Dean Henry
	Date: _____

FIRST AMENDMENT TO LEASE

This First Amendment to Lease ("Amendment") is made as of the 10th day of December, 1996 between Ogden Business Park, a Washington Joint Venture ("Lessor"), and Bow-Flex of America, Inc. ("Lessee").

RECITALS

A. Lessor (successor-in-interest to Christensen Group, Inc.) and Lessee executed that certain Lease Agreement September 16, 1992, with the term beginning May 1, 1992 (the "Lease"), with respect to certain premises located in the OGDEN BUSINESS PARK, in the City of Vancouver, Clark County, Washington which are more particularly described in the Lease (the "Premises").

B. Lessee has asked Lessor to extend the term of the Lease, provide for an additional lease extension option, and consent to Lessee making certain alterations to the Premises at Lessee's sole cost and expense. Lessor is willing to grant such requests, provided that the parties make certain other amendments to the Lease.

NOW, THEREFORE, for and in consideration of the covenants contained herein, the parties agree as follows:

AGREEMENT

1. DEFINITIONS. Terms used herein shall have the same meanings as provided therefor in the Lease unless otherwise expressly provided herein or unless the context otherwise requires.

2. AMENDMENTS TO LEASE. The Lease is hereby amended in the following respects only:

2.1 LEASE TERM. The first sentence of Section 1.4 of the Lease is hereby deleted and the following is substituted therefor:

> The term of this Lease shall commence on May 1, 1992 and end on April 30, 2002 unless earlier terminated hereunder.

2.2 OPTION TO EXTEND. Sections 1.5 and 1.6 are hereby added to the Lease following Section 1.4 as follows:

SECTION 1.5. OPTION TO EXTEND. Lessee shall have the option to extend the Lease term for five (5) additional years, beginning May 1, 2002 and ending on April 30, 2007 (the "Option Period"), provided Lessee (a) notifies Lessor in writing of its intention to exercise its option to extend no later than October 31, 2001 and (b) Lessee is not then in default, has not been in material default during the Lease term, nor is in default at the commencement of the Option Period, under the terms of the Lease.

SECTION 1.6. OPTION PERIOD TERMS. The same terms and conditions of this Lease applicable to the initial Lease term shall be applicable in the Option Period, except that at the commencement of the Option Period, the monthly rent will be the greater of (i) the adjusted monthly rental rate in effect as of September 1, 2001 or (ii) the monthly "fair market" rental rate for the Premises as determined in Lessor's sole discretion ("May 2002 Rent") and thereafter such rent will be adjusted on September 1 of each year as set forth in Section 2.2 of the Lease. In no event shall the rent, as subsequently adjusted, be less than the May 2002 Rent, and for purposes of such adjustments, the reference in the second paragraph of Section 2.2 to "the sum set forth in Paragraph 2 hereof" is hereby amended to reference "the May 2002 Rent." At Tenant's written request at any time after August 31, 2001, Lessor will notify Lessee of the monthly "fair market" rental rate that it has determined will apply to the Premises as of May 1, 2002.

2.3 RENT ADJUSTMENT. The parties hereby clarify the intended meaning of the first sentence of the second paragraph of Section 2.2 by amending it to read as follows:

Such adjustments shall be made so that the rent payable hereunder each month during the next adjustment interval shall bear the same relationship to the sum set forth in Paragraph 2 hereof as the Consumer Price Index, U.S. City Average, of the Bureau of Labor Statistics of the U.S. Department of Labor (U.S. Index Of All Items for All Urban Consumers - 1982-84 equals 100) (sometimes referred to herein as the "Index") as of the date of the adjustment bears to the Index as of

the base date. For all adjustments prior to September 1, 1997, the base year or base date shall be May 1, 1992, for adjustments on September 1, 1997 through September 1, 2001, the base year or base date shall be May 1, 1997, and for adjustments during the Option Period, the base year or base date shall be May 1, 2002.

2.4 RENT BEGINNING MAY 1, 1997. Effective May 1, 1997, the first sentence of Section 2.1 is hereby amended to read as follows:

> During the term hereof, Lessee shall pay to Lessor, without deduction or offset by Lessee, rent for the Premises in the sum of Four Thousand Nine Hundred Ninety-One Dollars ($4,991.00) per month.

2.5 COMMON AREA EXPENSES. Effective May 1, 1997, the last sentence in Section 2.1 and the phrase "including common area charges" in the fourth sentence of Section 2.2 are hereby deleted.

2.6 ALTERATIONS BY LESSEE. Subject to the requirements of Section 3.6 of the Lease, Lessee, at Lessee's sole cost and expense, may remodel and/or expand the office area of the Premises ("Office Expansion Improvements"). Prior to commencement of any work relating to the Office Expansion Improvements, Lessee must obtain Lessor's written approval of plans, specifications, and elevations, as applicable. Lessor agrees not to charge an office rental surcharge for such Office Expansion Improvements. Notwithstanding language to the contrary in Section 3.6 of the Lease, at the end of the Lease term, in Lessor's sole discretion, Lessor may require Lessee to remove any or all of the Office Expansion Improvements and restore the Premises to their condition prior to installation of the Office Expansion Improvements, all at Lessee's sole cost and expense.

3. NO OTHER CHANGES. All other provisions, terms and conditions of the Lease, except as expressly set forth in this Amendment, shall remain unmodified and shall otherwise continue in full force and effect as written.

4. EFFECTIVE DATE. Except as expressly otherwise set forth herein, the provisions of this Amendment are effective on the date set forth above.

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

LANDLORD: OGDEN BUSINESS PARK,
a Washington joint venture

By: WINMAR COMPANY, INC.,
its Venturer

By /s/ Eddie L. Hendrikson

Its President

By /s/ Dean F. Henry

Its Sr. Vice President

By: CHRISTENSEN GROUP, INC.
its Venturer

By /s/ D.H. Christensen

Its President

TENANT: BOW-FLEX OF AMERICA, INC.

/s/ Rod W. Rice

Its: CFO

STATE OF WASHINGTON)
)ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that Eddie L. Hendrikson and Dean F. Henry are the persons who appeared before me, and said persons acknowledged that they signed this instrument, on oath stated that they were authorized to execute the instrument and acknowledged it as the President and Senior Vice Pres., respectively, of WINMAR COMPANY, INC., the corporation acting as venturer of OGDEN BUSINESS PARK, the joint venture that executed the within and foregoing instrument, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument; and on oath stated that they were duly elected, qualified and acting as said officers of the corporation and that they were authorized to execute said instrument on behalf of the corporation and that the seal affixed, if any, is the corporate seal of the corporation, and that the corporation was authorized to execute said instrument on behalf of the joint venture.

Dated: [illegible], 1996

/s/ Diane Bogue

[SEAL] Print Name: DIANE BOGUE
NOTARY PUBLIC in and for the State of Washington, residing at Bellevue
My commission expires: 4/20/98

STATE OF WASHINGTON)
) ss.
COUNTY OF CLARK)

I certify that I know or have satisfactory evidence that D.H. Christensen is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as the President of CHRISTENSEN GROUP, INC., the corporation acting as venturer of OGDEN BUSINESS PARK, the joint venture that executed the within and foregoing instrument, to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument; and on oath stated that he was duly elected, qualified and acting as said officers of the corporation and that he was authorized to execute said instrument on behalf of the corporation and that the seal affixed, if any, is the corporate seal of the corporation, and that the corporation was authorized to execute said instrument on behalf of the joint venture.

Dated: 1-16-97

/s/ Marian Gross

[SEAL] Print Name: MARIAN GROSS
NOTARY PUBLIC in and for the State of Washington, residing at Vancouver, WA
My commission expires: 11-19-99

STATE OF WASHINGTON)
) ss.
COUNTY OF CLARK)

I certify that I know or have satisfactory evidence that Rod W. Rice is the person who appeared before me, and said person acknowledged that [he/she] signed this instrument, on oath stated that [he/she] was authorized to execute the instrument and acknowledged it as the CFO of BOW-FLEX OF AMERICA, INC. to be the free and voluntary act of such party for the uses and purposes mentioned in the instrument.

Dated: 1-27-97

/s/ Randi R. Christopherson

Print Name: Randi R. Christopherson
[SEAL] NOTARY PUBLIC in and for the State of Washington, residing at Clark Co.
My commission expires: 1-1-2000

STANDARD INDUSTRIAL LEASE -- GROSS
-- AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

1. PARTIES. This Lease, dated for reference purposes only, June 4, 1998, is made by and between LeRoy Hart Rentals (herein called "Lessor") and Direct Focus, Inc. (herein called "Lessee").

2. PREMISES. Lessor hereby Leases to Lessee and Lessee Leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, that certain real property situated in the County of Clark State of Washington, commonly know as a portion of 2650 NE Andresen Road, Vancouver, WA 98661 and described as approximately 28,500 SF warehouse (see attached Exhibit C). Said real property including the land and all improvements therein, is herein called "the Premises".

3. TERM.

3.1 TERM. The term of this Lease shall be for twenty four (24) months commencing on July 1, 1998 and ending on June 30, 2000 unless sooner terminated pursuant to any provision hereof.

3.2 DELAY IN POSSESSION. Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent until possession of the Premises is tendered to Lessee; provided, however, that if Lessor shall not have delivered possession of the Premises within (60) days from said commencement date, Lessee may, at Lessee's option, by notice in writing to Lessor within ten (10) days thereafter within sixty (60) days from said commencement be discharged from all obligations hereunder; provided further, however, that is such written notice of Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions hereof, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

4. RENT. Lessee shall pay to Lessor as rent for the Premises, monthly payments of (SEE PARAGRAPH 52, RENT SCHEDULE), in advance, on the first day of each month of the term hereof. Lessee shall pay Lessor upon the execution hereof (SEE PARAGRAPH 52, RENT SCHEDULE) as rent for (SEE PARAGRAPH 52, RENT SCHEDULE) Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the monthly installment. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof $7,590.00 + $3,240.00 (previously paid) for a total of $10,830.00 as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount therein above stated and Lessee's failure to do so shall be a material breach of the Lease. If the monthly rent shall, from time to time, increase during the term of this Lease, Lessee shall thereupon deposit with Lessor additional security deposit so that the amount of security deposit held by Lessor shall at all times bear the same proportion to current rent as the original security deposit so that the amount of security deposit held by Lessor shall at all times bear the same proportion to current rent as the original security deposit bears to the original monthly rent set forth in Paragraph 4 hereof. Lessor shall not be required to keep said deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor shall be returned, without payment of interest or other increment for its use to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term thereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. USE.

6.1 USE. The Premises shall be used and occupied only for assembly, testing, warehousing and distribution of Tenant's products or any other use which is reasonably comparable and for no other purpose.

6.2 COMPLIANCE WITH LAW.

(a) Lessor warrants to Lessee that the Premises, in its state existing on the date that the Lease term commences, but without regard to the use for which Lessee will use the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify and such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within six months from the date that the Lease term commences, the correction of same shall be the obligation of the Lessee at Lessee's sole cost. The warranty contained in this Paragraph 6.2 (a) shall be of no force or effect if, prior to the date of this Lease, Lessee was the owner or occupant of the Premises, and, in such event, Lessee shall correct any such violation at Lessee's sole cost.

(b) Except as provided in Paragraph 6.2(a), Lessee shall, at Lessee's expense, comply promptly with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements in effect during the term or any part of the term hereof, regulating the use by Lessee of the Premises, Lessee shall not use nor permit the use of the Premises in any manner that will tend to create waste or a nuisance or, if there shall be more than one tenant in the building containing the Premises, shall tend to disturb such other tenants.

(c)

6.3 CONDITION OF PREMISES.

(a) Lessor shall deliver the premises to Lessee clean and free of debris on Lease commencement date (unless Lessee is already in possession) and Lessor further warrants to Lessee that the plumbing, lighting, air conditioning, heating, and loading doors in the Premises shall be in good operating condition on the Lease commencement date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give such written notice to Lessor within thirty (30) days after the Lease commencement date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder. The warranty contained in this Paragraph 6.3(a) shall be of no force or effect if prior to the date of this Lease, Lessee was the owner or occupant of the Premises.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that either Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS AND ALTERATIONS.

7.1. LESSOR'S OBLIGATIONS. Subject to the provisions of Paragraphs 6, 7.2 and 9 and except for damage caused by any negligent or intentional act or omission of Lessee, Lessee's agents, employees, or invitees in which event Lessee shall repair the damage. Lessor, at Lessor's expense, shall keep in good order, condition and repair the foundations, exterior walls and the exterior roof of the Premises. Lessor shall not, however, be obligated to paint such exterior, nor shall Lessor be required to maintain the interior surface of exterior walls, windows, doors or plate glass. Lessor shall have no obligation to make repairs under this Paragraph 7.1 until a reasonable time after receipt of written notice of the need for such repairs. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition and repair.

7.2 (a) Subject to the provisions of Paragraphs 6, 78.1 and 9. Lessor, at Lessor's expense shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing the same are reasonably or readily accessible to Lessee) including, without limiting the generality of the foregoing, all plumbing, heating, air conditioning, (Lessee shall procure and maintain, at Lessor's expense, an air conditioning system maintenance contract) ventilating, electrical and lighting facilities and equipment within the Premises, fixtures, interior walls and interior surface of exterior

walls, ceilings, windows, doors, plate glass, and

skylights, located within the Premises, and all landscaping, driveways, parking lots, fences and signs located in the Premises and all sidewalks and parkways adjacent to the Premises.

(c) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Lessee shall repair any damage to the Premises occasioned by the installation or removal of its trade fixtures, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease. Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, space heater, air conditioning, plumbing and fencing on the Premises in good operating conditions.

7.3 ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility Installations in, on or about the Premises, except for nonstructural alterations not exceeding $2,500.00 in cumulative costs during the term of this Lease. In any event, whether or not in excess of $2,500.00 in cumulative cost, Lessee shall make no change or alteration to the exterior of the Premise nor the exterior of the building(s) on the Premises without Lessor's prior written consent. As used in this Paragraph 7.3 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the expiration of the term, and restore the Premises to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in a amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessor may require that Lessee remove any or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in, or about the Premises that Lessee shall desire to make and which requires the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanics' or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgement that may be rendered thereon before the enforcement thereof against the Lessor or the Premises, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is to its best interest to do so.

(d) Unless Lessor requires their removal, as set forth in Paragraph 7.3(a), all alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may; be made on the Premises, shall become the property of Lessor and remain upon and be surrendered with the Premises at the expiration of the term. Notwithstanding the provisions of this Paragraph 7.3(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of Paragraph 7.2(c).

8. INSURANCE; INDEMNITY.

8.1 LIABILITY INSURANCE -- LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage Insurance insuring Lessee and Lessor against any liability arising out of the use, occupancy or maintenance of the Premises and all other areas appurtenant thereto. Such insurance shall be in an amount not less than $500,000.00 per occurrence. The policy shall insure performance by Lessee of the indemnity provisions of the Paragraph 8. The limits of said insurance shall not, however, limit the liability of Lessee hereunder.

8.2 LIABILITY INSURANCE -- LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage Insurance, insuring Lessor, but not Lessee, against any liability arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto in an amount not less than $500,000.00 per occurrence.

8.3 PROPERTY INSURANCE. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Premises, but not Lessee's fixtures, equipment or tenant improvements in an amount not to exceed the full replacement value thereof, as the same may exist from time to time, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Premises) special extended perils ("all risk", as such term is used in the insurance industry) but not plate glass insurance. In addition, the Lessor shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all real estate taxes and insurance costs for said period.

8.4 PAYMENT OF PREMIUM INCREASE.

(c) If the Premises are part of a larger building, then Lessee shall not be responsible for paying any increase in the property insurance premium caused by the acts or omissions of any other tenant of the building of which the Premises are a part.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least B plus or such other rating as may be required by a lender having a lien of the Premises, as set forth in the most current issue of "Best's Insurance Guide". Lessee shall deliver to Lessor copies of policies of liability insurance required under Paragraph 8.1 or certificates evidencing the existence and amounts of such insurance. No such policy shall be cancelable or subject to reduction of coverage or other modification except after thirty (30) days' prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee upon demand. Lessee shall not do or permit to be done anything which shall invalidate the insurance policies referred to in Paragraph 8.3.

8.6 WAIVER OF SUBROGATION. Lessee and Lessor each hereby release and relieve the other, and waive their entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against under Paragraph 8.3, which perils

occur in, on or about the Premises, whether due to the negligence of Lessor or Lessee or their agents, employees contractors and/or invitees. Lessee and Lessor shall, upon obtaining the policies of insurance required hereunder, give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

8.7 INDEMNITY. Lessee shall indemnify and hold harmless Lessor from and against any and all claims arising from Lessee's use of the Premises, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any negligence of the Lessee, or any of Lessee's agents, contractors, or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel satisfactory to Lessor. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property or injury to persons, in, upon or about the Premises arising from any cause and Lessee hereby waives all claims in respect thereof against Lessor.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's Business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether the said damage or injury results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part or from other sources or places and regardless or whether the cause of such damage or Injury of the means of repairing the same is inaccessible to Lessee. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant, if any, of the building in which the Premises are located.

9. DAMAGE OF DESTRUCTION.

9.1 DEFINITIONS:

(a) "Premises Partial Damage" shall herein mean damage or destruction to the Premises to the extent that the cost of repair is less than 50% of the fair market value of the Premises immediately prior to such damage or destruction. "Premises Building Partial Damage" shall herein mean damage or destruction to the building of which the Premises are a part to the extent that the cost of repair, is less than 50% of the fair market value of such building as a whole immediately prior to such damage or destruction.

(b) "Premises Total Destruction" shall herein mean damage or destruction to the Premises to the extent that the cost of repair is 50% or more of the fair market value of the Premises immediately prior to such damage or destruction. "Premises Building Total Destruction" shall herein mean damage or destruction to the building of which the Premises are a part to the extent that the cost of repair is 50% or more of the fair market value of such building as a whole immediately prior to such damage or destruction.

(c) "Insured Loss" shall herein mean damage or destruction which was caused by an event required to be covered by the insurance described in Paragraph 8.

9.2 PARTIAL DAMAGE - INSURED LOSS. Subject to the provisions of Paragraphs 9.4, 9.5 and 9.6, if at any time during the term of the Lease there is damage which is not an insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, then Lessor shall, at Lessor's sole cost, repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect.

9.3 PARTIAL DAMAGE - UNINSURED LOSS. Subject to the provisions of Paragraphs 9.4, 9.5 and 9.6, if at any time during the term of this Lease there is damage which is not an insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease, as of the date of the occurrence of such damage. In the event Lessor elects to give such notice of Lessor's intention to

cancel and terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such 10-day period this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.4 TOTAL DESTRUCTION. If at any time during the term of this Lease there is damage, whether or not an Insured Loss, (including destruction required by any authorized public authority), which falls into the classification of Premises Total Destruction or Premises Building Total Destruction, this Lease shall automatically terminate as of the date of such total destruction.

9.5 DAMAGE NEAR END OF TERM.

(a) If at any time during the last six months of the term of this Lease there is damage, whether or not an Insured Loss, which falls within the classification of Premises Partial Damage, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding Paragraph 9.5(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than 20 days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last six months of the term of this Lease. If Lessee duly exercises such option during said 20 day period, Lessor shall, at Lessor's expense, repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said 20 day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said 20 day period by giving written notice to Lessee of Lessor's election to do so within 10 days after the expiration of said 20 day period, notwithstanding any term or provision in the grant of option to the contrary.

9.6 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event of damage described in Paragraphs 9.2 or 9.3, and Lessor or Lessee repairs or restores the Premises pursuant to the provisions of this Paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this Paragraph 9 and shall not commence such repair or restoration within 90 days after such obligations shall accrue, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

9.7 TERMINATION -- ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this Paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.8 WAIVER. Lessor and Lessee waive the provisions of any statutes which relate to termination of Leases when Leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAX INCREASE. Lessor shall pay the real property tax, as defined in Paragraph 10.3, applicable to the Premises.

10.2 ADDITIONAL IMPROVEMENTS. Notwithstanding Paragraph 10.1 hereof, Lessee shall pay to Lessor upon demand therefor the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 DEFINITION OF "REAL PROPERTY TAX". As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or

extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Premises by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Premises or in the real property of which the Premises are a part, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Premises. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax" or (ii) the nature of which was hereinbefore included within the definition of "real property tax," or (iii) which is imposed as a service or right not charged prior to June 1, 1978, or if previously charged, has been increased since June 1, 1978, or (iv) which is imposed as a result of a transfer, either partial or total, of Lessor's interest in the Premises or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such transfer, or (v) which is imposed by reason of the transaction, any modifications or changes hereto, or any transfers hereof.

10.4 JOINT ASSESSMENT. If the Premises are not separately assessed, Lessee's liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) I any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee within 10 days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessor shall pay for all water, gas, heat, light, power, and other utilities and services supplied to the Premises, together with any taxes thereon. Lessee shall pay for trash removal and telephone, and separately metered electrical service.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease.

12.2 LESSEE AFFILIATE. Notwithstanding the provisions of Paragraph 12.1 hereof, Lessee may assign or sublet the Premises, or any portion thereof, without Lessor's consent, to any corporation which controls, is controlled by or is under common control with Lessee, or to any corporation resulting from the merger or consolidation with Lessee, or to any person or entity which acquires all the assets of Lessee as a going concern of the business that is being conducted on the Premises, provided that said assignee assumes, in full, the obligations of Lessee under this Lease. Any such assignment shall not, in any way, affect or limit the liability of Lessee under the terms of this Lease even if after such assignment or subletting the terms of this Lease are materially changed or altered without the consent of Lessee, the consent of whom shall not be necessary.

12.3 NO RELEASE OF LESSEE. Regardless of Lessor's consent, no subletting or assignment shall release Lessee of Lessee's obligation or alter the primary liability of Lessee to pay the rent and to perform all other obligations to be performed by Lessee hereunder. The acceptance of rent by Lessor from any other person shall not be deemed to be a waiver by Lessor of any provision hereof. Consent to one assignment or subletting shall not be deemed consent to any subsequent assignment or subletting. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to subsequent assignments or subletting of this Lease or amendments or modifications to this Lease with assignees of

Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining is or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

12.4 ATTORNEY'S FEES. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees incurred in connection therewith, such attorneys fees not to exceed $350.00 for each such request.

13. DEFAULTS; REMEDIES.

13.1 DEFAULTS. The occurrence of any one or more of the following events shall constitute a material default and breach of this Lease by Lessee:

(a) The vacating or abandonment of the Premises by Lessee

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) The failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in Paragraph (b) above, where such failure shall continue for a period of 30 days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's default is such that more than 30 days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said 30-day period and thereafter diligently prosecutes such cure to completion.

(d) (i) The making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 11 U.S.C Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets to located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days. Provided, however, in the event that any provision of the Paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee or Lessee, any subtenant of Lessee, and successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, and any of them, was materially false.

13.2 REMEDIES. In the event of any such material default or breach by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default or breach:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession of the Premises by any lawful means, in which case this Lease shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to Paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which chase this Lease shall continue in effect whether or not Lessee shall have abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid

installments of rent and other unpaid monetary obligation of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law.

13.3 DEFAULT BY LESSOR. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time but in no event later than thirty 930) days after written notice by Lessee to Lessor and to the Holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty 930) days are required for performance then Lessor shall not be in default if Lessor commences performance within such 30-day period and thereafter diligently prosecutes the same to completion.

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and other sums due hereunder will cause Lessor to incur cost s not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of rent, then rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding Paragraph 4 or any other provision of this Lease to the contrary.

13.5 IMPOUNDS. In the event that a late charge is payable hereunder, whether or not collected, for three (3) installments of rent or any other monetary obligation of Lessee under the terms of this Lease. Lessee shall pay to Lessor, if Lessor shall so request, in addition to any other payments required under this Lease, a monthly advance installment, payable at the same time as the monthly rent, as estimated by Lessor, for real property tax and insurance expenses on the Premises which are payable by Lessee under the terms of this Lease. Such fund shall be established to insure payment when due, before delinquency, of any or all such real property taxes and insurance premiums. If the amounts paid to Lessor by Lessee under the provisions of this Paragraph are insufficient to discharge the obligations of Lessee to pay such real property taxes and insurance premiums as the same become due, Lessee shall pay to Lessor, upon Lessor's demand, such additional sums necessary to pay such obligations. All moneys paid to Lessor under this Paragraph may be intermingled with other moneys of Lessor and shall not bear interest. In the event of a default in the obligations of Lessee to perform under this Lease, then any balance remaining from funds paid to Lessor under the provisions of this Paragraph may, at the option of Lessor, be applied to the payment of any monetary default of Lessee in lieu of being applied to the payment of real property tax and insurance premiums.

14. CONDEMNATION. If the Premises or any portion thereof are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation", this Lease shall terminate as to the part so taken as of the date the condemning authority take title or possession, whichever first occurs. If more than 10% of the floor area of the building on the Premises, or more than 25% of the land area of the Premises which is not occupied by any building, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the rent shall be reduced in the proportion that the floor area of the building taken bears to the total floor area of the building situated on the Premises. No reduction of rent shall occur if the only area taken is that which does not have a building located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the Leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. BROKER'S FEE.

(a) Upon execution of this Lease by both parties, Lessor shall pay to William Connolly of Eric Fuller & Associates, Inc. Licensed real estate broker(s), a fee as set forth in a separate agreement between Lessor and said broker(s), or in the event there is no separate agreement between Lessor and said broker(s), the sum of per separate agreement, for brokerage services rendered by said broker(s) to Lessor in this transaction.

(b) Lessor further agrees that if Lessee exercises any Option as defined in Paragraph 39.1 of this Lease, which is granted to Lessee under this Lease, or any subsequently granted option which is substantially similar to an Option granted to Lessee under this Lease, or if Lessee acquires any rights to the Premises or other Premises described in this Lease which are substantially similar to what Lessee would have acquired had an Option herein granted to Lessee been exercised, or if Lessee remains in possession of the Premises after the expiration of the term of this Lease after having failed to exercise an Option, or if said broker(s) are the procuring cause of any other Lease or sale entered into between the parties pertaining to the Premises and/or any adjacent property in which Lessor has an interest, then as to any of said transactions, Lessor shall pay said broker(s) a fee in accordance with the schedule of said broker(s) in effect at the time of execution of this Lease.

(c) Lessor agrees to pay said fee not only on behalf of Lessor but also on behalf of any person, corporation, association, or other entity having an ownership interest in said real property or any part thereof, when such fee is due hereunder. Any transferee of Lessor's interest in this Lease whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this Paragraph 15. Said broker shall be a third party beneficiary of the provisions of this Paragraph 15.

16. ESTOPPEL CERTIFICATE.

(a) Lessee shall at any time upon not less than ten (10) days prior written notice from Lessor execute, acknowledge and deliver to Lessor a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any and (ii) acknowledging that there are not, to Lessee's knowledge any uncured defaults on the part of Lessor hereunder, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premise.

(b) At Lessor's option, Lessee's failure to deliver such statement within such time shall be a material breach of this Lease or shall be conclusive upon Lessee (i) that this Lease is in full force and effect, without modification except as may be represented by Lessor (ii) that there are no uncured defaults in Lessor's performance, and (iii) that not more than one month's rent has been paid in advance or such failure may be considered by Lessor as a default by Lessee under this Lease.

(c) If Lessor desires to finance, refinance, or sell the Premises, or any part thereof, Lessee hereby agrees to deliver to any tender or purchaser designated by Lessor such financial statement of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three year's financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners at the time in question of the fee title or a Lessee's interest in a ground Lease of the Premises, and except as expressly provided in Paragraph 15, in the event of any transfer of such title or interest, Lessor herein named and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. SEVERABILITY. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease, provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee.

20. TIME OF ESSENCE. Time is of the essence.

21. ADDITIONAL RENT. Any monetary obligations of Lessee to Lessor under the terms of this Lease shall be deemed to be rent.

22. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior agreements of understanding pertaining to any such matter shall be effective. This Lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in Paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employees or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of said Premises and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. NOTICES. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or the Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee.

24. WAIVERS. No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of any act, shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. HOLDING OVER. <#>If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, but all options and rights of first refusal, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy. See Paragraph 51. [DELETION INITIALED]

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, whenever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. Each provision of this Lease performable by Lessee shall be deemed both a covenant and a condition.

29. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of Paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State wherein the Premises are located.

30. SUBORDINATION.

(a) This Lease, at Lessor's option, shall be subordinate to any ground Lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the real property of which the Premises are a part and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quite possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground Lessor shall elect to have this Lease prior to the lien of its mortgage, deed of trust or ground Lease, and shall give written notice thereof to Lessee, this Lease shall be deemed prior to such mortgage, deed of trust, or ground Lease, whether this Lease is dated prior or subsequent to the date of said mortgage, deed of trust or ground Lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an atternment, a subordination or to make this Lease prior to the lien of any mortgage, deed of trust or ground Lease, as the case may be. Lessee's failure to execute such documents within 10 days after written demand shall constitute a material default by Lessee hereunder, or at Lessor's option Lessor shall execute such documents on behalf of Lessee as Lessee's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this Paragraph 30(b).

31. ATTORNEY'S FEES. If either party or the broker named herein brings an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court. The provisions of this Paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

32. LESSOR'S ACCESS. Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or Lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are a part as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs, all without rebate of rent or liability to Lessee.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the Premises without Lessor's prior written consent except that Lessee shall have the right, without the prior permission of Lessor to place ordinary and usual for rent or sublet signs thereon.

35. MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36. CONSENTS. Except for Paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party, such consent shall not be unreasonably withheld.

37. GUARANTOR. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. QUIET POSSESSION. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Premises.

39. OPTIONS.

39.1 DEFINITION. As used in this Paragraph the word "options" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease or to extend or renew any Lease that Lessee has on other property of Lessor; (2) the option or right of first refusal to Lease the Premises or the right of first offer to Lease the Premises or the right of first refusal to Lease other property of Lessor or the right of first offer to Lease other property of Lessor; (3) the right or option to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase the Premises or the right or option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL. Each option granted to Lessee in this Lease are personal to Lessee and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee, provided, however, the Option may be exercised by or assigned to any Lessee Affiliate as defined in Paragraph 12.2 of this Lease. The Options herein granted to Lessee are not assignable separate and apart from this Lease.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to Lessee a notice of default pursuant to Paragraph 13.1(b) or 13.1(c) and continuing until the default alleged in said notice of default is cured, or (ii) during the period of time commencing on the day after a monetary obligation to Lessor is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) continuing until the obligation is paid, or (iii) at any time after an event of default described in Paragraphs 13.1(a), 13.1(d), or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) in the event that Lessor has given to Lessee three or more notices of default under Paragraph 13.1(b), where a late charge becomes payable under Paragraph 13.4 for each of such defaults, or Paragraph 13.1(c), whether or not the defaults are cured, during the 12 month period prior to the time that Lessee intends to exercise the subject Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of 30 days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in Paragraph 13.10 within 30 days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessee commits a default described in Paragraph 13.1(a), 13.1(d) or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) Lessor gives to Lessee three or more notices of default under Paragraph 13.1(b), where a late charge becomes payable under Paragraph 13.4 for each such default, or paragraph 13.1(c) whether or not the defaults are cured.

40. MULTIPLE TENANT BUILDING. In the event that the Premises are part of a larger building or group of buildings then Lessee agrees that it will abide by, keep and observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, care and cleanliness of the building and grounds, the parking of vehicles and the preservation of good order therein as well as for the convenience of other occupants and tenants of the building. The violations of any such rules and regulation shall be deemed a material breach of this Lease by Lessee.

41. SECURITY MEASURES. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of Lessee, its agents and invitees from acts of third parties.

42. EASEMENTS. Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material breach of the Lease.

43. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suite for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

44. AUTHORITY. If Lessee is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

45. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. ADDENDUM. Attached hereto is an addendum or addenda containing Paragraph 47 through 52 which constitute a part of this Lease.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO. THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

ADDRESSES FOR NOTICES AND RENT

LESSOR	LESSEE
Hart Enterprises	Direct Focus, Inc.
211 E. McLoughlin Blvd.	2200 NE Andresen Road
Vancouver, WA 98663	Vancouver, WA 98661

NOTE: These forms are often modified to meet changing requirements of law and needs of the industry. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 345 So. Figueroa St., M-1, Los Angeles, CA 90071. (213) 687-8777.

THIS LEASE IS SUBJECT TO ACCEPTANCE BY LANDLORD:

IN WITNESS WHEREOF, the parties hereto have executed this Lease the date and year above written.

Address: 211 E. McLoughlin Blvd
Vancouver, WA 98663

Owner: LeRoy Hart Rentals

By: /s/ Joseph Hart

Joseph Hart

Address: 2200 NE Andresen Road
Vancouver, WA 98661

Tenant: Direct Focus, Inc.

By: /s/ Brian Cook

Brian Cook, President

LESSOR:

STATE OF Washington)

County of Clark) ss.

On June 18, 1998 before me, a Notary Public in and for said County and State, residing therein, personally appeared Joseph L. Hart, who, being duly sworn, and he acknowledged said instrument to be its voluntary act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

/s/ Judith A. Bray
- ---
Notary Public for Washington
My Commission Expires 2/1/99

LESSEE:

STATE OF Washington)

County of Clark) ss.

On June 17, 1998 before me, a Notary Public in and for said County and State, residing therein, personally appeared Brian R. Cook, who, being duly sworn, and he acknowledged said instrument to be its voluntary act and deed.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

/s/ Nora L. Rowe
- ---
Notary Public for Washington
My Commission Expires 11-12-01

ADDENDUM "A"

47. COMMISSION. Owner shall pay a commission or fee to ERIC FULLER & ASSOCIATES, INC. in accordance with the provisions of a separate commission contract. Each party represents that it has not had dealings with any other real estate broker or salesman with respect to this Lease, and each party shall defend, indemnify and hold harmless the other party from all costs and liabilities including reasonable attorney's fees resulting from any claims to the contrary.

48. AGENCY DISCLOSURE. At the signing of this Agreement the listing agent, William M. Connelly of ERIC FULLER & ASSOCIATES represented the Landlord. Each party signing this document confirms that prior oral and/or written disclosure of agency was provided to him/her in this transaction.

49. HAZARDOUS MATERIALS. The Lessee, at its sole cost and expense, shall comply with all laws, ordinances, regulations, and standards regulating or controlling hazardous wastes or hazardous substances, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. 9601, ET SEQ.; the Hazardous Material Transportation Act, 49 U.S.C. 1901, ET SEQ.; the Resource Conservation and Recovery Act, 42 U.S.C. 6901, ET SEQ.; the Carpenter-Presley-Tanner Hazardous Substance Account Act, Health and Safety Code section 25300, ET SEQ.; the Underground Storage of Hazardous Substance Act, Health and Safety section 25280, ET SEQ., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Health and Safety Code section 25249.5, ET SEQ.); and the Hazardous Waste Control Law, Health and Safety Code section 25100, ET SEQ. (the "Environmental Laws"). The Lessee hereby indemnifies and, at all times, shall indemnify and hold harmless the Lessor, the Lessor's trustees, directors, officers, employees, investment manager(s), attorneys, agents and any successors to the Lessor's interest in the chain of title to the Property, their trustees, directors, officers, employees, and agents from and against any and all claims, suits, demands, response costs, contribution costs, liabilities, losses, or damages, directly or indirectly arising out of the existence, use, generation, migration, storage, transportation, release, threatened release, or disposal of Hazardous Materials (defined below) in, on, or under the Property or in the groundwater under the Property and the migration or transportation of hazardous materials to or from the Property or the groundwater underlying the Property. This indemnity extends to the costs incurred by the Lessor or its successors to reasonably repair, clean up, dispose of, or remove such Hazardous Materials in order to comply with the Environmental Laws, provided the Lessor gives the Lessee not less than thirty (30) days advance written notice of its intention to incur such costs. The Lessee's obligations pursuant to the foregoing indemnification and hold harmless agreement shall survive the termination of this Lease. The subtenants, contractors, agents, or invitees of the Lessee shall not use, generate, manufacture, store, transport, release, threaten release, or dispose of Hazardous Materials in, on, or about the Property unless the Lessee shall have received the Lessor's prior written consent therefore, which the Lessor may withhold or revoke at any time in its reasonable discretion, and shall not cause or permit the release or disposal of Hazardous Materials from the property except in compliance with applicable Environmental Laws. The Lessee shall not permit any person, including its subtenants, contractors, agents, or invitees to use, generate, manufacture, store, transport, release, threaten release, or dispose of Hazardous Materials in, on, or about the Property or transport Hazardous Materials from the Property unless the Lessee shall have received the Lessor's prior written consent therefore, which the Lessor may withhold or revoke at any time in its reasonable discretion and shall not cause or permit the release or disposal of Hazardous Materials. The Lessee shall promptly deliver written notice to the Lessor if it obtains knowledge sufficient to infer that Hazardous Materials are located on the Property that are not in compliance with applicable Environmental Laws or if any third party, including, without limitation, any governmental agency, claims a significant disposal of Hazardous Materials occurred on the Property or is being or has been released from the Property, or any such party gives notice of its intention to declare the Property to be Border Zone Property (as defined in section 25117.4 of the California Health and Safety Code). Upon reasonable written request of the Lessor, the Lessee, through its professional engineers and at its cost, shall thoroughly investigate suspected Hazardous Materials contamination of the Property. The Lessee, using duly licensed and insured contractors, shall promptly commence and diligently complete the removal, repair, clean-up, and detoxification of any Hazardous Materials from the Property as may be required by applicable Environmental Laws.

Notwithstanding anything to the contrary in this Lease, nothing herein shall prevent the Lessee from using materials other than Hazardous Materials on the Premises as would be used in the ordinary course of the Lessee's business as contemplated by this Lease. The Lessee does not in the course of the Lessee's current business use Hazardous Materials. If during the term of this Lease, the Lessee contemplates utilizing such materials (or subleases/assigns this Lease to a subtenant or assignee who utilizes Hazardous Materials), the Lessee shall obtain prior written approval from the Lessor which approval shall not be unreasonably withheld. The Lessor, at its option, and at the Lessee's expense, may cause an engineer selected by the Lessor, to review (a) the Lessee's operations including materials used, generated, stored, disposed, and manufactured in the Lessee's business and (b) the Lessee's compliance with terms of this Paragraph. The Lessee

shall provide the engineer with such information reasonably requested by the engineer to complete the review. The first such review may occur prior to or shortly following commencement of the term of this Lease. Thereafter, such review shall not occur more frequently than once each year unless cause exists for some other review schedule. One-half (1/2) of the fees and costs of the engineer shall be paid promptly by the Lessee to the Lessor upon receipt of written notice of such fees and costs.

"Hazardous Materials" means any hazardous waste or hazardous substance as defined in any federal, state, county, municipal, or local statute, ordinance, rule, or regulation applicable to the Property, including, without limitation, the Environmental Laws. "Hazardous Materials" shall also include asbestos or asbestos-containing materials, radon gas, petroleum or petroleum fractions, urea formaldehyde foam insulation, transformers containing levels of polychlorinated biphenyls greater than 50 parts per million, and chemicals known to cause cancer or reproductive toxicity, whether or not defined as a hazardous waste or hazardous substance in any such statute, ordinance, rule, or regulation,

50. ZONING DISCLAIMER. This agreement will not allow use of the Property described in this agreement in violation of applicable land use laws and regulations. Before signing or accepting this agreement, the person acquiring Lease-hold to the Property should check with the appropriate city or county planning department to verify approved uses.

51. HOLDING OVER. Tenant will, at the termination of this Lease by lapse of time or otherwise, yield up immediate possession to Landlord. If Landlord agrees in writing that Tenant may hold over after the expiration or termination of this Lease, unless the parties hereto otherwise agree in writing on the terms of such holding over, the hold over tenancy shall be subject to termination by Landlord at any time upon not less than five (5) days, advance written notice, or by Tenant at any time upon not less than thirty days advance written notice, and all of the other terms and provisions of this Lease shall be applicable during that period, except that Tenant shall pay Landlord from time to time upon demand, as rental for the period of any hold over, an amount equal to one and one-half (1-1/2) the Base Rent in effect on the termination date, plus all additional rental as defined herein, computed on a daily basis for each day of the hold over period. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided. The preceding provisions of this Paragraph 51 shall not be construed as Landlord's consent for Tenant to hold over.

52. RENT SCHEDULE.

Months	Monthly Rent
July 1, 1998 to November 30, 1998	$10,260.00/month/gross
December 1, 1998 to June 30, 1999	$10,830.00/month/gross
July 1, 1999 to June 30, 2000	$10,830.00/month/gross

EXHIBIT A

To the Lease dated June 4, 1998, between LeRoy Hart Rentals, Lessor, and Direct Focus, Inc., Lessee.

The leased premises consists of a portion of Building B in the Hart Business Park, which is legally described as a portion of 890 Jamison DLC.

The Premises is commonly known as:

2650 NE Andresen Road, Building B
Vancouver, WA 98661

For purposes of identification only, the Premises general location is delineated below.

[SITE PLAN]

EXHIBIT B

CONDITION OF PREMISES. Lessee shall accept the Premises in their present condition.

1. Lessee improvements at Lessee's expense:

   (a) Add chain link fence to demise leased premises from balance of building.

2. Additional Provisions:

   (a) Lessee shall have exclusive use of eastern most dock high door and access to restrooms.

EXHIBIT "C"

[FLOOR PLAN]

AMENDMENT TO LEASE DATED JUNE 4, 1998
BY AND BETWEEN
DIRECT FOCUS, INC., TENANT AND
LEROY HART RENTALS, LANDLORD

October 20, 1998

Additional provisions regarding expansion at the NE Andresen Road Complex (approximately 8,000 square feet):

1. LEASE TERM. Lease term for the expansion space at the Hart Industrial Park, 2650 and NE Andresen Road, shall commence November 1, 1998, and expire on June 30, 2000.

2. RENT ADJUSTMENT. The rent for expansion space shall be as follows:

November 1, 1998 to June 30, 2000 = $3,040.00 per month, gross.

3. EXPANSION SQUARE FOOTAGE. Tenant will additionally occupy an approximate 8,000 SF located at 2650 NE Andresen Road, as indicated on the attached drawing.

4. TERMS AND CONDITIONS. All other terms and conditions shall remain in effect.

5. TENANT IMPROVEMENTS. Tenant accepts space in an "AS-IS" condition.

6. TOTAL LEASED SPACE.

	Shell	Office	
Space A	9,000 SF	0 SF	)
Space B	9,000 SF	0 SF	) $10,830.00/month
Space C	7,500 SF	0 SF	)
Space D	3,000 SF	0 SF	)
Space E	8,000 SF	0 SF	) $ 3,040.00/month
TOTAL	36,500 SF	0 SF	$13,870.00/MONTH

7. USE. The Premises shall be used and occupied only for warehousing, assembly and testing of Tenant's products.

AGREED AND ACCEPTED:
TENANT: Direct Focus, Inc.

By: /s/ Brian R. Cook
Brian R. Cook, President

Date: 11/23/98

AGREED AND ACCEPTED:
LANDLORD: Leroy Hart Rentals

By: /s/ Joseph Hart
Joseph Hart

Date: 12-1-98

EXHIBIT "C"

[FLOOR PLAN]

[LOGO]-Registered Trademark- SEAFIRST BANK
MEMBER FDIC

BORROWING AGREEMENT

LOAN. By accepting this agreement from DIRECT FOCUS CORPORATION, a WASHINGTON corporation ("Borrower"), the chief executive office of which is located at 2200 NE 65TH AVENUE, VANCOUVER, WA 98661, Bank of America National Trust and Savings Association, doing business as Seafirst Bank (including its successors and/or assigns "Bank") promises to lend to Borrower the principal amount of $5,000,000.00 (the "Loan") on a revolving basis until MARCH 31, 1999, with no more than $5,000,000.00 to be outstanding at any one time. Any one or more of the following persons are authorized to request and direct disbursement of loan proceeds under this agreement: Brian Cook
Rod Rice

PAYMENT. In return, Borrower promises to pay to the order of Bank the principal amount of $5,000,000.00, or such lesser amount as is advanced under the Loan, plus interest determined in accordance with Exhibit B attached to this agreement, calculated on the basis of actual number of days elapsed over a year of 360 days (together the "Obligations"), to be paid as follows: all outstanding principal to be paid in full on MARCH 31, 1999, with all accrued interest to be paid on the last day of each month, beginning the last day of DECEMBER, 1998, and upon maturity or acceleration of the Obligations. Bank is authorized to automatically debit each required installment of principal and/or interest from Borrower's checking account number 68578210 at Bank, or such other deposit account at Bank as Borrower may authorize in the future. If a payment is 10 days or more late, Borrower, at Bank's option, will be charged 5.000% of the regularly scheduled payment or $20.00, whichever is greater.

FEE ON UNUTILIZED PORTION OF LINE: Borrower shall pay a fee of 0.25% per annum upon the average unused portion of the line of credit, collected quarterly.

COLLATERAL. To secure the Obligations, Borrower grants to Bank a security interest in Borrower's accounts, general intangibles, documents, instruments, chattel paper, deposit accounts, inventory, equipment, all whether now owned or hereafter acquired, and all proceeds and products thereof, and any such other collateral as may be granted to Bank in a document referring to this agreement (the "Collateral").

CONDITIONS. Bank shall have no obligation to advance funds to Borrower until:

- - Borrower and every other party whose signature is required on this agreement has signed this agreement.

- - Borrower has delivered to Bank all signed documents necessary to perfect Bank's security interests granted in this agreement.

- - Bank has received proof satisfactory to Bank that all insurance required under this agreement is in effect.

COVENANTS. Borrower shall deliver to Bank:

- - within 30 days of quarter's end, Borrower's quarterly balance sheet and income statement, which may be internally prepared, certified by an officer of Borrower as true and correct.

- - within 120 days of each fiscal year end, Borrower's year-end balance sheet, income statement, and statement of cash flows, which shall be audited by an independent certified public accountant.

- - such other financial information as Bank may reasonably request from time to time.

Borrower shall also:

- - maintain replacement value insurance on all tangible Collateral against all risks, casualties, and losses through extended coverage or otherwise, with such policy or policies naming Bank as loss payee, as its interests may appear.

- - give Bank prompt written notice of any material adverse change in Borrower's financial condition. On the basis of a comprehensive review and assessment of Borrower's systems and equipment and inquiry made of Borrower's material suppliers, vendors, and customers, Borrower reasonably believes that the "Year 2000 problem" (that is, the inability of computers, as well as embedded microchips in noncomputing devices, to perform properly date-sensitive functions with respect to certain dates prior to and after December 31, 1999), including costs of remediation, will not result in a material adverse change in the operations, business, properties, condition (financial or otherwise) or prospects of Borrower. Borrower has developed feasible contingency plans adequately to ensure uninterrupted and unimpaired business operation in the event of failure of its own or a third party's systems or equipment due to the Year 2000 problem, including those of vendors, customers, and suppliers, as well as a general failure of or interruption in its communications and delivery

infrastructure.

- - keep accurate and complete books, accounts, and records, and during normal business hours, as often as Bank may reasonably request, permit Bank's authorized agents or employees to have access to Borrower's premises and financial records, and to make copies or abstracts of such records.

- - defend and hold Bank harmless from and against any and all claims, demands, penalties, fees, liens, damages, losses, expenses, and liabilities arising out of or in any way connected with any alleged or actual past or future presence on or under any of Borrower's real property of any hazardous or toxic waste or substances from any cause whatsoever; and prepare and deliver to Bank any environmental questionnaire Bank may reasonably require with respect to Borrower's real property. This covenant shall be independent of any similar covenant secured by the real property and shall survive any foreclosure of a deed of trust covering the property. "Hazardous or toxic waste or substances" means any substance or material defined or designated as hazardous or toxic wastes, hazardous or toxic material, a hazardous, toxic or radioactive substance or other similar term by any applicable federal, state, or local statute, regulation, or ordinance now or hereafter in effect.

- - maintain at all times a ratio of total indebtedness to Tangible Net Worth of not more than 1.25 to 1, measured quarterly.

- - maintain at all times a ratio of current assets to current liabilities of not less than 2.00 to 1, measured quarterly.

- - maintain at all times a minimum debt coverage ratio of 1.50 to 1, measured on a rolling four-quarter average. Debt coverage ratio defined as (Net Income + Depreciation + Amortization + Interest) divided by (CPLTD + Interest).

- - maintain an out of debt period on the obligation for 45 consecutive days annually.

- - not incur aggregate Capital Expenditures in excess of $2,000,000.00 during any fiscal year.

- - use the proceeds of the Loan only for the following purpose: short-term operating expenses.

REMEDIES. If Borrower violates any promise of this agreement; or Borrower defaults under any other agreement with Bank; or if any guarantor of the Obligations violates any of its promises to Bank; or if anything should happen or is reasonably likely to happen which significantly impairs Borrower's financial condition, the value of the Collateral, or Bank's prospects for repayment of the Obligations, Bank may refuse to make any further advances of funds to Borrower, may immediately demand payment in full of all Obligations (which, at Bank's option, shall bear interest from the date of such demand at a rate 4% in excess of the rate otherwise applicable under this agreement), and may use any one or more of its remedies given under this agreement or by the laws of the State of Washington. Borrower shall, if demanded by Bank, pay all of Bank's costs, expenses, and attorneys' fees (including the cost of in-house counsel) incurred in collecting the Obligations, or arising out of the transaction reflected by this agreement, which is governed by the laws of Washington. If neither party elects or has the right to elect arbitration under the following paragraph, any lawsuit relating to this agreement may be brought in a court located in King County, Washington, or at Bank's option where necessary to obtain jurisdiction over any Borrower, guarantor, or Collateral.

ARBITRATION. Any dispute relating to this agreement (in contract or tort) shall be settled by arbitration if requested by Bank, Borrower, or any other party to the dispute (such as a guarantor); PROVIDED, however, that both Bank and Borrower must consent to a request for arbitration relating to an obligation secured by real property or a marine vessel. The arbitration proceedings shall be held in Seattle, Washington by the American Arbitration Association under its commercial rules of arbitration, by a single arbitrator. The United States Arbitration Act will apply. Judgment upon the arbitration award may be entered in any court having jurisdiction. Commencement of a lawsuit shall not constitute a waiver of the right of any party to request arbitration if the lawsuit is contested. Likewise, any party may exercise self-help remedies such as setoff, foreclosure, repossession, or sale of any collateral before, after, or during arbitration without waiving the right to request arbitration. At Bank's option, foreclosure under a deed of trust may be made judicially (as a mortgage) or nonjudicially (by power of sale).

DEFINITIONS. For purposes of this agreement, terms defined in the Washington version of the Uniform Commercial Code, R.C.W. Section 62A.9-101, ET SEQ. ("UCC"), and not otherwise defined in this agreement, shall have the meaning given in the UCC; and an accounting term not otherwise defined in this agreement shall have the meaning assigned to it under generally accepted accounting principles. "Reference rate" shall mean the rate of interest publicly announced from time to time by Bank in San Francisco, California, as its "Reference Rate." The Reference Rate is set based on various factors, including Bank's costs and desired return, general economic conditions, and other factors, and is used as a reference point for pricing some loans. Bank may price loans to its customers at, above, or below the Reference Rate. Any change in the Reference Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Reference Rate. "Tangible Net Worth" shall mean the excess of total assets over total liabilities, excluding, however, from the determination of total assets (a) all assets which should be classified as intangible assets (such as goodwill, patents, trademarks, copyrights, franchises, and deferred charges, including unamortized debt discount and research and development costs), (b) treasury stock, (c) cash held in a sinking or other similar fund established for the purpose of redemption or other retirement of capital stock, (d) to the extent not already deducted from total assets, reserves for depreciation, depletion, obsolescence, or amortization of properties and other reserves or appropriations of retained earnings which have been or should be established in connection with Borrower's business, and (e) any revaluation or other write-up in book value of assets subsequent to the fiscal year of Borrower last ended at the date Tangible Net Worth is being measured.

AMENDMENTS. This agreement can only be amended in writing, signed by the party to be bound by such amendment. If Borrower shall enter into, or has entered into, other borrowing agreements with Bank, each such agreement shall supplement the other, and Borrower must comply with each such agreement independently, unless otherwise agreed in writing by Bank. ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, TO EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

This agreement is dated December 16, 1998.

Bank:

SEAFIRST BANK

By [Illegible]

Title Vice President

Borrower:

DIRECT FOCUS CORPORATION

By: [Illegible]

Title: CFO

Exhibit B to Borrowing Agreement dated December 16, 1998

EXHIBIT B-1 -- INTEREST PROVISIONS

All terms used in Exhibit B-1 or B-2 shall have the meaning given in the Agreement or as defined in B-2 below:

1.1 INTEREST RATES. The advances under the Agreement shall bear interest from their respective date of advance on the unpaid principal balance outstanding from time to time at the Floating Rate or a Fixed Rate as selected by Borrower.

1.2 PROCEDURE. Borrower may give Bank an irrevocable notice (written or oral) specifying the election of the Adjusted LIBOR Rate option, the amount to be borrowed at or fixed at the Adjusted LIBOR Rate, the requested Interest Period, and the requested Commencement Date, three Business Days before the requested Commencement Date. The interest rate on the amount specified shall then be fixed at the Adjusted LIBOR Rate determined two London Banking Days before the requested Commencement Date.

1.3 RESTRICTIONS. Each Interest Period shall be one, two, three, or six months, or one year, but in no event shall the Interest Period extend beyond the maturity date of the advances under the Agreement. Each Fixed Rate Loan shall be in a minimum principal amount of $500,000.

1.4 PREPAYMENTS. If Borrower prepays all or any portion of a Fixed Rate Loan prior to the end of an Interest Period, there shall be due at the time of any such prepayment a prepayment fee equal to the amount (if any) by which:

(i) the additional interest which would have been payable on the amount prepaid had it not been paid until the last day of the Interest Period exceeds

(ii) the interest which would have been recoverable by Bank by placing the amount prepaid on deposit in the offshore dollar market for a period starting on the date on which it was prepaid and ending on the last day of the Interest Period.

1.5 REVERSION TO FLOATING. Advances under the Agreement shall bear interest at the Floating Rate unless a Fixed Rate is specifically selected. At the termination of any Interest Period, the interest rate on such principal shall revert to the Floating Rate unless Borrower directs otherwise pursuant to Section 1.2 above.

1.6 INABILITY TO PARTICIPATE IN MARKET. If Bank in good faith cannot participate in the Eurodollar market for legal or practical reasons, there shall be no Fixed Rate option. Bank shall notify Borrower of and when it again becomes legal or practical to participate in the offshore dollar market, at which time there shall again be a Fixed Rate option.

1.7 MODIFICATION TO FIXED RATE CALCULATIONS. If, after the date of the setting of a Fixed Rate, there is a change in any law, rule, or regulation, or in the interpretation or administration thereof, by any governmental authority, central bank, or comparable agency, or compliance by Bank with any request or direction (whether or not having the force of law) of any such authority, central bank, or comparable agency that subjects Bank to additional costs or relieves Bank of costs, or in Bank's reasonable opinion reduces or increases the amount of any payment received or receivable by Bank under the Obligations by reason of obtaining funds in the offshore U.S. dollar deposit market, through imposition or reduction of taxes (except for changes in the rate of tax on the overall net income of Bank imposed by the jurisdictions in which Bank's principal office is located), reserves, or any other conditions, then for any Interest Period commencing thereafter for Fixed Rate Loans, the formulas for calculating the Fixed Rate shall be modified to reflect and include the impact of such change whether or not Bank purchases funds in the applicable offshore U.S. dollar deposit market.

1.8 BASIS OF QUOTES. Borrower acknowledges that Bank may or may not in any particular case actually match-fund the fixing of a Fixed Rate. FDIC assessments, and Federal Reserve Board reserve requirements, if any are assessed, will be based on Bank's best estimates of its marginal cost for each of these items. Whether such estimates in fact represent the actual cost to Bank for any particular offshore deposit or maintaining interest at a Fixed Rate will depend upon how Bank actually chooses to fund the Fixed Rate Loan. By electing a Fixed Rate, Borrower waives any right to object to Bank's means of calculating the Fixed Rate quote accepted by Borrower.

EXHIBIT B-2 -- DEFINITIONS

2.1 ADJUSTED LIBOR RATE shall mean for any day that per annum rate equal to the sum of (a) a margin of 2.00%, (b) the Assessment Rate, and (c) the quotient of (i) the LIBOR Rate as determined for such day, divided by (ii) the Reserve Adjustment. The Adjusted LIBOR Rate shall change with any change in the LIBOR Rate on the first day of each Interest Period and on the effective date of any change in the Assessment Rate or Reserve Adjustment.

2.2 AGREEMENT shall mean the attached Borrowing Agreement dated December 16, 1998.

2.3 ASSESSMENT RATE shall mean as of any day the minimum annual percentage rate established by the Federal Deposit Insurance Corporation (or any successor) for the assessment due from members of the Bank Insurance Fund (or any successor) in effect for the assessment period during which said day occurs based on deposits maintained at such members' offices located outside of the United States, in determination of an Adjusted LIBOR Rate.

2.4 BUSINESS DAY shall mean any day other than a Saturday, Sunday, or other day on which commercial banks in Seattle, Washington, or London, England, are authorized or required by law to close.

2.5 COMMENCEMENT DATE shall mean the first day of any Interest Period as requested by Borrower.

2.6 FIXED RATE shall mean the Adjusted LIBOR Rate.

2.7 FIXED RATE LOAN shall mean principal of the Obligations accruing interest at the Adjusted LIBOR Rate.

2.8 FLOATING RATE shall mean the reference rate plus 0.00% per annum.

2.9 INTEREST PERIOD shall mean the period commencing on the date of any advance at, or conversion to, a Fixed Rate and ending on any date thereafter as selected by Borrower, subject to the restrictions of Section 1.3 of Exhibit B-1. If any Interest Period would end on a day which is not a Business Day, the Interest Period shall be extended to the next succeeding Business Day.

2.10 LIBOR RATE shall mean for any Interest Period the per annum rate, calculated on the basis of actual number of days elapsed over a year of 360 days, for U.S. Dollar deposits for a period equal to the Interest Period appearing on the display designated as "Page 3750" on the Telerate Service (or such other page on that service or such other service designated by the British Banker's Association for the display of that Association's Interest Settlement Rates for U.S. Dollar deposits) as of 11:00 a.m., London time, on the day which is two Business Days prior to the first day of the Interest Period. If there is no period equal to the Interest Period on the display, the LIBOR Rate shall be determined by straight-line interpolation to the nearest month (or week or day if expressed in weeks or days) corresponding to the Interest Period between the two nearest neighboring periods on the display.

2.11 LONDON BANKING DAY shall mean any day upon which banks in London, England, are open for business and dealing in offshore dollars.

2.12 RESERVE ADJUSTMENT shall mean as of any day the remainder of one minus that percentage (expressed as a decimal) which is the highest of any such percentages established by the Board of Governors of the Federal Reserve System (or any successor) for required reserves (including any emergency, marginal, or supplemental reserve requirement) regardless of the aggregate amount of deposits with said member bank and without benefit of any possible credit, proration, exemptions, or offsets for time deposits established at offices of member banks located outside of the United States or for eurocurrency liabilities, if any.

[LOGO]-Registered Trademark- SEAFIRST BANK
MEMBER FDIC

BORROWING AGREEMENT

LOAN. By accepting this agreement from DIRECT FOCUS CORPORATION, a WASHINGTON corporation ("Borrower"), the chief executive office of which is located at 2200 NE 65TH AVENUE, VANCOUVER, WA 98661, Bank of America National Trust and Savings Association, doing business as Seafirst Bank (including its successors and/or assigns "Bank") promises to lend to Borrower the principal amount of $5,000,000.00 (the "Loan") in the aggregate, in multiple advances on a nonrevolving basis until MARCH 31, 1999. Any one or more of the following persons are authorized to request and direct disbursement of loan proceeds under this agreement: Brian Cook
Rod Rice

PAYMENT. In return, Borrower promises to pay to the order of Bank the principal amount of $5,000,000.00, or such lesser amount as is advanced under the Loan, plus interest determined in accordance with Exhibit B attached to this agreement, calculated on the basis of actual number of days elapsed over a year of 360 days (together the "Obligations"), to be paid as follows: all outstanding principal to be paid in full on MARCH 31, 1999, with all accrued interest to be paid on the last day of each month, beginning the last day of JANUARY 1999, and upon maturity or acceleration of the Obligations. Bank is authorized to automatically debit each required installment of principal and/or interest from Borrower's checking account number 68578210 at Bank, or such other deposit account at Bank as Borrower may authorize in the future. If a payment is 10 days or more late, Borrower, at Bank's option, will be charged 5.000% of the regularly scheduled payment or $20.00, whichever is greater.

COLLATERAL. To secure the Obligations, Borrower grants to Bank a security interest in Borrower's accounts, general intangibles, documents, instruments, chattel paper, deposit accounts, inventory, equipment, all whether now owned or hereafter acquired, and all proceeds and products thereof, and any such other collateral as may be granted to Bank in a document referring to this agreement (the "Collateral").

CONDITIONS. Bank shall have no obligation to advance funds to Borrower until:

- - Borrower and every other party whose signature is required on this agreement has signed this agreement.

- - Borrower has delivered to Bank all signed documents necessary to protect Bank's security interests granted in this agreement.

- - Bank has received proof satisfactory to Bank that all insurance required under this agreement is in effect.

COVENANTS. Borrower shall deliver to Bank:

- - within 30 days of quarter's end, Borrower's quarterly balance sheet and income statement, which may be internally prepared, certified by an officer of Borrower as true and correct.

- - within 120 days of each fiscal year end, Borrower's year-end balance sheet, income statement, and statement of cash flows, which shall be audited by an independent certified public accountant.

- - such other financial information as Bank may reasonably request from time to time.

Borrower shall also:

- - maintain replacement value insurance on all tangible Collateral against all risks, casualties, and losses through extended coverage or otherwise, with such policy or policies naming Bank as loss payee, as its interests may appear.

- - give Bank prompt written notice of any material adverse change in Borrower's financial condition. On the basis of a comprehensive review and assessment of Borrower's systems and equipment and inquiry made of Borrower's material suppliers, vendors, and customers, Borrower reasonably believes that the "Year 2000 problem" (that is, the inability of computers, as well as embedded microchips in non-devices, to perform properly date-sensitive functions with respect to certain dates prior to and after December 31, 1999), including costs of remediation, will not result in a material adverse change in the operations, business, properties, condition (financial or otherwise) or prospects of Borrower. Borrower has developed feasible contingency plans adequately to ensure uninterrupted and unimpaired business operation in the event of failure of its own or a third party's systems or equipment due to the Year 2000 problem, including those of vendors, customers, and suppliers, as well as a general failure of or interruption in its communications and delivery infrastructure.

- - keep accurate and complete books, accounts, and records, and during normal business hours, as often as Bank may reasonably request, permit Bank's authorized agents or employees to have access to Borrower's premises and

financial records, and to make copies or abstracts of such records.

- - defend and hold Bank harmless from and against any and all claims, demands, penalties, fees, liens, damages, losses, expenses, and liabilities arising out of or in any way connected with any alleged or actual past or future presence on or under any of Borrower's real property of any hazardous or toxic waste or substances from any cause whatsoever; and prepare and deliver to Bank any environmental questionnaire Bank may reasonably require with respect to Borrower's real property. This covenant shall be independent of any similar covenant secured by the real property and shall survive any foreclosure of a deed of trust covering the property. "Hazardous or toxic waste or substances" means any substance or material defined or designated as hazardous or toxic wastes, hazardous or toxic material, a hazardous, toxic or radioactive substance or other similar term by any applicable federal, state, or local statute, regulation, or ordinance now or hereafter in effect.

- - maintain at all times a ratio of total indebtedness to Tangible Net Worth of not more than 1.25 to 1, measured quarterly.

- - maintain at all times a ratio of current assets to current liabilities of not less than 2.00 to 1, measured quarterly.

- - maintain at all times a minimum debt coverage ratio of 1.50 to 1, measured on a rolling four-quarter average. Debt coverage ratio defined as (Net Income + Depreciation + Amortization + Interest) divided by (CPLTD + Interest).

- - not incur aggregate Capital Expenditures in excess of $2,000,000.00 during any fiscal year.

- - use the proceeds of the Loan only for the following purpose: bridge financing for purchase of fixed assets.

REMEDIES. If Borrower violates any promise of this agreement; or Borrower defaults under any other agreement with Bank; or if any

guarantor of the Obligations violates any of its promises to Bank; or if anything should happen or is reasonably likely to happen which significantly impairs Borrower's financial condition, the value of the Collateral, or Bank's prospects for repayment of the Obligations, Bank may refuse to make any further advances of funds to Borrower, may immediately demand payment in full of all Obligations (which, at Bank's option, shall bear interest from the date of such demand at a rate 4% in excess of the rate otherwise applicable under this agreement), and may use any one or more of its remedies given under this agreement or by the laws of the State of Washington. Borrower shall, if demanded by Bank, pay all of Bank's costs, expenses, and attorneys' fees (including the cost of in-house counsel) incurred in collecting the Obligations, or arising out of the transaction reflected by this agreement, which is governed by the laws of Washington. If neither party elects or has the right to elect arbitration under the following paragraph, any lawsuit relating to this agreement may be brought in a court located in King County, Washington, or at Bank's option where necessary to obtain jurisdiction over any Borrower, guarantor, or Collateral.

ARBITRATION. Any dispute relating to this agreement (in contract or tort) shall be settled by arbitration if requested by Bank, Borrower, or any other party to the dispute (such as a guarantor); PROVIDED, however, that both Bank and Borrower must consent to a request for arbitration relating to an obligation secured by real property or a marine vessel. The arbitration proceedings shall be held in Seattle, Washington by the American Arbitration Association under its commercial rules of arbitration by a single arbitrator. The United States Arbitration Act will apply. Judgment upon the arbitration award may be entered in any court having jurisdiction. Commencement of a lawsuit shall not constitute a waiver of the right of any party to request arbitration if the lawsuit is contested. Likewise, any party may exercise self-help remedies such as setoff, foreclosure, repossession, or sale of any collateral before, after, or during arbitration without waiving the right to request arbitration. At Bank's option, foreclosure under a deed of trust may be made judicially (as a mortgage) or nonjudicially (by power of sale).

DEFINITIONS. For purposes of this agreement, terms defined in the Washington version of the Uniform Commercial Code, R.C.W. Section 62A.9-101, ET SEQ. ("UCC"), and not otherwise defined in this agreement, shall have the meaning given in the UCC; and an accounting term not otherwise defined in this agreement shall have the meaning assigned to it under generally accepted accounting principles. "Reference rate" shall mean the rate of interest publicly announced from time to time by Bank in San Francisco, California, as its "Reference Rate." The Reference Rate is set based on various factors, including Bank's costs and desired return, general economic conditions, and other factors, and is used as a reference point for pricing some loans. Bank may price loans to its customers at, above, or below the Reference Rate. Any change in the Reference Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Reference Rate. "Tangible Net Worth" shall mean the excess of total assets over total liabilities, excluding, however, from the determination of total assets (a) all assets which should be classified as intangible assets (such as goodwill, patents, trademarks, copyrights, franchises, and deferred charges, including unamortized debt discount and research and development costs), (b) treasury stock, (c) cash held in a sinking or other similar fund established for the purpose of redemption or other retirement of capital stock, (d) to the extent not already deducted from total assets, reserves for depreciation, depletion, obsolescence, or amortization of properties and other reserves or appropriations of retained earnings which have been or should be established in connection with Borrower's business, and (e) any revaluation or other write-up in book value of assets subsequent to the fiscal year of Borrower last ended at the date Tangible Net Worth is being measured.

AMENDMENTS. This agreement can only be amended in writing, signed by the party to be bound by such amendment. If Borrower shall enter into, or has entered into, other borrowing agreements with Bank, each such agreement shall supplement the other, and Borrower must comply with each such agreement independently, unless otherwise agreed in writing by Bank. ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, TO EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

This agreement is dated December 16, 1998.

Bank:

SEAFIRST BANK

By [Illegible]

The Vice President

Borrower:

DIRECT FOCUS CORPORATION

By: [Illegible]

Title: CFO

EXHIBIT B TO BORROWING AGREEMENT DATED DECEMBER 16, 1998

EXHIBIT B-1 -- INTEREST PROVISIONS

All terms used in Exhibit B-1 or B-2 shall have the meaning given in the Agreement or as defined in B-2 below:

1.1 INTEREST RATES. The advances under the Agreement shall bear interest from their respective date of advance on the unpaid principal balance outstanding from time to time at the Floating Rate or a Fixed Rate as selected by Borrower.

1.2 PROCEDURE. Borrower may give Bank an irrevocable notice (written or oral) specifying the election of the Adjusted LIBOR Rate option, the amount to be borrowed at or fixed at the Adjusted LIBOR Rate, the requested Interest Period, and the requested Commencement Date, three Business Days before the requested Commencement Date. The interest rate on the amount specified shall then be fixed at the Adjusted LIBOR Rate determined two London Banking Days before the requested Commencement Date.

1.3 RESTRICTIONS. Each Interest Period shall be one, two, or three months, but in no event shall the Interest Period extend beyond the maturity date of the advances under the Agreement. Each Fixed Rate Loan shall be in a minimum principal amount of $250,000.

1.4 PREPAYMENTS. If Borrower prepays all or any portion of a Fixed Rate Loan prior to the end of an Interest Period, there shall be due at the time of any such prepayment a prepayment fee equal to the amount (if any) by which:

(i) the additional interest which would have been payable on the amount prepaid had it not been paid until the last day of the Interest Period exceeds

(ii) the interest which would have been recoverable by Bank by placing the amount prepaid on deposit in the offshore dollar market for a period starting on the date on which it was prepaid and ending on the last day of the Interest Period.

1.5 REVERSION TO FLOATING. Advances under the Agreement shall bear interest at the Floating Rate unless a Fixed Rate is specifically selected. At the termination of any Interest Period, the interest rate on such principal shall revert to the Floating Rate unless Borrower directs otherwise pursuant to Section 1.2 above.

1.6 INABILITY TO PARTICIPATE IN MARKET. If Bank in good faith cannot participate in the Eurodollar market for legal or practical reasons, there shall be no Fixed Rate option. Bank shall notify Borrower of and when it again becomes legal or practical to participate in the offshore dollar market, at which time there shall again be a Fixed Rate option.

1.7 MODIFICATION TO FIXED RATE CALCULATIONS. If, after the date of the setting of a Fixed Rate, there is a change in any law, rule, or regulation, or in the interpretation or administration thereof, by any governmental authority, central bank, or comparable agency, or compliance by Bank with any request or direction (whether or not having the force of law) of any such authority, central bank, or comparable agency that subjects Bank to additional costs or relieves Bank of costs, or in Bank's reasonable opinion reduces or increases the amount of any payment received or receivable by Bank under the Obligations by reason of obtaining funds in the offshore U.S. dollar deposit market, through imposition or reduction of taxes (except for changes in the rate of tax on the overall net income of Bank imposed by the jurisdictions in which Bank's principal office is located), reserves, or any other conditions, then for any Interest Period commencing thereafter for Fixed Rate Loans, the formulas for calculating the Fixed Rate shall be modified to reflect and include the impact of such change whether or not Bank purchases funds in the applicable offshore U.S. dollar deposit market.

1.8 BASIS OF QUOTES. Borrower acknowledges that Bank may or may not in any particular case actually match-fund the fixing of a Fixed Rate. FDIC assessments, and Federal Reserve Board reserve requirements, if any are assessed, will be based on Bank's best estimates of its marginal cost for each of these items. Whether such estimates in fact represent the actual cost to Bank for any particular offshore deposit or maintaining interest at a Fixed Rate will depend upon how Bank actually chooses to fund the Fixed Rate Loan. By electing a Fixed Rate, Borrower waives any right to object to Bank's means of calculating the Fixed Rate quote accepted by Borrower.

EXHIBIT B-2 -- DEFINITIONS

2.1 ADJUSTED LIBOR RATE shall mean for any day that per annum rate equal to the sum of (a) a margin of 2.00%, (b) the Assessment Rate, and (c) the quotient of (i) the LIBOR Rate as determined for such day, divided by (ii) the Reserve Adjustment. The Adjusted LIBOR Rate shall change with any change in the LIBOR Rate on the first day of each Interest Period and on the effective date of any change in the Assessment Rate or Reserve Adjustment.

2.2 AGREEMENT shall mean the attached Borrowing Agreement dated December 16, 1998.

2.3 ASSESSMENT RATE shall mean as of any day the minimum annual percentage rate established by the Federal Deposit Insurance Corporation (or any successor) for the assessment due from members of the Bank Insurance Fund (or any successor) in effect for the assessment period during which said day occurs based on deposits maintained at such members' offices located outside of the United States, in determination of an Adjusted LIBOR Rate.

2.4 BUSINESS DAY shall mean any day other than a Saturday, Sunday, or other day on which commercial banks in Seattle, Washington, or London, England, are authorized or required by law to close.

2.5 COMMENCEMENT DATE shall mean the first day of any Interest Period as requested by Borrower.

2.6 FIXED RATE shall mean the Adjusted LIBOR Rate.

2.7 FIXED RATE LOAN shall mean principal of the Obligations accruing interest at the Adjusted LIBOR Rate.

2.8 FLOATING RATE shall mean the reference rate plus 0.00% per annum.

2.9 INTEREST PERIOD shall mean the period commencing on the date of any advance at or conversion to, a Fixed Rate and ending on any date thereafter as selected by Borrower, subject to the restrictions of Section 1.3 of Exhibit B-1. If any Interest Period would end on a day which is not a Business Day, the Interest Period shall be extended to the next succeeding Business Day.

2.10 LIBOR RATE shall mean for any Interest Period the per annum rate, calculated on the basis of actual number of days elapsed over a year of 360 days, for U.S. Dollar deposits for a period equal to the Interest Period appearing on the display designated as "Page 3750" on the Telerate Service (or such other page on that service or such other service designated by the British Banker's Association for the display of that Association's Interest Settlement Rates for U.S. Dollar deposits) as of 11:00 a.m., London time, on the day which is two Business Days prior to the first day of the Interest Period. If there is no period equal to the Interest Period on the display, the LIBOR Rate shall be determined by straight-line interpolation to the nearest month (or week or day if expressed in weeks or days) corresponding to the Interest Period between the two nearest neighboring periods on the display.

2.11 LONDON BANKING DAY shall mean any day upon which banks in London, England, are open for business and dealing in offshore dollars.

2.12 RESERVE ADJUSTMENT shall mean as of any day the remainder of one minus that percentage (expressed as a decimal) which is the highest of any such percentages established by the Board of Governors of the Federal Reserve System (or any successor) for required reserves (including any emergency, marginal, or supplemental reserve requirement) regardless of the aggregate amount of deposits with said member bank and without benefit of any possible credit, proration, exemptions, or offsets for time deposits established at offices of member banks located outside of the United States or for eurocurrency liabilities, if any.

ROYALTY AGREEMENT

This Royalty Agreement is made and entered into as of 4/9, 1988 by and between BOW-FLEX OF AMERICA, INC., a California corporation (hereinafter called "Company"), and Tessema D. Shifferaw (hereinafter called "Inventor").

WITNESSETH:

WHEREAS, Inventor has developed certain proprietary products and has been granted a patent thereon;

WHEREAS, Inventor has assigned all his rights to such proprietary products and patent to the Company;

WHEREAS, Company is willing to pay Inventor royalties as provided herein;

WHEREAS, Inventor and the Company have previously executed a License Agreement dated March 25, 1986, as amended (the "Prior Agreement"); and

WHEREAS, Inventor and the Company desire that this Agreement and the Assignment attached hereto shall replace the Prior Agreement, which Prior Agreement shall be terminated.

NOW, THEREFORE, in consideration of these premises and of the mutual premises and of the mutual covenants herein contained, the Company and Inventor hereby agree as follows:

ARTICLE I - DEFINITIONS

As used herein:

"Products" means - all products in the existing product line of the Company based on the Patent Rights and any new products developed by the Company based on the Patent Rights during the term of this Agreement.

"Patent Rights" shall mean the patent rights which have been assigned by Inventor to the Company pursuant to the Assignment attached hereto as Exhibit A.

"Improvements" shall mean any and all improvements, modifications, enhancements or adaptations made to the Products or the Patent Rights by Inventor.

ARTICLE II - ASSIGNMENT

A. Inventor has executed the Assignment attached hereto as Exhibit A assigning the Patent Rights and all other rights of Inventor in the Products to the Company. Inventor further agrees to assign all Improvements to the Company, and to reasonably cooperate with the Company in prosecuting patent applications, both

U.S. and foreign, covering the Improvements and/or any improvements, modifications, enhancements or adaptations made to the Products by the Company, provided that the Company shall pay all expenses (including legal fees and expenses) of Inventor in connection therewith in advance and shall include a reasonable per diem in the event Inventor is not then employed by the Company.

ARTICLE III - PAYMENT OF ROYALTIES

A. The Company shall use its best reasonable efforts to market and sell (or to have a third party market and sell) the Products.

B. The Company shall pay to Inventor royalties (i) on sales of the Products at the rate of three percent (3%) of the Net Sales Revenue, as defined below, of all Products sold by the Company, and (ii) on revenue received by the company from licensing third parties to manufacture and sell the Products or otherwise utilize the Patent Rights to manufacture and sell products at the rate of twelve percent (12%) of Net License Revenue, as defined below, after the date hereof until the date the Patent Rights expire.

C. The Company shall pay Inventor royalties with respect to cash received by the company (i) from sales of the Products in each quarter no later than thirty (30) days following the end of such quarter and (ii) from licensing the Products or Patent Rights in each quarter no later than forty seven (47) days following the end of

such quarter and shall at the same time deliver to Inventor a royalty statement for such quarter; each such quarter royalty statement shall show, for the period covered thereby, Net Sales Revenue and Net License Revenue, with any adjustments made in such figures for preceding periods and whatever other items or information may be necessary for Inventor in calculating the royalties due under this Agreement. The Company's total sales revenue (net of charges for insurance, freight, packaging or handling), less the sum of (i) total credits for returns, (ii) any commissions paid to dealers or sales representatives, (iii) uncollectible accounts receivable, (iv) cash or credit-card discounts, (v) any fees paid to prosecute patent applications to extend the Patent Rights or otherwise obtain patents coveting the Products in foreign countries ("Patent Fees"), and (vi) all legal costs and fees incurred by the Company in litigation with regard to upholding the Patent Rights or prosecuting third parties for infringement of the Patent Rights ("Legal Fees") is referred to herein as "Net Sales Revenue."

The Company's total revenues received from third parties for licensing third parties to manufacture and sell the Products or otherwise utilize the Patent Rights, less the sum of Patent Fees and Legal Fees not deducted from Net Sales Revenue, is referred to herein as "Net License Revenue."

In the event that the Company shall (i) undertake a public offering of its securities pursuant to the Securities Act of 1933, as amended, or (ii) merge with another corporation, or sell all or

substantially all of its assets or capital stock and the shareholders of the Company shall receive cash or publicly traded securities in such transaction having a value of not less than $10.00 per share of Common Stock of the Company, appropriately adjusted for any stock splits, combinations, or recapitalizations of the Company (with (i) or (ii) being referred to as a "Transaction"), then the Company shall have the option (the "Option") to reduce the royalty payable to Inventor to one percent (1%) of Net Sales Revenue, effective upon the closing of the Transaction, and to provide that the royalty shall be payable only for a period of five (5) years after the date of closing of the Transaction. If the Company shall elect to exercise the Option, the Company shall pay to Inventor the sum of $1,700,000.00, to be paid in cash upon the closing of the Transaction.

D. Once during each calendar year falling in whole or in part in the term of this Agreement and the following twelve months, any certified public accountants or lawyers and/or other persons of Inventor's choice may, upon reasonable notice to the Company in each case and during regular business hours, examine and make copies of the Company's books of account, records, vouchers, invoices and all other documents relating to the subject matter in whole or in part of this Agreement in order to determine the correctness and completeness of all payments made and statements delivered hereunder to Inventor. If any such examination reveals an error of 5% or more in royalties paid or payable to Inventor,

then the Company shall at Inventor's request promptly pay Inventor all costs of such examination together with the amount of such deficiency of royalties payable to Inventor plus interest at the maximum rate permitted by law since the date such amount should have been paid to Inventor. The Company shall keep in accordance with generally accepted accounting principles consistently applied, and preserve for a reasonable period of time, proper, accurate, complete and easily auditable records and books of account reflecting all dealings with the Product or related materials and shall make all such entries therein as may be necessary to enable all calculations referred to herein to be readily verified.

ARTICLE IV - TERMINATION

A. This Agreement, unless sooner terminated in a manner herein provided, shall continue until the expiration of the last to expire of any and all U.S. patents comprising the Patent Rights and thereafter the Company shall be free to utilize the Patent Rights and manufacture and sell Products without payment of royalties to Inventor.

B. In the event that either party defaults in its performance under this Agreement and fails to correct such default within thirty (30) days after receipt from the other party of a notice specifying such default, the nondefaulting party shall have the right, in its sole option and discretion, to terminate this

Agreement. The rights under this Article shall be in addition to, and not in lieu of, other rights afforded by operation of law or otherwise.

C. If this Agreement is terminated for any reason other than upon expiration of the term hereof, the Company shall execute any instrument necessary to formally revest Inventor of his interests in the Patent Rights as fully and entirely as Inventor would have held and enjoyed if this Agreement and the Assignment had not been made.

ARTICLE V - PATENTS, COPYRIGHTS AND TRADE SECRETS

A. Inventor shall hold and save the Company, its subsidiaries, agents, customers and users, harmless of and from any and all loss, damage or liability (including legal expense) for or on account of or resulting from any claim of infringement of any existing or future Letters Patent or Copyright in the United States and/or foreign countries or misappropriation of any trade secret or other intellectual property right with respect to the Products and Patent Rights provided that the Company shall give Inventor prompt written notice of any suit against the Company based on any such claim and the option to defend or settle the same through Inventor's counsel. However, nothing stated herein shall be deemed to include within the indemnity hereby given any infringement caused by modification of the Products or development of new

products by the Company when said modification or development causes said infringement.

B. If the Products or Patent Rights are held to be an infringement of any patent or copyright or a misappropriation of any trade secret or other intellectual property right and its use, sale or manufacture is enjoined, Inventor shall, at Inventor's option and expense, either:

1. Procure for the Company the right to continue to manufacture, have manufactured, use, sell, lease or otherwise dispose of such Product; or

2. Replace or modify the infringing part or portion of the Product in such a way that it will not continue to constitute such infringement or misappropriation without substantially changing the Company's manufacturing cost of the Product.

ARTICLE VI - WARRANTY

Inventor warrants that he knows of no U.S. or foreign patents or patent applications or copyrights which would be infringed or trade secrets or other intellectual property rights which would be misappropriated by the Company's manufacture, use or sale of the Products and that there is no present or threatened trade secret, patent or copyright infringement suit with respect to the Products or the Patent Rights.

ARTICLE VII - SEVERABILITY

The invalidity or unenforceability of one or more provisions of this Agreement shall not affect the other provisions and this Agreement shall be constructed in all respects as if such invalid or unenforceable provisions were omitted.

ARTICLE VIII - GENERAL

A. CONSTRUCTION: This Agreement shall be deemed to have been entered into and shall be construed and interpreted in accordance with the laws of the State of California.

B. NOTICE OF DELAY: Whenever any occurrence is delaying or threatens to delay the timely performance of this Agreement, Inventor will immediately give notice thereof, including all relevant information with respect thereto, to the Company.

C. WAIVERS: The failure of either party to insist, in any one or more instances, upon the performance of any of the terms, covenants or conditions of this Agreement or to exercise any right hereunder, shall not be construed as a waiver or relinquishment of the future performance of any such term, covenant or conditions or the future performance of any such term, but the obligation of the other party with respect to such future performance shall continue in full force and effect.

D. NO ASSIGNMENT: This Agreement is personal to the parties hereto and shall be binding upon and inure solely to their benefit. Any assignment of the rights or delegation of duties hereunder by either of the parties whether in whole or in part shall only be made with the prior written consent of the other party; provided, however, that the Company may assign this Agreement, without the consent of Inventor, to any successor corporation in a merger or sale of substantially all of the Company's assets transaction. Any attempted assignment not made in accordance with the provisions of this Article shall be void and of no effect.

E. ENTIRE AGREEMENT: This Agreement, together with the Assignment attached hereto, sets forth and shall constitute the entire agreement between the Company and Inventor with respect to the subject matter thereof, and shall supersede any and all prior agreements, understandings, promises and representations made by one party to the other concerning the subject matter hereof and the terms applicable thereto. This Agreement may not be released, discharged, supplemented, interpreted, amended or modified in any manner except by an instrument in writing signed by a duly authorized officer or representative of each of the parties hereto except as specifically provided otherwise in this Agreement.

F. INDEPENDENT CONTRACTORS: In making and performing this Agreement, the parties act and shall act at all times as independent contractors and nothing contained in this Agreement shall be construed or implied to create any agency, partnership or employer

and employee relationship between the parties. At no time shall either party make commitments or incur any charges or expenses for or in the name of the other party.

G. PRIOR AGREEMENT: The Prior Agreement is hereby terminated.

IN WITNESS WHEREOF, the parties hereby execute this Agreement on April 9, 1988.

BOW-FLEX OF AMERICA, INC.
a California corporation

BY: /s/ Brian R. Cook

Title: President

/s/ Tessema D. Shifferaw

Tessema D. Shifferaw

ADDENDUM
ROYALTY AGREEMENT

That certain ROYALTY AGREEMENT dated April 9, 1988, by and between Tessema D. Shifferaw and Bowflex of America, Inc. is hereby amended as follows:

Article VIII - General

H. Notwithstanding any provision herein to the contrary, in the event of the death of Inventor, the royalties and/or other benefits payable hereunder shall inure to the administrators, representatives, heirs, beneficiaries and/or successors of Inventor.

August 25, 1988 /s/ Tessema D. Shifferaw

Tessema D. Shifferaw, Inventor

August 9, 1988 Bowflex of America, Inc.

by /s/ Brian R. Cook

Brian R.Cook, President

ROYALTY PAYMENT AGREEMENT

THIS Agreement is made and entered into as of June 18, 1992 by and between TESSEMA D. SHIFFERAW (hereinafter called "Inventor"), and BRIAN R. COOK and R.E. "SANDY" WHEELER (hereinafter called "COOK AND WHEELER").

Inventor receives royalties under a Royalty Agreement dated April 9, 1988 by and between BOW-FLEX OF AMERICA, INC. ("Company") and TESSEMA D. SHIFFERAW ("Inventor"), attached hereto for reference as Exhibit "A". Further, Inventor agrees that copy of this Agreement shall serve as notification and instruction to Company to effect the changes in royalty payments agreed herein.

For and in valuable consideration of past and present services by Cook and Wheeler, Inventor agrees to split royalties received under that Agreement and instruct BOW-FLEX OF AMERICA, INC. to make payment as follows:

Beginning with the calendar year 1993 and continuing until modified in writing by the parties to this Agreement, or exercise of the Company's Option to purchase the Royalty under the terms of Article III, Paragraph C of the Royalty Agreement, the Company shall pay solely to Inventor the first seventy thousand dollars ($70,000) of royalties on sales each year in accordance with Article III, Paragraph B and C of the Royalty Agreement.

Inventor agrees and hereby instructs the Company to pay Royalties due and payable to Inventor in accordance with Paragraph B and C of the Royalty Agreement in excess of seventy thousand dollars ($70,000) each year as follows:

An amount equal to sixty percent (60%) of the excess shall be paid to Inventor and, at the same time, an amount equal to forty percent (40%), divided equally, shall be paid directly to Cook and Wheeler.

THIS AGREEMENT sets forth and shall constitute the entire agreement between the parties with respect to the subject matter thereof, and shall supersede any and all other prior agreements, understandings, promises and representations made by one party to the other concerning the subject matter hereof and the terms applicable thereto. This Agreement may not be released, discharged, supplemented, interpreted, amended, or

modified in any manner except by an instrument in writing signed by each of the parties hereto.

It is the express intention of the parties hereto that this Agreement shall be enforceable and binding upon all parties. The parties acknowledge that this Agreement has not been prepared by legal counsel and, in the event interpretation of legal counsel, or jurisdiction, should proclaim any portion of this Agreement unenforceable or not binding upon the parties as intended, then the parties agree to execute any modification or document necessary to enforce the intent of this Agreement.

The parties hereto have set forth their signatures, witnessed by unrelated parties on the dates as indicated.

PARTIES TO THE AGREEMENT: WITNESSES:

Executed this 22 day of June, 1992.

/s/ Tessema D. Shifferaw [ILLEGIBLE]
- ---------- ----------
Tessema D. Shifferaw

Executed this 18 day of June, 1992.

/s/ Brian R. Cook /s/ E. Beth Wake
- ---------- ----------
Brian R. Cook

Executed this 18 day of June, 1992.

/s/ R.E. "Sandy" Wheeler /s/ E. Beth Wake
- ---------- ----------
R.E. "Sandy" Wheeler

[We have omitted portions of this Exhibit pursuant to a request for confidential treatment that we have filed pursuant to Rule 406 of the Securities Act. We have separately filed a copy of this Exhibit with the omitted portions intact with the Securities and Exchange Commission.]

FIRST AMENDED AND RESTATED MERCHANT AGREEMENT

BANK: Household Bank (SB), N.A.
1111 Town Center Drive
Las Vegas, Nevada 89134

MERCHANT: Direct Focus, Inc. f/k/a Bowflex, Inc.
2200 NE 65th Avenue
Vancouver, WA 98661
Phone: 360-418-6178
Facsimile No.: 360-694-7755

This First Amended and Restated Merchant Agreement ("AGREEMENT") is made and entered into as of the 27th day of January, 1999 ("EFFECTIVE DATE"), by and between Household Bank (SB), N.A. for itself and as assignee of Household Bank (Nevada), N.A. (herein "HOUSEHOLD") and Direct Focus, Inc., formerly known as Bowflex, Inc., a Washington corporation (herein "MERCHANT") and shall be effective as of February 1, 1999. In consideration of the mutual promises, covenants, and agreements set forth below and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Merchant and Household agree as follows:

SECTION 1. DEFINITIONS. In addition to the words and phrases defined above and elsewhere in this Agreement, the following words and phrases shall have the following meanings:

a. "ACCOUNT" means an account resulting from the issuance of a Card. An Account may have more than one Card issued for it. Each Account shall be owned by, and deemed to be the property of, Household.
b. "AFFILIATE" means any entity that is owned by, owns or is under common control with Household or its ultimate parent or Merchant or its ultimate parent.
c. "APPLICABLE LAW" means collectively or individually any applicable law, rule, regulation or judicial, governmental or administrative order, decree, ruling, opinion or interpretation.
d. "APPLICATION" means an application for an Account under the Program.
e. "AUTHORIZATION" means permission from Household to make a Card Sale.
f. "AUTHORIZATION CENTER" means the facility designated by Household as the facility at which Card Sales are authorized.
g. "BUSINESS DAY" means any day except Saturday or Sunday or a day on which banks are closed in the State of Illinois.
h. "CARD" means the private label credit card bearing Merchant's name and/or logo issued by Household for the Program.
i. "CARDHOLDER" means (i) the person in whose name an Account is opened, and (ii) any other authorized users of the Account and Card.
j. "CARDHOLDER AGREEMENT AND DISCLOSURE STATEMENT" (hereafter "Cardholder Agreement") means the credit card agreement between Household and each Cardholder providing for the extension of credit by Household under the Program pursuant to which the Cardholder is issued a Card, as the same may be revised from time to time by Household with notification to Merchant.
k. "CARD SALE" means any sale of Goods that Merchant makes to a Cardholder pursuant to this Agreement that is charged to an Account.
l. "CHARGEBACK" means the return to Merchant and reimbursement to Household of a Sales Slip for which Merchant was previously paid pursuant to SECTION 8 herein.
m. "CREDIT SLIP" means evidence of credit in electronic or paper form for Goods purchased from Merchant.
n. "DISCOUNT" means the fee payable by Merchant to Household as described in Section 3.b.(ii) hereof.
o. "GOODS" means the products described in SECTION 2 below, certain warranties expressly authorized by Household, and related services sold by Merchant in the ordinary course of Merchant's business to consumers for individual, family, personal or household use.
p. "MAILED-IN APPLICATION" means any Application for a Card which is received by Merchant or Household through the mail.
q. "OPERATING INSTRUCTIONS" means the regulatory guidelines and operating instructions and/or procedures or written instructions designated by Household and agreed to by Merchant, which agreement shall not be unreasonably withheld, from time to time concerning the Program.
r. "PROGRAM" means the private label revolving credit card program promoted by Merchant whereby Accounts will be established and maintained by Household, Cards issued by Household to qualified consumers purchasing Merchant's Goods, and Card Sales funded all pursuant to the terms of this Agreement.
s. "SALES SLIP" means evidence of a Card Sale in electronic or paper form for Goods purchased from Merchant.
t. "TELEPHONE APPLICATION" means any Application for a Card which is received from a consumer or solicited by Merchant via telephone and for which the applicant's credit or other information required to apply for a Card is obtained by Merchant from the applicant over the telephone.
u. "TERMINAL" means an electronic terminal or computer capable of communicating by means of an on-line or dial-up electronic link with an

Authorization Center.

SECTION 2. SCOPE AND PURPOSE. Merchant engages in the sale of fitness equipment and other products. Pursuant to that certain Merchant Agreement dated February 4, 1997 ("Existing Merchant Agreement"), Household and Merchant had agreed that Household would make financing available to customers of Merchant purchasing Goods from Merchant. Merchant has requested Household to continue to make financing available to consumers purchasing Goods from Merchant and Merchant has agreed to execute this Agreement in order to continue the Program and secure its benefit for Merchant. Household and Merchant agree that this Agreement shall supersede and replace the Existing Merchant Agreement. Household, a credit card bank in the business of providing revolving credit financing pursuant to a credit card, has agreed to continue to provide financing under the Program to individual qualified consumers purchasing Merchant's Goods pursuant to the terms and conditions set forth in this Agreement.

a. FORMS AND CARDS. Household will provide to Merchant standard Sales Slips, Credit Slips and other forms from time to time for use by Merchant in the Program, which documents may be changed from time to time by Household. Merchant agrees to pay for the combined Application and Cardholder Agreement and Disclosure Statement and will be charged a fee for non-standard forms and for forms in excess of normal usage. The design and content of Cards and billing statements and the terms and conditions of Accounts and combined Applications and Cardholder Agreement and Disclosure Statement shall be determined by Household and are subject to change by Household from time to time.

b. CREDIT REVIEW, OWNERSHIP OF ACCOUNTS. All completed Applications for Accounts submitted by Merchant to Household whether mailed, telephoned or otherwise electronically transmitted will be processed and approved or declined in accordance with Household's credit criteria and procedures from time to time established by Household, with Household having and retaining all rights to reject or accept such Applications. Household will only accept Applications for revolving credit pursuant to the credit card it issues for individual, personal, family or household use. Household or its Affiliates shall own the Accounts and shall bear the credit risk for such Accounts, except as otherwise provided in this Agreement. Merchant acknowledges and agrees that it shall have no interest whatsoever in the Accounts. Household shall not be obligated to take any action under an Account, including making future advances or credit available to Cardholders. Household shall not be obligated to accept Applications for a Card or to approve any Card Sale for consumers that do not have their principal residence and billing address in the fifty United States and the District of Columbia.

c. CARD PROMOTIONS, SERVICES AND ENHANCEMENTS. Household and Merchant may from time to time mutually agree to offer to existing or potential Cardholders special credit promotions, additional services and/or enhancements. The terms of such promotions, services and enhancements shall be mutually agreed upon by Household and Merchant and are subject to change or discontinuance by Household and Merchant. In consideration of Household's providing special credit promotions and to compensate Household for such promotions, Merchant agrees to pay to Household for the period agreed upon by Household and Merchant such rates, amounts and/or discounts set forth herein. Household may deduct amounts owed to it hereunder from amounts owed to Merchant under this Agreement.

d. MERCHANT CUSTOMER LISTS. Household acknowledges that the names and addresses of Merchant customers provided by Merchant to Household constitute a merchant list and customer list respectively, of Merchant in which Merchant has proprietary rights and which Merchant regards as (and which is acknowledged by Household to constitute) a trade secret of Merchant. Accordingly, Household shall not use such list except with the prior written consent of Merchant, or to carry out its obligations under this Agreement. Merchant grants to Household the right to use such merchant and customer lists solely for such purposes. Household shall exercise such care with respect to such merchant and customer lists as it does with its own trade secrets. Notwithstanding the confidentiality provisions of this Agreement, Merchant as owner of such merchant and customer list may use such names and addresses for any purpose.

e. CARDHOLDER LIST. Merchant agrees that Household is the owner of the Cardholder list and that Household and its Affiliates may use such list to solicit Cardholders for credit card products offered by Household and/or any of its Affiliates or other types of accounts or financial products or insurance services offered by Household and/or any of its Affiliates. Household agrees that Merchant may solicit, at its expense the Cardholder list for products or services offered by Merchant; provided that such products or services, as determined by Household do not compete with the Program, Household or its Affiliates and such solicitation does not reference the Program. The Cardholder list shall be subject to the confidentiality provisions of this Agreement.

SECTION 3. FEES, DISCOUNTS, CHARGES, RATES AND FUNDING. Except as otherwise provided herein, the following consumer rate, fees, Discount and charges shall be effective for the Initial Term of this Agreement.

a. CONSUMER RATE. The consumer rate to be charged on purchases with the Card shall be 21.8%, subject to change from time to time by Household.

b. DETERMINATION OF FEES AND DISCOUNTS. The rate, fees, discounts and charges described in this SECTION 3 are subject to change from time to time by Household.

c. MERCHANT. Merchant agrees to pay Household the following fees and discounts

(some of which are more fully described in this Agreement):

(i) "CREDIT PROMOTION DISCOUNT FEE": Household shall make certain deferred payment and/or deferred interest credit promotion ("Credit Promotions") available to Merchant. Each Sales Slip generated pursuant to each credit promotion shall be subject to a Credit Promotion discount fee as set forth herein which is a designated percentage of the amount of each Sales slip accepted and funded by Household. Each Sales Slip generated pursuant to non-promotional Card Sale shall be subject to a non-promotional discount fee also as set forth herein which is a designated percentage of the amount of each Sales Slip accepted and funded by Household. The Credit Promotion and non-promotional discount fees shall be collectively referred to as the "Discount Fees".

The Credit Promotions and Discount Fees available as of the date of this Agreement are listed below:

Promotional Period	Promotional Type	Discount Fee
Regular Sale	Non-Promotional Card Sale	*
3 Months	Same As Cash W/O Payment	*
6 Months	Same As Cash W/Payment	*
7 Months	Same As Cash W/Payment	*
8 Months	Same As Cash W/Payment	*
9 Months	Same As Cash W/Payment	*
10 Months	Same As Cash W/Payment	*
11 Months	Same As Cash W/Payment	*
12 Months	Same As Cash W/Payment	*

(ii) "START-UP FEE": *

(iii) "FORMS FEE": *

c. ACCEPTANCE, OFFSET & FUNDING. Subject to the terms, conditions, warranties and representations in this Agreement and provided that Merchant has satisfied all of the conditions set forth in this Agreement, including, without limitation, SECTIONS 4, 5, 6 AND 7, Household agrees to pay to Merchant the amount of each valid and authorized Sales Slip presented to Household during the term of this Agreement, less the amount of the fees, charges, and Discounts described above in this Section, outstanding Account balances for Sales Slips subject to Chargeback, reimbursements, refunds, customer credits and any other amounts owed to Household under this Agreement by Merchant. Household may also offset or recoup said amounts from future amounts owed to Merchant under this Agreement. Any amounts owed by Merchant to Household which cannot be paid by the aforesaid means shall be due and payable by Merchant on demand. Any payment made by Household to Merchant shall not be final but shall be subject to subsequent review and verification by Household. Household's liability to Merchant with respect to the funding of any Card Sale, Sales Slip or Credit Slip shall not exceed the amount on the Sales Slip or Credit Slip in connection with such transaction. In no event shall Household be liable for incidental or consequential damages.

d. FUNDING. Funding of Sales Slips by Household to Merchant shall be made to Merchant's account at a bank designated by Merchant. Household will use its best efforts to make such payments on the first Business Day after receipt, verification and processing by Household of the transmission of the transaction data, if such transmission is received by 7:30 am Central Standard Time; if received later than 7:30 am Central Standard Time, then on the second Business Day after said transmission, however, in no event shall such payments be made later than the third Business Day after receipt of said transmission by Household.

SECTION 4. MERCHANT RESPONSIBILITIES CONCERNING CONSUMER TRANSACTIONS. Merchant covenants and agrees that Merchant shall:

a. Honor all valid Cards without discrimination, when properly presented by Cardholders for payment of Goods.
b. Not require, through an increase in price or otherwise, any Cardholder to pay any surcharge at the time of sale or pay any part of any charge imposed by Household on Merchant.
c. Not establish minimum or maximum charge amounts without Household's prior written approval.
d. Prominently display at each of its locations, advertising and promotional materials relating to the Card, including, without limitation, take-one Applications for the Card and use and display such materials in accordance with any specifications provided by Household. Such materials shall be used only for the purpose of soliciting accounts for the Program. Any solicitation, written material, advertising or the like relating to the Program or the products offered pursuant to the Program shall be prepared or furnished by Household or shall receive Household's prior written approval. Household will charge Merchant and Merchant agrees to pay for any such advertising and promotional materials. Any such materials shall not be used by Merchant following termination of this Agreement.

e. Use only the form of, or modes of transmission for, Application/Cardholder Agreements, Sales Slips and Credit Slips as are provided by Household, and not use any Application/Cardholder Agreements, Sales Slips, and Credit Slips provided by Household other than in connection with a Card transaction.

f. With respect to Telephone Applications, Merchant shall:
(i) Make sure all information requested on the Telephone Application is complete;
(ii) Give the applicant the applicable initial disclosures at the time the Telephone Application information is requested or such other disclosures as may be required by Household from time to time;
(iii) Provide all information required by Household from time to time for approval of Applications by telephone or other electronic transmission;
(iv) Designate on the Application and/or enter into the Terminal that it was a Telephone Application and Card Sale;
(v) Not submit to Household for funding any Sales Slip resulting from a telephone or mail order Card Sale until not less than five (5) Business Days after receipt by Merchant and approval by Household of the Telephone or Mail Order Application; and
(vi) Merchant represents and warrants that in connection with telephone solicitations, it has adopted such policies and procedures to ensure compliance with all applicable federal and state laws, regulations or rules relating to telemarketing and/or telephone solicitations including but not limited to the Telephone Consumer Protection Act of 1991 ("TCPA") 42 USC 227 and 152(b); Chapter I, Title 47 of the Code of Federal Regulations, parts 64 and 68, the Telemarketing and Consumer Fraud and Abuse Prevention Act (TCFAPA) 15 U.S.C. Sections 6101-6108; 16 CFR Part 310 and any applicable telemarketing or telephone solicitation laws of the state from which Merchant shall be initiating telephone solicitations for the Card.

g. With respect to Mailed-In Applications, Merchant shall:
(i) Make sure all information requested on the Application is complete;
(ii) Provide all information required by Household from time to time for approval of Applications by mail and legibly insert the Account number on the Application in the designated area;
(iii) Designate on the Application and Sales Slip that it is a Mailed In Application and Card Sale;
(iv) Merchant represents and warrants that in connection with mail-order sales, it has adopted such policies and procedures to ensure compliance with all applicable federal and state laws, regulations or rules relating to mail order sales including but not limited to all applicable requirements of Title 16 Code of Federal Regulations, Chapter I, Subchapter D, part 435.1 ("Mail Order Rule");
(v) Not ship or deliver or cause to be shipped or delivered any Goods to a Cardholder until not less than five (5) Business Days after receipt by Merchant and approval by Household of the Telephone or Mailed-In Application;
(vi) Not submit to Household for funding any Sales Slip resulting from a telephone or mail order Card Sale until not less than five (5) Business Days after receipt by Merchant and approval by Household of the Telephone or Mailed-In Application; and
(vii) Send a copy of the approved Telephone or Mailed-In Application to Household within five (5) Business Days after the date the Goods are shipped to the Cardholder or the Sales Slip funded by Household.

h. With respect to Sales Slips Merchant shall:
(i) Enter legibly on a single Sales Slip prior to obtaining the Cardholder's signature (1) a description of all Goods purchased in the same transaction in detail sufficient to identify the transaction; (2) the date of the transaction; (3) the Authorization number; and (4) the entire amount due for the transaction (including any applicable taxes);
(ii) REQUEST AUTHORIZATION FROM HOUSEHOLD'S AUTHORIZATION CENTER UNDER ALL CIRCUMSTANCES. (Household may refuse to accept or fund any Sales Slip that is presented to Household for payment more than sixty (60) days after the date of Authorization of the Card Sale). Merchant agrees not to divide a single transaction between two or more Sales Slips or between a Household Sales Slip and a sales slip for another credit provider. If Authorization is granted, legibly enter the Authorization number in the designated area on the Sales Slip. If Authorization is denied, not complete the transaction and follow any instructions from the Authorization Center. Merchant shall use its best efforts, by reasonable and peaceful means, to retain or recover a Card:
(1) if Merchant is advised to retain the Card in response to an Authorization request; or
(2) if Merchant has reasonable grounds to believe that the Card is counterfeit, fraudulent, or stolen. The obligation to retain or recover a Card imposed by this Section does not authorize a breach of the peace or any injury to persons or property, and Merchant will hold Household harmless from any claim arising from any injury to person or property or other breach of the peace.
(iii) Imprint legibly on the Sales Slip the embossed legends from the Card or if the transaction is to be completed electronically or otherwise without a Card imprint, then enter legibly on the Sales Slip sufficient information to identify the Cardholder and Merchant, including at least, Merchant's name, Cardholder's name, Account number,

expiration date and any effective date on the Card. Merchant shall be deemed to warrant the Cardholder's true identity as an authorized user of the Card;

(iv) Check the effective date, if any, and the expiration date on the Card;

(v) Obtain the signature of the Cardholder on the Sales Slip, and compare the signature on the Sales Slip with the signature panel of the Card and if identification is uncertain or if Merchant otherwise questions the validity of the Card, contact Household's Authorization Center for instructions. For telephone orders (TO) or mail orders (MO) only, the Sales Slip may be completed without the Cardholder's signature and a Card imprint, but Merchant shall, in addition to all other requirements under this SECTION 4, enter legibly on the signature line of the Sales Slip the letters "TO" or "MO", as appropriate, and not deliver Goods or perform services after being advised that the "TO" or "MO" has been canceled or that the Card is not to be honored;

(vi) IDENTIFICATION OF THE CARDHOLDER IS THE RESPONSIBILITY OF MERCHANT;

(vii) Not present the Sales Slip to Household for funding until all Goods are delivered and all the services are performed to the Cardholder's satisfaction. If the Card Sale is canceled or the Goods or services canceled or returned, the Sales Slip is subject to Chargeback;

(viii) Enter the Card Sale into the Terminal and, if applicable, Household's approval code; and

(ix) Deliver a true and completed copy of the Sales Slip to the Cardholder at the time of delivery of the Goods.

i. CREDIT SLIPS. If Goods are returned, any Card Sale or services are terminated or canceled, or Merchant allows any price adjustment, then Merchant shall not make any cash refund, but shall complete and deliver promptly to Household a Credit Slip evidencing the refund or adjustment and deliver to the Cardholder a true and complete copy of the Credit Slip at the time the refund or adjustment is made. Merchant shall sign and date each Credit Slip and include thereon a brief description of the Goods returned, services terminated or canceled, refund or adjustment made, the date of the original Card Sale, Authorization number, Cardholder's name, address and Account number, and the date and amount of the credit, all in sufficient detail to identify the transaction. Merchant shall imprint or legibly reproduce on each Credit Slip the embossed legends from the Card and from Merchant's imprinter plate. The amount of the Credit Slip cannot exceed the amount of the original transaction as reflected on the Sales Slip. Merchant shall issue Credit Slips only in connection with previous bona fide Card Sales and only as permitted hereunder.

j. Not receive any payments from a Cardholder for charges included on any Sales Slip resulting from the use of any Card, nor receive any payments from a Cardholder to prepare and present a Credit Slip for the purpose of effecting a deposit to the Cardholder's Account.

k. CARDHOLDER COMPLAINTS. Merchant shall within five (5) days of receipt provide Household with a copy of any written complaint from any Cardholder concerning an Account.

l. RIGHT OF FIRST REFUSAL. Merchant shall actively promote the Program. Merchant agrees to give Household right of first refusal in presenting consumer credit Applications and/or Sales Slips. During the term of this Agreement, Merchant shall not issue, arrange to issue, or accept, in the fifty United States and the District of Columbia, any private label credit card or account other than the Card, under any of Merchant's names or logos, except with respect to Applications declined by Household. To the extent Merchant displays other third party credit or charge card materials, it shall display the advertising and promotional materials relating to the Card in a manner and with a frequency equal to or greater than that accorded any other third party credit or charge card.

m. Satisfy all other requirements designated in any Operating Instructions or as may be required from time to time by Household. In the event there is any inconsistency between any Operating Instructions and this Agreement, this Agreement shall govern unless otherwise expressly indicated by Household in any Operating Instructions.

n. Present each Sales Slip and deliver each Credit Slip to Household or such other person designated by Household, within ten (10) Business Days after the date of the respective sale or credit transaction.

SECTION 5. MERCHANT REPRESENTATIONS AND WARRANTIES. Merchant represents and warrants to Household as of the Effective Date and throughout the term of this Agreement the following:

a. That each Card Sale will arise out of a bona fide sale of Goods by Merchant and will not involve the use of the Card for any other purpose.

b. That each Card Sale will be to a consumer for personal, family, or household purposes.

C. That Cardholder Applications will be available to the public (i) without regard to race, color, religion, national origin, sex, marital status, or age (provided the applicant has the capacity to enter into a binding contract) and (ii) not in any manner which would discriminate against an applicant or discourage an applicant from applying for the Card.

d. That it has full corporate power and authority to enter into this Agreement; that all corporate action required under any organization documents to make this Agreement binding and valid upon Merchant according to its terms has been taken; and that this Agreement is and will be binding, valid and enforceable upon Merchant according to its terms.

e. That it is not in violation of any covenants in any debt instruments to which it is a party as of the Effective Date of this Agreement.

f. Neither (i) the execution, delivery and performance of this Agreement, nor (ii) the consummation of the transactions contemplated hereby will constitute a violation of law or a violation or default by Merchant under its articles of incorporation, by laws or any organization documents, or any material agreement or contract and no authorization of any governmental authority is required in connection with the performance by Merchant of its obligations hereunder.

g. There are no proceedings or investigations pending, or, to the knowledge of Merchant, threatened, before any court, regulatory body, administrative agency, or other tribunal or governmental instrumentality having jurisdiction over Merchant or its properties: (i) asserting the invalidity of this Agreement or seeking to prevent the consummation of any of the transactions contemplated hereunder, or (ii) which, individually or in the aggregate, could reasonably be expected to have a material adverse effect on the ability of Merchant to perform its obligations hereunder.

h. Merchant has and will retain throughout the term of this Agreement all required licenses to perform it's obligations under this Agreement.

i. Any Card Sale subject to rescission has not been rescinded.

SECTION 6. CHARGEBACKS TO MERCHANT. Merchant agrees as follows:

a. CHARGEBACKS. Any Sales Slip or Card Sale is subject to Chargeback under any one or more of the following circumstances, and thereupon the provisions of SECTION 6.b. below shall apply:

(i) The Application or any information on the Application or the Sales Slip or any required information on the Sales Slip (such as the account number, expiration date of the Card, description of Dealer or Goods purchased, transaction amount or date) is illegible or incomplete, or except as provided in Section 4.f., the Sales Slip or Application is not executed by the Cardholder; or Authorization is not obtained from Household's Authorization Center, or a valid Authorization number is not correctly and legibly entered on the Sales Slip; or the Sales Slip is a duplicate of an item previously paid, or the price of the Goods or services shown on the Sales Slip differs from the amount shown on the Cardholder's copy of the Sales Slip;

(ii) Household determines that (1) Merchant has breached or failed to satisfy, any term, condition, covenant, warranty, or other provision of this Agreement, including, without limitation, SECTIONS 4 AND 5 above, or of the Operating Instructions, in connection with a Sales Slip or the transaction to which it relates, or an Application for a Card or the opening of an Account; or (2) the Sales Slip, Application/Cardholder Agreement or Card Sale is fraudulent or is subject to any claim of illegality, cancellation, rescission, avoidance or offset for any reason whatsoever, including, without limitation, negligence, fraud, misrepresentation, or dishonesty on the part of the customer or Merchant or its agents, employees, licensees, or franchisees, or that the related transaction is not a bona fide transaction in Merchant's ordinary course of business;

(iii) the Cardholder disputes or denies the Card Sale or other Card transaction, the execution of the Sales Slip or Application/Cardholder Agreement, or the delivery, quality, or performance of the goods, services or warranties purchased, or the Cardholder has not authorized the Card Sale, or alleges that a credit adjustment was requested and refused or that a credit adjustment was issued by Merchant but not posted to the Account; or

(iv) Merchant fails to deliver to Household the Sales Slip, Credit Slip, Application or other records of the Card transaction within the times required in this Agreement.

b. RESOLUTION AND PAYMENT. Merchant is required to resolve any dispute or other of the circumstances described above in (a) of this SECTION 6 to Household's satisfaction within fifteen (15) days of notice of Chargeback or Merchant shall pay to Household the full amount of each Sales Slip subject to Chargeback or the portion thereof designated by Household, as the case may be, plus the finance charges thereon, any attorney fees incurred by Household, and other fees and charges provided for in the Cardholder Agreement. Upon Chargeback to Merchant of a Sales Slip, Merchant shall bear all liability and risk of loss associated with such Sales Slip or Account, or the applicable portion thereof, without warranty by, or recourse or liability to, Household. Household may deduct amounts owed to Household under this Section from any amounts owed to Merchant under this Agreement.

c. EXCESSIVE CHARGEBACKS. If (i) the aggregate number of Sales Slips subject to Chargeback exceeds 3.0% of the total number of Card Sales submitted by Merchant with respect to an individual Merchant location in any calendar quarter or (ii) the aggregate dollar amount of all Sales Slips subject to Chargeback in any monthly billing cycle exceeds 5% of the total net balances of all Accounts at the end of such monthly billing cycle ((i) and (ii) are herein individually and collectively called "EXCESSIVE CHARGEBACKS"). Excessive Chargebacks shall be deemed a material breach of this Agreement and Household has the right, in its sole discretion, to terminate this Agreement pursuant to SECTION 15.

d. The terms and provisions of this Section 6 shall survive the termination of this Agreement.

SECTION 7. TAPE OR ELECTRONIC TRANSMISSION & RECORDS. Data, records and information shall be transmitted and maintained as described below.

a. TRANSMISSION OF DATA. In lieu of depositing paper Sales Slips and Credit Slips with Household, Merchant shall transmit to Household, by electronic transmission or other form of transmission designated by Household all data required by this Agreement to appear on Sales Slips and Credit Slips. All data transmitted shall be in a medium, form and format designated by Household and shall be presorted according to Household's instructions. Any errors in such data or in its transmission shall be the sole responsibility of Merchant. The means of transmission indicated above in this Section or other means approved by Household, shall be the exclusive means utilized by Merchant for the transmission of Sales Slip or Credit Slip transaction data to Household. Merchant shall use a leased line, supplied by Household, for communicating with Household pursuant to the guidelines set forth in SECTION 4. Household's voice Authorization Center will be available for use for times when the leased line authorization system is not in operation.

b. RECEIPT OF TRANSMISSION. Upon successful receipt of any transmission, Household shall accept such transmission and pay Merchant in accordance with this Agreement, subject to subsequent review and verification by Household and to all other rights of Household and obligations of Merchant as set forth in this Agreement. If data transmission is by tape, Merchant agrees to deliver upon demand by Household a duplicate tape of any prior tape transmission, at the expense of Household, if such demand is made within forty-five (45) calendar days of the original transmission.

C. RECORDS. Merchant shall maintain the actual paper Sales Slips, Credit Slips, and other records pertaining to any transaction covered by this Agreement for such time and in such manner as Household or any law or regulation may require, but in no event less than two (2) years after the date Merchant presents each transaction data to Household, and Merchant shall make and retain for at least seven (7) years legible copies of such actual paper Sales Slips, Credit Slips or other transaction records. Within fifteen (15) days, or such earlier time as may be required by Household, of receipt of Household's request, Merchant shall provide to Household the actual paper Sales Slips, Credit Slips or other transaction records, and any other documentary evidence available to Merchant and reasonably requested by Household to meet its obligations under law (including its obligations under the Fair Credit Billing Act) or otherwise to respond to questions, complaints, lawsuits, counterclaims or claims concerning Accounts or requests from Cardholders, or to enforce any rights Household may have against a Cardholder, including, without limitation, litigation by or against Household, collection efforts and bankruptcy proceedings, or for any other reason. In the event Merchant fails to comply in any respect with the provisions of this SECTION 7, Household may process a Chargeback for each Card Sale involved pursuant to SECTION 6 above.

d. PRODUCTION. Promptly upon termination of this Agreement or upon the request of Household, Merchant will provide Household with all original and microfilm copies of documents required to be retained under this Agreement.

SECTION 8. PAYMENTS BY CARDHOLDER AND ENDORSEMENT. Merchant agrees that Household has the sole right to receive payments on any Sales Slip funded by Household. Unless specifically authorized in writing by Household, Merchant agrees not to make any collections on any such Sales Slip. Merchant agrees to hold in trust for Household any payment received by Merchant of all or part of the amount of any such Sales Slip and to deliver promptly the same in kind to Household as soon as received together with the Cardholder's name, Account number, and any correspondence accompanying the payment and deliver same promptly within five (5) days of receipt by Merchant. Merchant agrees that Merchant shall be deemed to have endorsed any Sales Slip, Credit Slip, or Cardholder payments by check, money order, or other instrument made payable to Merchant that a Cardholder presents to Household in Household's favor, and Merchant hereby authorizes Household to supply such necessary endorsements on behalf of Merchant.

SECTION 9. MERCHANT CREDIT INFORMATION. Household may annually review Merchant's financial stability. To assist Household in doing this, Merchant shall deliver to Household no later than ninety (90) days after the end of each fiscal year, an audited financial statement, including, without limitation, all footnotes, and supporting materials with sufficient detail to accurately portray the financial condition of Merchant. Merchant warrants and represents that its credit Application and financial statements submitted to Household by or on behalf of Merchant are true and accurate and Merchant agrees to supply such additional credit information as Household may reasonably request from time to time. Merchant understands that Household may verify the information on any financial statement or other information provided by Merchant and, from time to time, may seek credit and other information concerning Merchant from others and may provide information regarding this Program including financial and other information to its Affiliates or others for purposes of its asset securitizations and sales.

SECTION 10. MERCHANT BUSINESS PRACTICES. Merchant agrees to provide adequate services in connection with each Card Sale pursuant to standard customs and trade practices and any applicable manufacturer's warranties, and to provide such repairs, service and replacements and take such other corrective action as may be required by law.

SECTION 11. CARDHOLDER ACCOUNT INFORMATION. Merchant shall not sell, purchase, provide, or exchange Account information in the form of imprinted Sales Slips, carbon copies of imprinted Sales Slips, mailing lists, tapes or other media obtained by reason of a Card transaction to any third party other than to Merchant's agents for the purpose of assisting Merchant in its business with Household or pursuant to a government request.

SECTION 12. CHANGE IN OWNERSHIP. Each party agrees to send the other party at least thirty (30) days prior written notice of any change in such party's name or location, any material change in ownership of Merchant's business or any change in Sales Slip or Credit Slip information concerning Merchant.

SECTION 13. INDEMNIFICATION.

a. INDEMNIFICATION BY MERCHANT. Merchant shall be liable to and shall indemnify and hold harmless Household and its Affiliates associated with the Program and their respective officers, employees, agents and directors from any losses, damages, claims or complaints incurred by Household or any Affiliate of Household or their respective officers, employees, agents and directors arising out of: (i) Merchant's failure to comply with this Agreement or any of the Operating Instructions; (ii) any claim, dispute, complaint or setoff made by a Cardholder with respect to anything done or not done by Merchant in connection with Card Sales or Credit Slips; (iii) anything done or not done by Merchant in connection with the furnishing of any Goods, warranties or services purchased by Cardholders; (iv) the death or injury to any person or the loss, destruction or damage to any property arising out of the design, manufacture or furnishing by Merchant of any Goods, warranties or services purchased by Cardholders; (v) any claim or complaint of a third party in connection with Merchant's advertisements and promotions relating to the Card which have not been reviewed or approved by Household; (vi) any illegal or improper conduct of Merchant or its employees or agents; and (vii) any claim or complaint by a consumer that Merchant has violated the Equal Credit Opportunity Act, Truth in Lending Act, or any other act and related Applicable Laws. Household may deduct any amounts incurred by Household under this Section from amounts owed Merchant under this Agreement.
b. INDEMNIFICATION BY HOUSEHOLD. Household shall be liable to and shall indemnify and hold harmless Merchant and its subsidiaries or Affiliates and their respective officers, employees, agents and directors from any losses, damages, claims or complaints incurred by Merchant or any subsidiary or affiliate of Merchant or their respective officers, employees, agents and directors arising out of (i) Household's failure to comply with this Agreement or any of the Operating Instructions; (ii) any claim, dispute or complaint by a Cardholder made in good faith resulting from anything done or not done by Household in connection with such Cardholder's Account; (iii) any illegal or improper conduct of Household, or its employees or agents with respect to the Card, a Card Sale, an Account or any other matters relating to the Program; (iv) any claim, dispute, complaint or setoff by a consumer made in good faith resulting from a violation by Household, with respect to the Application/Agreement, of the Equal Credit Opportunity Act, Truth in Lending Act or any other act and related Applicable Laws and regulations; and (v) any claim, dispute or complaint of any thirty party made in good faith in connection with advertisements and promotions prepared by Household relating to the Card. Notwithstanding the foregoing, the indemnification by Household shall not apply to any claim or complaint relating to the failure of Merchant to resolve a billing inquiry or dispute with a Cardholder where such failure was not caused by Household.
c. NOTICE OF CLAIM & SURVIVAL. In the event that Household or Merchant shall receive any claim or demand or be subject to any suit or proceeding of which a claim may be made against the other under this Section, the indemnified party shall give prompt written notice thereof to the indemnifying party and the indemnifying party will be entitled to participate in the settlement or defense thereof with counsel satisfactory to indemnified party at the indemnifying party's expense. In any case, the indemnifying party and the indemnified party shall cooperate (at no cost to the indemnified party) in the settlement or defense of any such claim, demand, suit, or proceeding. The terms of this SECTION 13 shall survive the termination of this Agreement.

SECTION 14. NONWAIVER. Merchant's liability under this Agreement, including, without limitation, its liability under SECTION 6 above, shall not be affected by any settlement, extension, forbearance, or variation in terms that Household may grant in connection with any Sales Slip or Account or by the discharge or release of the obligations of the Cardholder(s) or any other person by operation of law or otherwise. Merchant hereby waives any failure or delay on Household's part in asserting or enforcing any right that Household may have at any time under this Agreement or under any Account.

SECTION 15. TERM AND TERMINATION.

a. TERM. This Agreement shall be effective as of the Effective Date and shall remain in effect for three (3) years ("INITIAL TERM"), subject to earlier termination as set forth below. Thereafter, this Agreement shall be automatically renewed for successive one year terms (the "RENEWAL TERM(S)") unless and until terminated as provided herein. The termination of this Agreement shall not affect the rights and obligations of the parties with respect to transactions and occurrences which take place prior to the effective date of termination, except as otherwise provided herein.
b. TERMINATION. This Agreement may be terminated:
   (i) By Household or Merchant at the end of the Initial Term or the end of any Renewal Term upon not less than ninety (90) days prior written notice to the other;

(ii) By either party upon notice to the other in the event the other party shall elect to wind up or dissolve its operation or is wound up and dissolved; becomes insolvent or repeatedly fails to pay its debts as they become due; makes an assignment for the benefit of creditors: files a voluntary petition in bankruptcy, or for reorganization or is adjudicated as bankrupt or insolvent; or has a liquidator or trustee appointed over its affairs; and

(iii) by Household upon notice (a) if there occurs any material change in ownership of Merchant or if a change occurs in Merchant's financial condition as determined by Household in Household's sole discretion, or if Merchant suspends or goes out of business or substantially reduces its business operations or sends a notice of a proposed bulk sale of all or part of its business; or (b) in the event Merchant materially breaches its obligations or any warranty or representation under this Agreement or in any Operating Instructions; or (c) if Household has reasonable cause to believe that Merchant will not be able to perform its obligations under this Agreement, or if Household receives a disproportionate number of Cardholder inquiries, disputes, or complaints; or (d) if in Household's judgment, any Applicable Law requires that this Agreement or either party's rights or obligations hereunder be amended, modified, waived or suspended in any respect, including, without limitation, the amount of finance charges or fees that may be charged or collected or the consumer rate that may be charged on purchases with the Card.

c. TERMINATION OF CARD ACCEPTANCE. Household upon notice to Merchant may elect to terminate the acceptance of the Card at a particular Merchant location if at such location there are Excessive Chargebacks, high fraudulent activity or other course of business conduct that is injurious to the business relationship between Household and Merchant. In addition, Household may terminate this Agreement upon thirty (30) days prior notice to Merchant if the termination of a particular Merchant location materially affect(s) the volume of Card Sales generated by Merchant.

d. DUTIES AND RIGHTS UPON TERMINATION. Upon termination of this Agreement, Merchant will promptly submit to Household all Card Sales, Sales Slips, credits and other data made through the date of termination. Household is not liable to Merchant for any direct damages that Merchant may suffer as a result of Household's termination of this Agreement as provided in this Agreement. In the event this Agreement is terminated for any reason or notice of termination is given by either party, Household may take such other reasonable actions including but not limited to establishing and maintaining a reserve from payments otherwise payable to Merchant to protect Household's rights under this Agreement and to cover Chargeback amounts and other amounts owing to Household.

e. PURCHASE REQUIREMENTS. Upon termination of this Agreement due to material breach or termination without notice by Merchant, Merchant, its successors and assigns shall, at Household's option and upon Household's request, purchase or arrange to purchase by a third party, the Accounts, without recourse to Household and without representations or warranty, express or implied, at a price determined by Household, in Household's sole discretion, but not less than the full amount of all of the outstanding Account balances; the purchase to occur not later than ninety (90) days after the effective date of termination of this Agreement and to be under such terms and conditions as are reasonably acceptable to Household. In any event, commencing on the effective date of termination of this Agreement, Merchant shall pay to Household, monthly, within ten (10) days of Household's request, a liquidation fee in the amount of $5.00 per active Account per month until such time as the outstanding Account balances/receivables are liquidated and paid in full or, if a purchase is required as stated above, such purchase of all of the outstanding Account balances is consummated and Household receives the purchase price.

SECTION 16. STATUS OF THE PARTIES. In performing their responsibilities pursuant to this Agreement, Household and Merchant are in the position of independent contractors, and in no circumstances shall either party be deemed to be the agent or employee of the other. This Agreement is not intended to create, nor does it create and shall not be construed to create, a relationship of partner or joint venturer or an association for profit between Household and Merchant. Any amounts ever owing by Merchant pursuant to this Agreement represent contractual obligations only and are not a loan or debt.

SECTION 17. FORCE MAJEURE. Neither party to this Agreement shall be liable to the other by reason of any failure in performance of this Agreement in accordance with its terms if such failure arises out of a cause beyond the control and without the fault or negligence of such party. Such causes may include but are not limited to acts of God, of the public enemy or of civil or military authority, unavailability of energy resources, system or communication failure, delay in transportation, fires, strikes, riots or war. In the event of any force majeure occurrence, the disabled party shall use its best efforts to meet its obligations as set forth in this Agreement.

SECTION 18. LIMITED LICENSE. Merchant hereby authorizes Household for purposes of this Agreement to use Merchant's name, logo, registered trademarks and servicemarks (if any) and any other proprietary designations ("Proprietary Materials") on the Cards, Applications, periodic statements, billing statements, collection letters or documents, promotional or advertising materials and otherwise in connection with the Program, subject to Merchant's periodic reasonable review of such use and to such reasonable specifications of Merchant. Merchant represents and warrants that it has obtained appropriate federal and state trademark registrations to protect its

interest in the use and ownership of the Proprietary Materials. Merchant shall, indemnify, defend and

hold Household harmless from any loss, damage, expense or liability arising from any claims of alleged infringement of the Proprietary Materials (including attorneys' fees and costs). Merchant may not use any name or service mark of Household or any of its Affiliates in any manner without the prior written consent of Household.

SECTION 19. CONFIDENTIALITY. Merchant will keep confidential and not disclose to any person or entity (except to employees, officers, partners or directors of Merchant who are engaged in the implementation and execution of the Program) all information, software, systems and data, that Merchant receives from Household or from any other source, relating to the Program and matters which are subject to the terms of this Agreement, including, but not limited to, Cardholder names and addresses or other Account information, and shall use, or cause to be used, such information solely for the purposes of the performance of Merchant's obligations under the terms of this Agreement. Household will keep confidential and not disclose to any person or entity (except employees, officers, agents or directors of Household, its subsidiaries or affiliates who are engaged in the implementation and execution of the Program) any information that Household receives from Merchant which is designated confidential by Merchant. In the event Household sells or assigns the Accounts or any portion of the Accounts under the Program, Household may disclose any information under this provision reasonably necessary or required to effectuate such sale or assignment. The provisions of this SECTION 19 shall survive the termination of this Agreement.

SECTION 20. ADDITIONAL PRODUCTS & SERVICES. Household and/or any of its Affiliates may at any time, whether during or after the term of this Agreement and whether the Accounts are owned by Household, solicit Cardholders for any other credit cards or other types of accounts or financial products or insurance services offered by Household and/or any of its Affiliates.

SECTION 21. NOTICES. All notices required or permitted by this Agreement shall be in writing and shall be sent to the respective parties; if to Household, to the Attention of President (with a copy to the Attention of General Counsel, HRS Law Department 2700 Sanders Road, Prospect Heights, IL 60070); if to Merchant, to the Attention of General Counsel, Direct Focus, Inc. 2200 NE 65th Avenue, Vancouver, WA 98661, or such other addresses as each party may designate to the other by notice hereunder. Said notices shall be deemed to be received when sent to the above addresses (i) upon three (3) Business Days after deposit in the U.S. first class mail with postage prepaid, (ii) upon personal delivery, or (iii) upon receipt by telex, facsimile, or overnight/express courier service or mail.

SECTION 22. AMENDMENTS AND SUPPLEMENTARY DOCUMENTS. Household may amend this Agreement upon ten (10) days prior notice to Merchant if such modification is reasonably determined by Household to be required by any state or federal law, rule, regulation, governmental or judicial order, opinion, interpretation or decision. Reference herein to "this Agreement" shall include any schedules, appendices, exhibits, and amendments hereto. Any amendment or modification to this Agreement must be in writing and signed by a duly authorized officer of Household to be effective and binding upon Household; no oral amendments or modifications shall be binding upon the parties.

SECTION 23. ASSIGNMENT. This Agreement is binding upon the parties and their successors and assigns. Notwithstanding Merchant may not assign this Agreement without the prior written consent of Household; any purported assignment without such consent shall be void. Household may without Merchant's consent assign this Agreement or any of its rights or obligations hereunder to any Affiliate of Household at any time. In the event of such assignment, the assignee shall have the same rights and remedies as Household under this Agreement.

SECTION 24. NONWAIVER AND EXTENSIONS. Household shall not by any act, delay, omission, or otherwise be deemed to have waived any rights or remedies hereunder. Merchant agrees that Household's failure to enforce any of its rights under this Agreement shall not affect any other right of Household or the same right in any other instance.

SECTION 25. RIGHTS OF PERSONS NOT A PARTY. This Agreement shall not create any rights on the part of any person or entity not a party hereto, whether as a third party beneficiary or otherwise.

SECTION 26. SECTION HEADINGS. The headings of the sections of this Agreement are for reference only, are not a substantive part of this Agreement and are not to be used to affect the validity, construction or interpretation of this Agreement or any of its provisions.

SECTION 27. INTEGRATIONS. This Agreement contains the entire agreement between the parties. There are merged herein all prior oral or written agreements, amendments, representations, promises and conditions in connection with the subject matter hereof. Any representations, warranties, promises or conditions not expressly incorporated herein shall not be binding on Household or Merchant.

SECTION 28. GOVERNING LAW/SEVERABILITY. This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois. If any provision of this Agreement is contrary to Applicable Law, such provision shall be deemed ineffective without invalidating the remaining provisions hereof.

SECTION 29. JURISDICTION. ANY SUIT, COUNTERCLAIM, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT MUST BE BROUGHT BY EITHER PARTY IN THE COURTS OF THE STATE OF ILLINOIS OR IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS; AND MERCHANT HEREBY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS AND ANY APPELLATE COURTS THEREOF FOR THE PURPOSE OF ANY SUCH SUIT, COUNTERCLAIM, ACTION, PROCEEDING OR JUDGMENT (IT BEING UNDERSTOOD THAT SUCH CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS WAIVES ANY RIGHT TO SUBMIT ANY DISPUTES HEREUNDER TO ANY COURTS OTHER THAN THOSE ABOVE). NOTHING HEREIN SHALL PRECLUDE HOUSEHOLD FROM BRINGING AN ACTION OR PROCEEDING RELATED TO THIS AGREEMENT IN ANY OTHER STATE OR PLACE HAVING JURISDICTION OVER SUCH ACTION.

SECTION 30. WAIVER OF JURY TRIAL. HOUSEHOLD AND MERCHANT HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION, SUIT, PROCEEDING OR COUNTERCLAIM CONCERNING ANY RIGHTS UNDER THIS AGREEMENT, ANY RELATED DOCUMENT OR UNDER ANY OTHER DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR THEREWITH, OR ARISING FROM ANY RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT, AND AGREE THAT ANY SUCH ACTION, SUIT, PROCEEDING OR COUNTERCLAIM SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY; THIS PROVISION IS A MATERIAL INDUCEMENT FOR HOUSEHOLD AND MERCHANT ENTERING INTO THIS AGREEMENT.

IN WITNESS WHEREOF, Household and Merchant have caused their duly authorized representatives to execute this Agreement as of the date set forth above.

BANK:	MERCHANT:
HOUSEHOLD BANK (SB), N.A.	DIRECT FOCUS, INC.
By: /s/ J.W. Hoff	By: /s/ Rod Rice
Print Name: J.W. Hoff	Print Name: Rod Rice
Title: Vice President	Title: CFO
ATTESTED OR WITNESSED	ATTESTED OR WITNESSED
By: /s/ Phil Layher	By: /s/ Randal Potter
Print Name: Phil Layher	Print Name: Randal Potter
Title: Vice President	Title: VP Marketing

Merchant's Federal Tax ID #'s:

94-3002667

[We have omitted portions of this Exhibit pursuant to a request for confidential treatment that we have filed pursuant to Rule 406 of the Securities Act. We have separately filed a copy of this Exhibit with the omitted portions intact with the Securities and Exchange Commission.]

EXCLUSIVE SALES AGREEMENT(1)

This Exclusive Sales Agreement (the "Agreement") is made as of the 1st day of January, 1996 by and between Delta Consolidated Corporation, a New York corporation doing business as Nautilus Marketing ("Nautilus Marketing"), and NovaCare, Inc., a Delaware corporation, The Polaris Group division ("NovaCare").

WHEREAS, Nautilus Marketing is engaged in the business of marketing products of Nautilus International, Inc., a Virginia corporation ("Nautilus"), and

WHEREAS, Nautilus Marketing desires to engage NovaCare to solicit orders for certain of the products of Nautilus for sale to customers in certain markets and territory as described herein;

NOW THEREFORE, in consideration of the promises and the mutual covenants herein, the parties hereto agree as follows:

1. RIGHTS GRANTED

1.1 Except as limited hereby, Nautilus Marketing hereby grants to NovaCare, subject to the terms and conditions set forth herein, the exclusive right to solicit and submit orders for the Products from Senior Living Industry purchaser locations within the Territory (as so defined, the "Exclusive Market"), and the non-exclusive right to solicit and submit orders for the Products from hospitals and outpatient medical clinics in the Territory for Medical Purposes (such market, together with the Exclusive Market, being sometimes referred to herein as the "NovaCare Market"). It is expressly understood and agreed that the NovaCare Market shall not include individuals purchasing for in-home or personal use of the Products, any person or entity purchasing for resale, any health club or fitness center outside the Senior Living Industry (whether a stand-alone facility or part of another business or institution), any agency or department of the federal government, or any entity purchasing through or under a contract with the General Services Administration.

1.2 It is understood and agreed that the "Senior Living Industry" refers only to nursing facilities, subacute care units, other long-term care units, assisted living facilities and other non-hospital health care facilities that in each case provide residential and day care to senior citizens and other patients on premises. "Medical purposes," as used herein, refers to use of the Products in a hospital or outpatient clinic for preventive, rehabilitative and therapeutic medical purposes under the supervision of a physician, nurse, clinician, or other health care provider. An "affiliate" of NovaCare, as used herein, refers to any entity that controls, is

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(1) EXCEPT TO THE EXTENT THAT THE UNITED STATES ARBITRATION ACT APPLIES, THIS AGREEMENT IS SUBJECT TO ARBITRATION PURSUANT TO CHAPTER 48 OF TITLE 15 OF THE CODE OF LAWS OF SOUTH CAROLINA

controlled by, or is under common control with NovaCare. "Territory" refers to the United States of America.

1.3 Except as expressly limited by Section 1.4 hereof, nothing herein contained shall be construed to limit the right of Nautilus or Nautilus Marketing to sell the Products outside the Exclusive Market, or to sell other Nautilus products in any market or manner whatsoever. Without limiting the foregoing, Nautilus and Nautilus Marketing shall not be restricted from selling any product under any existing or future Government Services Administration contract or other contract with any agency or department of the federal government, whether or not for use within the Senior Living Industry.

1.4 NovaCare shall not knowingly submit any order for Products from any person or entity intending to resell or use the Products outside the NovaCare Market, without the prior written consent of Nautilus Marketing. Except as provided in Section 4.4 hereof, Nautilus Marketing shall not knowingly ship or install any Product or any equipment product which is designed for the consumer market or is part of the "Challenger" treadmill line to or within the Exclusive Market, and shall not knowingly sell any Product or any such consumer or Challenger equipment product to any party which intends to resell the same within the Exclusive Market, unless pursuant to orders submitted by NovaCare.

2. PRODUCTS; DISCOUNT; COMMISSION AND MARKETING ALLOWANCE

2.1 PRODUCTS. As used herein, "Products" means the complete line of Nautilus equipment, as such line is described on the retail price list published by Nautilus and in effect on the date hereof, provided that "Products" specifically does not include the line of Nautilus equipment designed for the consumer market, the "Challenger" treadmill line, or any nonequipment product of Nautilus which is not normally sold together with a Product.

2.2 DISCOUNT ON NOVACARE PURCHASES. Subject to the terms and conditions of this Agreement, Nautilus Marketing hereby grants a discount of * * off the List Price (defined below) of products SOLD pursuant to orders submitted by NovaCare for its own account, or the account of any Affiliate identified as such in the order, and accepted by both Nautilus and Nautilus Marketing. Such discount shall be shown on the invoice for the Products sold, and shall not apply with respect to taxes or to charges for shipping (including insurance), special handling, crating, special paint and/or pad covers, and any other special charges or allowances that may be applicable from time to time (Special Charges), which shall be billed at the full amount thereof. NovaCare represents and agrees that Products purchased by NovaCare or any Affiliate shall be for use within the Territory by NovaCare or such Affiliate, and shall not be purchased for resale or resold in any market.

2.3 SALES COMMISSION. Subject to the terms and conditions of this Agreement, Nautilus Marketing agrees to pay NovaCare a sales commission on sales of Products to Customers (as defined in Section 3.1 hereof), other than sales at a discount pursuant to Section

2.2 hereof, in response to orders submitted by NovaCare and accepted by both Nautilus and Nautilus Marketing and shipped to the Customer as further described in this Section 2.3 (the "Sales Commission").

2.3.1 AMOUNT OF COMMISSION. For each sale of Products with respect to which the Sales Commission is payable, the Sales Commission shall be an amount equal to:

(1) the aggregate amount collected by Nautilus on the invoice(s) rendered for that sale at the prices quoted for such Products pursuant to Section 3.2.4 after deduction of the following: applicable federal, state or local sales, excise, use or similar taxes, if any; credits for returned or defective products, any additional discounts and/or cancellations; and Special Charges (collectively "Deductions"),

less

(2) * of the List Price of the Products shipped pursuant to such order.

2.3.2 LIMITATIONS. There shall be no commissions due on orders that are not accepted by Nautilus Marketing and Nautilus or that are received by Nautilus Marketing on or after the effective date of any termination of this Agreement. There shall be no commissions due for any product that is not a Product at the time the order is received by Nautilus Marketing or that is ordered by any person who is not a Customer at the time the order is received by Nautilus Marketing.

2.3.3 TIME OF PAYMENT. The Sales Commission, if any, accrued to NovaCare in respect of a sale shall be due and payable to NovaCare, subject to adjustment as set forth in this Agreement, within thirty (30) days after the end of the fiscal month during which the full payment for that sale is received by Nautilus. In the case of orders financed by Nautilus in whole or in part pursuant to Section 3.4.2 hereof, unless otherwise specified at the time of such order, for purposes of determining the amount and the time of payment of the Sales Commission payable with respect to such order, the amount so financed shall be deemed collected in the month such financing is effected.

2.4 MARKETING ALLOWANCE. In addition to the Sales Commission, for each year during which NovaCare meets the sales quota for such year described in Section 4 hereof, Nautilus Marketing agrees to pay NovaCare a non-accountable marketing allowance equal to * of the List Price of the Products sold pursuant to orders submitted by NovaCare pursuant to this Agreement for which the Sales Commission is payable or the discount described in Section 2.2 hereof is applicable, and for which payment in full is received by Nautilus during such year (the "Marketing Allowance"). After NovaCare has met its sales quota for any sales year defined in Section 4 hereof, Nautilus Marketing shall pay the then-accrued Marketing Allowance for such year within thirty (30) days after the end of the quarter during which such sales quota was met, and shall pay any subsequently-accrued Marketing Allowance for such year

within thirty (30) days after the end of each quarter (if any) remaining in such year. If, due to adjustments calculated pursuant to Section 2.7 hereof, NovaCare has not met its sales goal for any such sales year at the end of that year, to the extent any Marketing Allowance previously paid with respect to such year has not been recovered pursuant to Section 2.7.2 hereof, NovaCare shall refund to Nautilus Marketing any such unrecovered Marketing Allowance within 30 days after the end of such year.

2.5 LIST PRICE. As used herein, "List Price" of a Product shall mean the price of such Product as listed on the standard retail price lists published by Nautilus Marketing or Nautilus from time to time for general use. Such standard retail price lists may be changed, expanded, reduced or modified, or the sale or distribution of any Product discontinued unilaterally, from time to time and at any time during the term hereof, in the sole and absolute discretion of Nautilus, without incurring any liability whatsoever to NovaCare or others. Nautilus Marketing will use its best efforts to give NovaCare sixty (60) days' notice in advance of any such change in List Price or Products, which notice may be in the form of one or more new price lists delivered in advance of their effective dates. It is understood and agreed, for purposes of calculating the Sales Commission and the Marketing Allowance, that List Price does not include Deductions, but that the foregoing provisions regarding unilateral modification and notice by Nautilus Marketing Nautilus shall apply to Deductions.

2.6 EXPLANATION OF PAYMENTS. On or before the end of each fiscal quarter, Nautilus Marketing shall provide NovaCare with a schedule (an "Explanation of Payments") summarizing the basis for the computation of the Sales Commission and Marketing Allowance paid or accrued during the previous fiscal quarter including without limitation in respect to the pertinent period, the value of each shipment, the value of any credits, the commission amount for each shipment and the amount of any Deductions, plus any other information pertinent to the status of the orders submitted by NovaCare that Nautilus Marketing may elect to include. NovaCare also agrees that, in the event NovaCare has any question or objection regarding any information, or the lack thereof, regarding any aspect of any Explanation of Payments or any question regarding any order with an expiration date occurring during the period to which any Explanation of Payments pertains, NovaCare will give Nautilus Marketing in writing a detailed statement of such question or objection and the basis for it within sixty (60) days of the date on which NovaCare receives the Explanation of Payments (the "Receipt Date"). NovaCare agrees that all payments in respect to an Explanation of Payments shall be deemed to have been received by NovaCare, the information contained in such Explanation of Payments shall be deemed complete and correct, and all questions of NovaCare shall be deemed answered to the satisfaction of NovaCare, for all invoices sent, all orders received, and all payments received prior to the end of the period to which such Explanation of Payments pertains (plus, in the event of a post termination Explanation of Payments, all orders received, invoices sent and payments received prior to termination) except to the extent specified by NovaCare to Nautilus Marketing in a written objection or question within sixty days of the Receipt Date of that Explanation of Payments.

2.7 ADJUSTMENTS AND REPAYMENTS.

2.7.1 OUTSTANDING ADVANCES. An advance on the payment due NovaCare by Nautilus Marketing hereunder (an "Advance") shall be deemed to have been made under any of the circumstances described in this subparagraph: (1) In the event that a Deduction applicable to the calculation of any Sales Commission or Marketing Allowance was not deducted in the calculation of such amount at the time of payment by Nautilus Marketing (whether through error or because the Deduction arose from events occurring after the initial calculation of the amount), the reduction in such amount that would have occurred if that Deduction had been deducted by Nautilus Marketing shall be an Advance. (2) In the event that the Marketing Allowance paid with respect to any sales year set forth in Section 4 hereof is determined not to have been payable due to failure of NovaCare to achieve the sales quota for such year, after adjusting for Deductions and making any other adjustments required hereunder, such payment shall be an Advance. (3) In the event any Customer fails to pay any amount due pursuant to an order financed by Nautilus pursuant to Section 3.4.2 hereof, the payment of which is guaranteed by NovaCare pursuant to Section 3.4.3 hereof, the amount of Sales Commission and Marketing Allowance previously paid with respect to such sale shall be an Advance, provided that such Sales Commission and Marketing Allowance shall be deemed to have been earned to the extent the amount paid by the Customer or by NovaCare pursuant to its guaranty obligation with respect to such sale, less the amount of any Deductions related thereto, exceeds * * of the aggregate List Price of all Products included in such sale. (4) Whenever, for any reason, the amount of Sales Commission, Marketing Allowance, or any other payment made in respect to a fiscal quarter exceeds the amount of such payments due in respect of that fiscal quarter after the adjustments set forth in this Agreement (whether as a result of an error in calculation or events occurring after the initial calculation), the amount of the overpayment shall be an Advance. (5) In the event NovaCare fails to pay any amount due Nautilus or Nautilus Marketing under the guaranty provisions set forth in Section 3.4.3 hereof, such unpaid amount may be treated as an Advance at the election of Nautilus Marketing. That portion of the total of all Advances made under this Agreement that, from time to time, has not been recovered by Nautilus Marketing through an adjustment to amounts paid in respect to any fiscal quarter shall be Outstanding Advances.

2.7.2 OFFSET AND REPAYMENT. To the maximum extent possible, any Outstanding Advances shall be deducted at the earliest possible time from future Sales Commission, Marketing Allowance, or other sums owed by Nautilus or Nautilus Marketing to NovaCare, and shall continue to be deducted from any such sums that may become due after termination of this Agreement. If on the date any Sales Commission or Marketing Allowance becomes payable to NovaCare under this Agreement, NovaCare is indebted to Nautilus or Nautilus Marketing for any reason whatsoever, Nautilus or Nautilus Marketing, as the case may be, shall have the right to deduct from the payment of such amount the amount of such indebtedness. Further, in the event that NovaCare fails to earn or repay, prior to the termination of this Agreement, sufficient Sales Commission or Marketing Allowance to offset the amount of any portion of the Outstanding Advances as of the termination of this Agreement, NovaCare shall repay to Nautilus Marketing the amount of any Outstanding Advances remaining on the termination date of this

Agreement within thirty (30) days of such date.

3. ORDERS AND TERMS

3.1 ORDERS. All sales to NovaCare or to other purchasers within the NovaCare Market, (such purchasers, together with NovaCare, being referred to herein as "Customers") shall be in accordance with the terms and conditions of this Agreement, and in accordance with such other reasonable terms, conditions and procedures (not inconsistent herewith) as are established by Nautilus Marketing from time to time. Such other reasonable terms, conditions and procedures may be set forth by Nautilus Marketing or Nautilus in written communications, such as price lists, manuals, bulletins, letters, or the like. NovaCare shall comply with all requirements of Nautilus Marketing which are in effect from time to time regarding the submission of orders.

3.2 TERMS OF ACCEPTANCE. Without limiting the generality of the foregoing, the following terms will be deemed incorporated in all orders accepted by Nautilus Marketing and Nautilus, and such acceptance is expressly made conditioned on the following:

3.2.1 No sale shall be effective until a purchase order is delivered by NovaCare to Nautilus Marketing and accepted by Nautilus Marketing and Nautilus. Nautilus Marketing and Nautilus each reserves the right to reject any order in its sole discretion. Neither Nautilus Marketing nor Nautilus shall be liable to NovaCare for any loss or damage resulting from any such action so taken.

3.2.2 Except as provided in Section 3.2.3 hereof, upon acceptance of a purchase order, after the number of days following such acceptance indicated by the then-current delivery lead time schedule published by Nautilus from time to time in its sole discretion (plus or minus ten business days), Nautilus, to the extent possible using its best efforts, shall drop ship the Products to the "ship to" address or addresses shown on the purchase order. NovaCare shall furnish Nautilus, on a timely basis, full and adequate shipping directions for each order.

3.2.3 Delivery dates given by Nautilus or Nautilus Marketing for Product orders shall be considered estimates only. In the event of late delivery (defined as a delivery not shipped within 45 days from date Nautilus receives the order for said product), the ordering Customer may cancel the order provided that such Customer shall give written notice thereof to Nautilus Marketing and Nautilus, and further provided that the Products in question may be delivered within (10) business days after such notice is actually received by Nautilus Marketing and Nautilus, in which case the cancellation notice shall be void. Cancellation by a Customer in accordance with this subparagraph shall be without cost or penalty to NovaCare, and shall terminate any obligation on the part of Nautilus or Nautilus Marketing with respect to such canceled order, including without limitation any obligation for payment of Sales Commission or Marketing Allowance with respect to such canceled order.

3.2.4 Upon shipment, Nautilus will invoice the Customer for the price of the Products ordered, (1) in the case of purchases made pursuant to Section 2.2 hereof, at the discounted List Price described in that Section, or (2) in the case of orders submitted by NovaCare pursuant to Section 3.1 hereof, at the sales prices quoted by NovaCare for the Products ordered (which in no event shall be lower than * of the List Price of such Products), plus, in each case, applicable charges for shipping, special handling, crating, special paint and/or pad covers, and applicable federal, state or local sales, excise, use or similar taxes, and any other charges in addition to the sales price for the Products ordered, the payment of which shall be the responsibility of the Customer.

3.2.5 All Products Will be shipped F.O.B. Nautilus' manufacturing facility, and the Customer shall bear all costs of freight, insurance and associated costs.

3.2.6 In the event orders of Products by Customers and other purchasers exceed Nautilus' ability to manufacture and deliver Products in a timely manner, Nautilus Marketing reserves the right to apportion Products among the Customers and its other customers in its reasonable discretion.

3.3 MODIFICATION OF ORDERS, SHIPPING, ETC. Nautilus Marketing and Nautilus each has the right, in its sole discretion, to modify any of the Products, to cancel or delay shipment of any order for any reason, to discontinue the sale of all or some of the Products, or to allocate any of its products during a period of shortage, without incurring any liability to NovaCare, including without limitation any liability for the payment of the Sales Commission or Marketing Allowance. In the event any Product is discontinued by Nautilus or Nautilus Marketing (unless a substantially similar product is available or made available to NovaCare hereunder), the quota requirement set forth in Section 4 hereof for the year during which such discontinuation takes place shall be reduced by the amount produced by multiplying (1) the sales quota for the year of discontinuation, (2) the percentage of the aggregate List Price of Products purchased and paid for by Customers pursuant to orders submitted by NovaCare during the year preceding the year of such discontinuation represented by sales of the discontinued Product in such year, and (3) the percentage of days remaining in the year of discontinuation following the date of such discontinuation. The sales quota for each subsequent year will be reduced (if at all) by the amount produced by multiplying (1) the sales quota for such subsequent year, (2) the percentage described in clause (2) of the preceding sentence, and (3) the percentage of days (if any) of such subsequent year during which no substantially similar product to the discontinued Product is available or made available to NovaCare hereunder. In the event an order for Products submitted by NovaCare is accepted by Nautilus and Nautilus Marketing hereunder and is later canceled by Nautilus or Nautilus Marketing, or is canceled by the customer in accordance with Section 3.2.3 hereof, the aggregate List Price of the Products ordered pursuant to such order shall be deducted from the sales quota for the year during which such cancellation takes place.

3.4 PAYMENT.

3.4.1 TERMS. Nautilus Marketing and Nautilus shall have sole and absolute

discretion, at the time of and with respect to each order from a particular Customer, to accept or reject any order made upon the condition of terms or financing, or for any other reason, and no order shall be effective until accepted by Nautilus and Nautilus Marketing. Without limiting the discretion of Nautilus and Nautilus Marketing under the foregoing sentence, a Customer may elect to submit an order specifying payment terms of either net thirty (30) days or net ninety (90) days from the shipment date, provided that Nautilus shall charge and the Customer will pay interest on any unpaid balance, at four percent (4%) over the highest prime rate published by any bank at which Nautilus maintains an account, beginning after thirty (30) days from the shipment date until paid.

3.4.2 FINANCING. A Customer shall be permitted, but not obligated, to apply for Nautilus in-house financing of any purchase of Products, which financing shall be upon such terms and conditions as Nautilus shall establish in its sole discretion for such Customer at the time of each such purchase. No sale involving Nautilus in-house financing shall be effective until the Customer makes application to Nautilus and is approved for such financing. Nautilus reserves the right to refuse to finance any Customer or purchase of Products for any reason whatsoever in its sole and absolute discretion exercised with respect to each order for which financing is sought.

3.4.3 NOVACARE GUARANTY. In the event an order from a Customer is rejected for terms or financing by Nautilus or Nautilus Marketing, NovaCare may offer to guarantee to Nautilus Marketing and to Nautilus the timely payment of all amounts due Nautilus or Nautilus Marketing from time to time under any invoice or Nautilus in-house financing with respect to such order, and if such order and guaranty is accepted by Nautilus and Nautilus Marketing in its sole discretion, NovaCare shall be liable for the full and timely payment thereunder. NovaCare shall promptly pay all amounts required to be paid pursuant to any such guaranty, and if NovaCare fails promptly to pay any such amount, Nautilus Marketing may, in addition to its other remedies, elect to treat such amount (and the associated Sales Commission and Marketing Allowance, to the extent paid) as an Advance deductible pursuant to Section 2.7.2 hereof from amounts due NovaCare.

4. SALES QUOTAS

4.1 In consideration of the exclusive and non-exclusive rights to sell the Products within the NovaCare Market granted hereby, NovaCare agrees to use its best efforts to effect sales and purchases aggregating at least the following minimum dollar volumes of Products within the NovaCare Market during the time periods shown:

JANUARY 1, 1996 TO DECEMBER 31, 1996
*

JANUARY 1, 1997 TO DECEMBER 31, 1997
*

JANUARY 1, 1998 to DECEMBER 31, 1998
*
JANUARY 1, 1999 TO DECEMBER 31, 2000
*
JANUARY 1, 2001 TO DECEMBER 31, 2001 AND EACH YEAR THEREAFTER
the greater of: (i) * of the prior year's quota or (ii) the prior year's quota plus one-half (1/2) the difference between the prior year's quota and the prior year's actual sales

Notwithstanding the foregoing, the sales quota for any year hereunder shall not exceed * , unless otherwise agreed in writing by the parties hereto, during the ten (10) year period beginning on the date hereof and ending on November 30, 2005.

4.2 Sales volumes for purposes of determining compliance with the above quotas will be calculated at the end of each of the above periods by adding together (1) the total List Price of Products, excluding Deductions, purchased and paid for by Customers pursuant to orders submitted by NovaCare for which the Sales Commission is payable with respect to such period, and (2) the total List Price of Products, excluding Deductions, purchased and paid for by NovaCare or any Affiliate prior to the end of such period, as to which the discount set forth in Section 2.2 hereof is applicable.

4.3 In the event NovaCare exceeds its quota in any of the above periods, NovaCare shall be entitled to carry over such excess and apply it toward the quota for the next successive period up to and including ten percent (10%) of the quota for such next successive period, provided that such excess shall be excluded from the calculation of the Marketing Allowance for such next successive period.

4.4 It is expressly understood and agreed that the failure of NovaCare to meet the above sales quotas, as determined at the end of each of the above periods during the term hereof, will give Nautilus Marketing the right, upon written notice to NovaCare, to terminate the exclusivity of NovaCare's right to sell under this Agreement.

5. REPRESENTATIONS AND COVENANTS

5.1 REPRESENTATIONS OF NOVACARE

5.1.1 CORPORATE STATUS. NovaCare is a corporation duly organized, validly existing and in good standing under the laws of Delaware, with all requisite corporate power and

authority to conduct its business as presently conducted, to own, operate and lease its properties and to enter into and perform this Agreement. NovaCare is duly qualified to do business and is in good standing in all states in which the nature of its business and properties makes such qualification necessary.

5.1.2 AGREEMENT DULY AUTHORIZED, EXECUTED AND BINDING. NovaCare has the full legal right and power and all authority required to enter into, execute and deliver this Agreement and all instruments and documents to be executed by it pursuant to this Agreement and to perform fully its or his obligations hereunder and thereunder. This Agreement and all instruments and documents to be executed pursuant to this Agreement have been duly authorized by all corporate action required to be taken by NovaCare, have been duly executed and delivered and are the legal, valid and binding obligation of NovaCare, enforceable against it in accordance with their respective terms.

5.1.3 AGREEMENT CAUSES NO DEFAULT. Neither the execution and the delivery of this Agreement nor the consummation of the transactions contemplated herein will conflict with or result in any violation of or constitute a default under any provision of the Articles of Incorporation, by-laws or similar document of NovaCare, or any agreement, mortgage, note, indenture, franchise, license, permit, authorization, lease or other instrument, judgment, decree, order, law or regulation by which NovaCare is or may be bound or which may affect any of its respective assets or properties.

5.1.4 REQUIRED CONSENTS. No consent, approval or authorization of, filing with or notice to any governmental authority or any person or entity is required in connection with the execution, delivery or performance of this Agreement or the consummation of the transactions contemplated herein.

5.2 COVENANTS OF NOVACARE.

5.2.1 NovaCare shall not have the authority to accept orders on behalf of Nautilus Marketing or Nautilus. Nautilus Marketing and Nautilus shall not be under any obligation to accept any order. The determination whether to accept an order shall be made by Nautilus Marketing and Nautilus in their sole discretion.

5.2.2 NovaCare shall have no authority to make quotations with respect to purchase terms, other than prices (subject to the limitation set forth in Section 3.2.4 hereof), except to the extent authorized by Nautilus Marketing.

5.2.3 NovaCare shall not extend any warranty or guarantee, make any other representation, or assume any liability on behalf of Nautilus Marketing or Nautilus, provided, however, that NovaCare may distribute literature supplied by Nautilus Marketing containing representations as to Products.

5.2.4 NovaCare shall not have any authority to make, and shall not make, any

commitment and/or obligation on behalf of Nautilus Marketing or Nautilus to anyone for any purposes under any circumstances.

6. RESPONSIBILITIES OF NAUTILUS MARKETING AND NAUTILUS

In addition to and subject to the other provisions of this Agreement, Nautilus Marketing or Nautilus shall:

6.1 Provide Products to Customers in response to orders submitted by NovaCare and accepted by Nautilus Marketing and Nautilus, as set forth in this agreement.

6.2 Use its best efforts to forward to NovaCare all leads received by it from advertising, trade shows, and other sources, to the extent such leads relate to potential sales into the Exclusive Market.

6.3 Provide NovaCare with such marketing literature, technical advice and assistance and warranty literature as Nautilus Marketing and Nautilus deem appropriate for the Products. Such literature shall be provided to NovaCare with the cost of same to be borne by NovaCare, provided that NovaCare has approved such charges in advance or accepts a shipment of such literature. NovaCare shall not supply its employees or agents with any literature or information regarding the Products which is not either provided by Nautilus Marketing or Nautilus or approved by Nautilus Marketing or Nautilus in advance of its use. Nautilus Marketing and Nautilus will use their best efforts promptly to notify NovaCare of any literature errors.

6.4 Provide NovaCare with access to employees of Nautilus Marketing and Nautilus for graphic design, marketing assistance and other support, if such employees have sufficient time available for such support as determined by Nautilus Marketing or Nautilus in their sole discretion. NovaCare shall pay for such employee services at the cost of such employees to Nautilus Marketing or Nautilus, as the case may be, as described in writing to NovaCare before such support is provided. Such payment shall be made by deduction from amounts payable pursuant to Section 2.3 hereof.

6.5 Provide sales and technical training to NovaCare employees, trainers and/or representatives, upon reasonable request by NovaCare. In addition, NovaCare may utilize existing training classes that may be provided by Nautilus, based on availability and at Nautilus' reasonable discretion. All such training shall be provided at such prices as Nautilus shall announce from time to time.

7. RESPONSIBILITIES OF NOVACARE

In view of NovaCare's understanding that pre-sale and post-sale support of the Products by NovaCare are critical to the reputation and success of the Products in the marketplace, NovaCare acknowledges that its ability to provide such support and to aggressively market the Products is a critical element in Nautilus Marketing' decision to enter into this Agreement. Accordingly, in addition to the sales quotas set forth in Section 4 hereof and the other provisions of this Agreement, and in further consideration of the Sales Commission and the Marketing

Allowance, and the exclusive rights granted hereunder, NovaCare agrees to implement the sales and support program described below:

7.1 BEST EFFORTS. NovaCare shall exercise its best efforts to achieve, in a manner consistent with other terms of this Agreement, maximum market penetration for the Products in the NovaCare Market. NovaCare will forward all leads for potential sales in the NovaCare Market received from Nautilus Marketing or other sources to the appropriate Representative promptly after receipt and will implement an appropriate follow-up system.

7.2 NOVACARE SYSTEM. NovaCare shall develop and market a complete customized system (the "NovaCare System") respecting the sales of Products and the provision of support to purchasers of Products. The NovaCare System will include, but not be limited to:

i. Sale of appropriate Products.

ii. Training in use of the Products through on-site instruction, using instructional manuals and other appropriate methods.

iii. Provision of brochures and literature to Customers to assist in marketing through promotion of the strength training concept.

iv. Follow-up support and assistance, including provision of toll-free telephone support, and on-site consultation as reasonably necessary.

7.3 REPRESENTATIVES. NovaCare will use its existing force of sales representatives and any additional representatives as may be retained by NovaCare (collectively, the "Representatives") to sell the Products and implement the NovaCare System. NovaCare shall be solely responsible for the hiring, compensation, termination and all other matters relating to the Representatives and any other persons or entities employed or engaged by NovaCare for any reason whatsoever, and shall indemnify Nautilus Marketing and Nautilus against all injuries, actions, losses, damages, expenses or proceedings arising from the employment or engagement of or the actions or inactions of, any such persons or entities, except to the extent caused by any defect of a Product manufactured by Nautilus.

7.4 LEADS. NovaCare agrees to promptly forward to Nautilus Marketing a complete written description of any lead or other information generated by NovaCare's advertising, trade shows, and other activities, or otherwise received by Novacare, relating to potential sales outside the NovaCare Market.

7.5 TRADE SHOWS. NovaCare agrees to promote the Products by independently participating in at least five (5) appropriate shows in the Territory during each year of this Agreement. All travel and other expenses of NovaCare or its employees or Representatives related to these shows will be paid by NovaCare and/or the Representatives.

7.6 SALES TRAINING. NovaCare shall cause the Representatives to become trained and knowledgeable with respect to functional capabilities and operation of the Products.

7.7 LIMITATION ON EXTRA-TERRITORIAL AND UNSUPPORTED SALES. NovaCare shall not ship,

sell, market or support any of the Products outside the Territory unless specifically authorized by the prior written consent of Nautilus Marketing.

7.8 PROBLEM RESOLUTION. NovaCare will comply with all reasonable requests by Nautilus Marketing for assistance in the collection of accounts receivable, investigation of complaints and settlement of disputes regarding sale of Products to any Customer. NovaCare shall attempt to resolve all complaints of customers of NovaCare prior to involving Nautilus Marketing or Nautilus personnel.

7.9 PRODUCT INFORMATION. NovaCare will immediately notify Nautilus and Nautilus Marketing if at any time it obtains notice or knowledge of any defect, dangerous condition, complaint, or other problem with respect to any Product, will provide with such notification such information as it has in its possession or can obtain without unreasonable effort or expense regarding such defect, dangerous condition, complaint or other problem, and will cooperate fully with Nautilus and Nautilus Marketing in their investigative and remedial efforts in response thereto. NovaCare agrees that any such information it obtains shall be deemed confidential information subject to the non-disclosure requirements of Section 8.3 hereof.

7.10 CUSTOMER STATUS. NovaCare will provide Nautilus Marketing promptly with all information that Nautilus Marketing reasonably requests in connection with any order placed by a Customer, and will keep Nautilus Marketing apprised of any changes that may affect a Customer's status from time to time. Changes that may affect a Customer's status include, but are not limited to, a change in address or the identity of the person or persons responsible for purchasing the Products. NovaCare shall, on the request of Nautilus Marketing, assist Nautilus Marketing in obtaining credit information relating to Customers or prospective Customers.

7.11 REPORTS. NovaCare shall monitor its activities and those of the Representatives with respect to the Products, and shall provide Nautilus Marketing with such reports as Nautilus Marketing may reasonably request from time to time.

7.12 TRAINING FEE. NovaCare agrees to pay a training fee (only upon request to train from NovaCare) to Nautilus for any Nautilus employee who trains any person who purchases Products pursuant to orders submitted by NovaCare. Such training fee will be calculated as * of the gross invoice amount, less Deductions, collected by Nautilus from the purchaser of the Products sold. Payment will be made only after such purchaser signs a Nautilus installation satisfaction sheet provided by NovaCare.

7.13. EXPENSES. Except for such expenses as may be approved by Nautilus Marketing from time to time for reimbursement by it, all expenses for travel, entertainment, office, clerical, office and equipment maintenance expense, general selling expense, and other expenses incurred by NovaCare, and all disbursements made by it in the performance of duties hereunder, shall be borne solely by NovaCare. In no case shall Nautilus Marketing be responsible or liable for any such expenses not approved by it for reimbursement.

7.14. COMPLIANCE WITH COMMISSION AGREEMENTS, ETC. NovaCare agrees to comply, and to cause all of its Representatives, employees and other agents who are involved in NovaCare's performance under this Agreement to comply, in all material respects (except to the extent any such agreement or arrangement is inconsistent with this Agreement) with all agreements or

arrangements, written or oral, entered into by NovaCare with any party other than or in addition to Nautilus or Nautilus Marketing, which in any way relate to or affect the Products or NovaCare's fulfillment of its obligations hereunder (a "Third Party Agreement"). Without limiting the generality of the foregoing, NovaCare agrees to pay in a timely manner all commissions and other amounts owed by NovaCare from time to time to any distributor or dealer under any Third Party Agreement entered into with any such distributor or dealer. NovaCare agrees that any such distributor or dealer shall look solely to NovaCare for payment of such commissions or other amounts, and agrees to indemnify Nautilus and Nautilus Marketing in accordance with Section 12.1 hereof with respect to claims, liabilities and defense costs arising out of any Third Party Agreement.

7.15. COMPLIANCE WITH LAWS. NovaCare agrees to comply, and to cause all of its Representatives, employees and other agents to comply, in all material respects with all applicable laws and regulations, including applicable workers' compensation laws, and to pay the premiums and other costs and expenses incident to the required workers' compensation coverage.

7.16. PROPERTY OF NAUTILUS. Any property of Nautilus received by NovaCare under this Agreement shall be held by it for the account of Nautilus, and upon request by Nautilus or upon termination or expiration of this Agreement such property shall be returned to Nautilus in as good condition as when received by NovaCare, ordinary wear and tear excepted. All records or papers of any kind received from Nautilus Marketing or Nautilus related to their business shall remain the property of Nautilus Marketing and Nautilus and, together with any and all copies thereof, shall be surrendered to Nautilus Marketing or Nautilus, as the case may be, upon their request and upon the termination or expiration of this Agreement.

8. NON-COMPETITION AND NON-DISCLOSURE

8.1 Except as specifically authorized by Nautilus Marketing in writing in advance, NovaCare and its representatives shall not during the term of this Agreement represent or offer for sale any item of a similar nature to the Products other than the Products, nor shall NovaCare or any Affiliate, except to the extent authorized in writing by Nautilus Marketing, while this Agreement is in effect, have a financial interest in the manufacture, production, importation, sale or distribution of any item of a similar nature to any product sold by Nautilus Marketing or manufactured by Nautilus. Notwithstanding the foregoing, NovaCare may itself purchase any equipment, whether sold by Nautilus or otherwise, for use in facilities it owns, operates, or manages.

8.2 Nautilus Marketing agrees not to solicit any Representative of NovaCare for employment with or as contractors of Nautilus Marketing.

8.3 To the extent requested from time to time by Nautilus Marketing, NovaCare agrees to keep confidential such information as Nautilus or Nautilus Marketing may from time to time impart to NovaCare regarding Nautilus' business affairs, operations, products and customers, and NovaCare will not, in whole or in part, now or at any time, use such information except in performing its obligations under this Agreement, or disclose said information to any person without the prior approval of Nautilus or Nautilus Marketing, except as required by law

(in which case Nautilus Marketing shall be given as much prior notice of the terms of such disclosure as is reasonably practicable, along with a description of the information proposed to be disclosed).

9. INTELLECTUAL PROPERTY: GOOD WILL

9.1 NovaCare hereby acknowledges that one or more affiliates of Nautilus Marketing are the sole owners of the Products and the NAUTILUS, NAUTILUS SHELL DESIGN, STRONG MEDICINE and other trademarks, trade names and service marks now or hereafter affixed or related to the Products, and of all the goodwill associated therewith, (the "Trademarks"). NovaCare hereby acknowledges the validity of the Trademarks, that the same shall at all times be and remain the sole and exclusive property of those affiliates, and that NovaCare, by reason of this Agreement or otherwise, has not acquired any right, title, interest, or claim of ownership therein. The use by NovaCare of the Trademarks permitted hereunder and any and all goodwill arising from such use shall inure solely to the benefit of those affiliates and shall be deemed to be the sole property of those affiliates in the event of the termination of this Agreement for any reason; and upon termination of this Agreement, any and all rights in and to the Trademarks granted to NovaCare hereunder shall automatically terminate. If, during the term of this Agreement, any such right should become vested in NovaCare by operation of law or otherwise, NovaCare agrees that it will promptly, on the request of Nautilus Marketing or any affiliate and, in any event, upon termination or expiration of this Agreement, forthwith irrevocably assign, without consideration, any and all such rights, together with any good will appurtenant thereto, to Nautilus Marketing or its designated affiliate. NovaCare will at no time contest ownership of the rights or the goodwill associated with the Trademarks. Nothing contained in this Agreement shall be construed to prevent those affiliates from authorizing any other person, firm, or corporation to sell the Products outside the Exclusive Market or use associated Trademarks in any way.

9.2 NovaCare shall not, and shall use its reasonable efforts to cause the Representatives not to, permit any Trademark, servicemark, or trade name of any affiliate of Nautilus Marketing to be used in a manner that is contrary to the instructions of Nautilus Marketing or that affiliate or that may adversely affect Nautilus Marketing or that affiliate or be detrimental to its good name and reputation, or which might adversely affect any other businesses licensed by Nautilus Marketing or any of its affiliates; nor do anything in any way, directly or indirectly, at any time during the term of this Agreement or thereafter to infringe upon, impair, harm, or contest the rights, title, and interests in or to the Products or Trademarks of Nautilus Marketing or any of its affiliates. NovaCare will not use any trademarks or other trade name in connection with the Products except those used by Nautilus Marketing. NovaCare will use those trademarks only in their standard form and style or as instructed by Nautilus Marketing. No other letter, word, design or symbol, or other matter of any kind shall be superimposed upon, associated with or shown in such proximity to the trademarks of affiliates of Nautilus Marketing as to tend to alter or dilute them. NovaCare will not combine or associate any trademark of Nautilus Marketing's affiliates with any other trademark or trade name. The generic or common name of any Product must always follow the trademark. Every use of any trademark of Nautilus Marketing's affiliates must be accompanied by the appropriate indication that the trademark is a trademark of the appropriate affiliate. Neither NovaCare nor any Representative will use any trademark or trade name of any affiliate of Nautilus Marketing or

any simulation of such marks or names as a part of NovaCare's or any Representative's corporate or other trading name or designation of any kind. Nautilus Marketing reserves the right to withdraw the right to the use of the Trademarks if NovaCare or any Representative materially violates the provisions of this paragraph.

9.3 If and to the extent each proposed use is submitted to and approved in writing in advance by Nautilus Marketing in its sole discretion, NovaCare will have the right to use of the Trademarks in marketing the Products in the NovaCare Market. Without limiting the discretion of Nautilus Marketing described in the foregoing sentence, such use may include, without limitation, business cards, brochures, letterhead, advertising, and trade shows and promotions.

9.4 NovaCare shall give notice in writing to Nautilus Marketing of any infringement of any Trademarks of any of Nautilus Marketing's affiliates or misappropriation of any rights of any such affiliate which shall come to NovaCare's knowledge at any time and, when requested, shall cooperate with the appropriate affiliate in stopping such infringements. The appropriate affiliate of Nautilus Marketing shall decide the need for instituting legal action with respect to any infringement which may occur, and the cost of any such litigation or the policing of rights granted by such affiliate hereunder shall be paid by the affiliate.

9.5 NovaCare agrees to cooperate in the defense or prosecution of any action involving infringement or misappropriation of any intellectual property or proprietary or confidential information.

9.6 NovaCare hereby acknowledges the validity of all copyrights registered by or in favor of Nautilus, its parent company, or any affiliate of either of them in respect of literature, software and any other similar works which may be copyrighted. NovaCare agrees that it will comply with any licensing, sub-licensing or other program which Nautilus may from time to time implement with respect to software used in connection with Products. NovaCare shall not enhance or in any way alter any such software, and shall cause the Representatives not to do so. Any alteration of the software voids any Nautilus warranty with respect thereto.

10. SERVICE AND WARRANTY

10.1 NovaCare acknowledges that the Products require installation, warranty and nonwarranty service, and maintenance by skilled, trained and fully qualified Nautilus technicians (other than maintenance to be performed by the end user in accordance with Nautilus' recommended maintenance instructions). NovaCare will not, and will cause the Representatives to not, engage in any installation, service, or maintenance of the Products.

10.2 NovaCare agrees to indemnify, defend and hold harmless Nautilus for and against any claim or cause of action, including without limitation any claim for loss or damages resulting from a voided warranty, arising solely out of any violation of this subparagraph by NovaCare or any Representative.

10.3 The Nautilus new product Limited Warranty is as may be provided with the Products by Nautilus from time to time (the "Limited Warranty"). Nautilus agrees to double the normal term of the Limited Warranty applicable to each Product sold hereunder, provided

that such doubling of the normal term shall apply to a particular Product only so long as it remains installed in the location in which it is first installed following sale hereunder. Nautilus reserves the right at any time to amend or modify its warranty policy, including any limitations or exclusions applicable thereto. All used or refurbished Products are sold "as is" and no Nautilus warranty shall apply thereto.

THERE ARE NO OTHER WARRANTIES WHICH EXTEND BEYOND THE FACE OF THE LIMITED WARRANTY. ALL OTHER WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING WITHOUT LIMITATION THE WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, AND FITNESS FOR USE, ARE EXCLUDED.

10.4 Nautilus' sole responsibility shall be to repair or replace Products under warranty, in accordance with the procedures set forth in the Limited Warranty. Charges for out-of-warranty repairs by Nautilus will be at the rates then in effect as charged to other Nautilus customers as Nautilus may establish from time to time. NovaCare shall not make any representation regarding cost, timing, availability or parts, or applicability of any warranty, or assume any liability on behalf of Nautilus Marketing or Nautilus, with respect to service or repair of the Products by Nautilus, whether in or out of warranty.

10.5 NovaCare may not extend the Limited Warranty or modify it in any respect. No modification or extension of the Limited Warranty is effective unless it is contained in a writing signed by an authorized officer of Nautilus. NovaCare shall not, and shall use its best efforts to cause the Representatives to not, make any representation about the Products unless such representation is contained in literature provided or approved by Nautilus with respect to the Product in question.

10.6 NovaCare shall indemnify and hold harmless Nautilus, including the payment of Nautilus' reasonable attorney fees and costs, in the event NovaCare or any representative of NovaCare makes any unauthorized commitment on behalf of Nautilus or Nautilus Marketing with respect to service and repair of any Product or any other matter, or makes any express or implied warranty or representation with respect to any Product which is inconsistent with, different from, or in addition to the Limited Warranty or literature provided or approved by Nautilus.

11. TERM AND TERMINATION

11.1 TERM. This Agreement shall continue for a term of five (5) years from the date hereof, and shall be automatically renewed for three successive five year periods thereafter, unless (1) NovaCare fails to meet or exceed its sales quota set forth in Section 4 hereof for any two years hereunder, whether or not such years are consecutive, in which case Nautilus Marketing shall thereafter have the right to terminate this Agreement without notice, or (2) this Agreement is otherwise earlier terminated pursuant to this Section 11 or any other applicable provision of this Agreement.

11.2 TERMINATION FOR BREACH. Either party shall have the right to terminate this Agreement with immediate effect if the other party hereto shall default on or breach any of the

terms, conditions, or covenants undertaken by or binding on it under this Agreement, and such default or breach shall continue for a period of sixty (60) days after receipt of written notice of the default or breach, or if any representation or warranty made by the other party in this Agreement shall become untrue in any material respect.

11.3 BANKRUPTCY, ETC. This Agreement may also be terminated by Nautilus Marketing if NovaCare makes an assignment for the benefit of creditors, files a voluntary petition under the federal bankruptcy laws, or any state law of similar import, is the subject of any involuntary petition under the federal bankruptcy laws or any state law of similar import without having the same dismissed within sixty (60) days of its filing, or makes any bulk transfer of its assets.

11.4 PENDING SALES. Upon termination of this Agreement, other than as a result of NovaCare's breach hereof, NovaCare shall be entitled to receive the Sales Commission and the Marketing Allowance, in accordance with and limited by the provisions of Sections 2.3 and 4 hereof, with respect to orders ultimately accepted by Nautilus Marketing and Nautilus that were submitted by NovaCare to Nautilus Marketing prior to the effective date of such termination in compliance with all requirements regarding the submission of orders then in effect. No other or further amounts, for any reason, shall be payable by Nautilus Marketing to NovaCare after termination. NovaCare agrees that after termination of this Agreement Nautilus Marketing may, in its sole discretion, in order to assure payment of any amounts due Nautilus Marketing in connection with Outstanding Advances, withhold up to one-third of any amount due in respect to any fiscal quarter for an additional thirty days from the date on which such amounts would otherwise be due and payable. In the event that any order is accepted by Nautilus Marketing and Nautilus but canceled after termination because of expiration of the order or the creditworthiness of the Customer, or at the request of the Customer, or for any similar reason, no Sales Commission or Marketing Allowance shall be due in respect to that order even if it is later rebooked.

11.5 NO LIABILITY. Nautilus Marketing shall not, by reason of the termination or expiration of this Agreement, be liable to NovaCare for compensation, reimbursement, or damages either on account of present or prospective profits on sales or anticipated sales, or on account of expenditures, investments, or commitments made in connection therewith, or in connection with the establishment, development, or maintenance of the business or goodwill of NovaCare, provided that termination shall not affect the rights or liabilities of the parties with respect to sales of Products hereunder prior to such termination, or with respect to any Sales Commission, Marketing Allowance, Outstanding Advances, or other amount or indebtedness then owing by either party to the other at the time of termination.

11.6 RETURN OF MATERIAL. Upon termination or expiration of this Agreement, any samples for which NovaCare has not paid in full, any equipment (including without limitation computers), any price books, other pricing data, catalogues, booklets, pamphlets, technical information, literature, and any sales or advertising aids and materials provided to NovaCare by Nautilus or Nautilus Marketing (including all copies or extracts) shall remain or become the property of Nautilus or Nautilus Marketing, as the case may be, and shall be promptly returned to Nautilus or Nautilus Marketing, as the case may be, along with any documents containing any information regarding the business of Nautilus or Nautilus Marketing.

11.7 DISCONTINUANCE OF USE OF NAMES. Upon termination or expiration of this

Agreement, NovaCare will immediately discontinue every use of any Trademark and the use of any language stating or suggesting that NovaCare is a sales representative of Nautilus Marketing or affiliated in any way with Nautilus.

12. INDEMNIFICATION AND INSURANCE

12.1 NOVACARE.

12.1.1 NovaCare agrees to indemnify Nautilus and Nautilus Marketing, their present and former agents, servants, officers, directors, employees, attorneys, representatives, predecessors, successors, assigns, shareholders, parent, subsidiaries and affiliates, and any and all other persons or entities related thereto, against any and all claims, damages, losses and expenses, including reasonable attorney's fees, arising in whole or in part out of any action or inaction of NovaCare, any Representative of NovaCare or any of NovaCare's employees or agents arising under or in connection with NovaCare's performance under this Agreement, any deficiency in the performance under this Agreement by NovaCare or any person or entity employed or engaged by NovaCare in connection with this Agreement or any violation or breach by NovaCare of any provision of this Agreement.

12.1.2 NovaCare shall carry general liability insurance coverage in an amount of not less than $1,000,000 (combined single limit per occurrence) with an insurance company satisfactory to Nautilus. NovaCare shall provide Nautilus with a certificate of insurance evidencing such coverage within thirty (30) days of the execution of this Agreement showing Nautilus International, Inc. as an additional insured and certificate holder and providing that such insurance shall not lapse or be canceled or modified unless Nautilus has been given thirty (30) days' prior written notice of the intended cancellation or modification.

12.2 NAUTILUS MARKETING.

12.2.1 Nautilus Marketing agrees to indemnify NovaCare, its present and former agents, servants, officers, directors, employees, attorneys, representatives, predecessors, successors, assigns, shareholders, parents, subsidiaries and affiliates, and any and all other persons or entitles related thereto, against any and all claims, damages, losses and expenses, including reasonable attorney's fees, arising in whole or in part out of (i) claims by previous sales agents, distributors or other resellers of the Products, (ii) any action or inaction of Nautilus Marketing or any of its employees or agents arising under or in connection with Nautilus Marketing' performance under this Agreement, (iii) any deficiency in the performance under this Agreement by Nautilus Marketing or any person or entity employed or engaged by Nautilus Marketing in connection with this Agreement or (iv) any violation or breach by Nautilus Marketing of any provision of this Agreement.

12.2.2 Nautilus shall carry general liability insurance coverage in an amount of not less than $1,000,000 (combined single limit per occurrence) with an insurance company reasonably satisfactory to NovaCare. Nautilus shall provide NovaCare with a certificate of insurance evidencing such coverage within thirty (30) days of the execution of this Agreement showing NovaCare, Inc. as an additional insured and certificate holder and providing that such insurance shall not lapse or be canceled or modified unless NovaCare has been given

thirty (30) days' prior written notice of the intended cancellation or modification.

13. RELATIONSHIP OF THE PARTIES

13.1 NovaCare specifically acknowledges and agrees that it is an independent contractor hereunder. Nautilus Marketing is interested only in the results to be achieved, and subject to the terms and conditions of this Agreement, the conduct and control of the work will lie solely with NovaCare. It is understood that Nautilus Marketing does not agree to use NovaCare exclusively except as stated herein. It is further understood that NovaCare is free to contract for similar services to be performed for other parties while under contract with Nautilus Marketing, subject to the non-competition provisions hereof. It is the express intention of Nautilus Marketing and NovaCare that anything in this Agreement which may be construed as inconsistent with the independent contractor relationship shall be disregarded.

13.2 Neither NovaCare, the Representatives, nor its or any of their employees or agents are employees of Nautilus or Nautilus Marketing under the meaning or application of any law. Neither NovaCare, the Representatives, nor any of its or their employees, representatives, agents and independent contractors shall be covered as employees of Nautilus or Nautilus Marketing under the workers' compensation laws of any state, or any other laws pertaining to employees of an employer or the employment relationship. NovaCare shall be solely responsible for the reporting, for purposes of federal tax, state tax, FICA and any other applicable law, of any payments made to it or its employees or the Representatives or other agents or independent contractors by Nautilus Marketing or NovaCare, and is solely responsible for any payments required by the United States Internal Revenue Service or other governmental agencies with respect to such payments.

13.3 NovaCare shall not hold itself out as an agent of Nautilus or Nautilus Marketing. NovaCare shall not have, or represent itself as having, any authority to make contracts in the name of Nautilus or Nautilus Marketing or to bind Nautilus or Nautilus Marketing in any manner. NovaCare shall not make any warranties or statements ostensibly on behalf of or approved by Nautilus or Nautilus Marketing with respect to the Products other than those set forth in the Limited Warranty or literature provided or approved by Nautilus or Nautilus Marketing.

13.4 It is understood and agreed that no franchisor/franchisee relationship is created by this Agreement or otherwise exists between the parties. NovaCare expressly acknowledges that it has negotiated with Nautilus Marketing as an independent contractor, and that is shall not be deemed a franchisee of Nautilus or Nautilus Marketing under any circumstance whatsoever.

13.5 Any breach of the terms of this Section 13 shall be deemed a material breach of this Agreement.

14. MISCELLANEOUS

14.1 ENTIRE AGREEMENT. This Agreement constitutes the entire Agreement between the parties hereto with respect to the matters set forth herein, and there are no other Agreements

between the parties pertaining to the subject matter hereof, either oral or written. Except as provided in Section 3.1 hereof, no contrary, different or additional terms will apply to the transactions contemplated by this Agreement, even if such terms are contained on purchase orders, order confirmations, or other forms or documents sent by a Customer.

14.2 ASSIGNMENT. Either party hereto may assign its rights and obligations under this Agreement to a successor corporation, to an affiliate corporation controlling, controlled by, or under common control with such party, or to a corporation to which it transfers substantially all of its assets, upon written notice to the other party. In addition, NovaCare may assign its rights and obligations to an entity designated by Gary Reinl upon obtaining the prior written consent of Nautilus Marketing, which consent may be withheld for any reason in the sole discretion of Nautilus Marketing. Any other assignment hereof shall require the written consent of the other party. This Agreement shall inure to the benefit of Nautilus Marketing and NovaCare and be binding upon the parties hereto, and their respective successors and permitted assigns. In each case of any assignment hereunder, the assigning party shall remain liable for the performance of all of its obligations hereunder, provided that Nautilus Marketing shall be released from such performance upon the sale of substantially all of the assets of Nautilus or Nautilus Marketing in one or more transactions, and NovaCare shall be released from such performance after an assignment by it, with the consent of Nautilus Marketing, to an entity designated by Gary Reinl.

14.3 MODIFICATION AND WAIVER. This Agreement may not be modified or amended except by Nautilus Marketing as provided herein or in a writing signed by NovaCare and by Nautilus Marketing. Either party may waive, in writing, a provision in this Agreement which is for its benefit, but such provision shall not otherwise be deemed waived. A waiver of any provision in any one instance shall not be deemed a waiver of any provision in any other instance. No provision contained in this Agreement shall be deemed to have been waived by reason of any failure or delay to enforce the same, regardless of the number of breaches or violations which may occur.

14.4 ENFORCEABILITY. In the event any provision of this Agreement shall be invalid, illegal or unenforceable in any circumstance, the validity, legality and enforceability of that provision in any other circumstance or of the remaining provisions shall not in any way be affected or impaired thereby.

14.5 EXCUSE OF PERFORMANCE. Nautilus shall not be liable for failure to deliver, delays in delivery or failure to perform under this Agreement occasioned, in whole or in part, by strikes, lockouts, embargoes, war, or other outbreak or hostilities, inability to obtain materials or shipping space, machinery breakdown, delays of carriers or suppliers, governmental acts and regulations, acts of God, receipt of orders in excess of Nautilus' inventory or then scheduled delivery capacity, or any unforeseen circumstances or cause beyond Nautilus' reasonable control. However, if Products are not available on a commercially reasonable basis due to one or more of the above circumstances, NovaCare will not be held to its quota requirements during the period of such inability to deliver, but shall reasonably and in good faith negotiate with Nautilus Marketing to establish new objectives.

14.6 ARBITRATION. Any controversy or claim arising under or in relation to this Agreement, or the breach thereof, or the relations between NovaCare and either Nautilus Marketing or Nautilus shall be settled by arbitration by a panel of three arbitrators (unless the

amount in dispute is less than $25,000 in which case there shall be only one arbitrator) in the City of Greenville, South Carolina, administered by the American Arbitration Association, except as specified otherwise in this Agreement, under its Commercial Arbitration Rules. Judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

14.7 LIMITATION ON ARBITRATION REMEDIES. The arbitrators shall have no power to extend this Agreement beyond its termination date, nor to order reinstatement or other continuation of the parties' relationship after termination, nor to award punitive, consequential, multiple, incidental or any other damages in excess of the economic damages actually sustained by the claimant.

14.8 CHOICE OF LAW AND FORUM; JURY TRIAL WAIVER. This Agreement shall be governed, construed, and interpreted in accordance with the laws of the state of South Carolina and the United States Arbitration Act without giving effect to any choice or conflict of law provision or rule (whether of the state of South Carolina or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the state of South Carolina. Any actions or proceedings with respect to any matters, arising under or growing out of this Agreement or the performance of this Agreement, shall be instituted and prosecuted only in state or federal courts located in the City of Greenville, South Carolina. Each party specifically consents to service of process by and the jurisdiction of and venue in those courts. Each party further consents that any process, notice of motion or other application to the court or any judge thereof may be served in the manner provided for giving of notice under this Agreement provided a reasonable time for appearance is allowed. NovaCare, to the fullest extent permitted by law, hereby waives a jury trial with respect to any litigation in regard to any matters arising under or growing out of this Agreement, the performance of this Agreement, or NovaCare's relations with Nautilus Marketing or Nautilus. The parties represent and warrant that they understand the implications of this subparagraph, that they have comparable bargaining power and access to counsel and have consulted such counsel in the drafting of this subparagraph, together with any and all other terms and conditions set forth in this Agreement, and that they intend to be fully bound hereby.

14.9 HEADINGS. The headings in this Agreement are inserted for the convenience of the parties hereto and shall not define, affect, limit, or describe the scope or intent of this Agreement or any portion thereof in any way.

14.10 SURVIVAL. After termination, this Agreement shall continue to govern the rights and duties of the parties as to transactions made hereunder and continuing covenants. Without limiting the generality of the foregoing, all confidentiality and nondisclosure obligations under this Agreement shall survive its termination.

14.11 AUTHORITY. The person executing this Agreement on behalf of each party represents and warrants that he or she is duly authorized to bind such party and that such party has authorized him or her to execute this Agreement on behalf of such party.

14.12 CONFIDENTIALITY. Except as may be required by law, the terms of this Agreement shall be kept in strict confidence by both parties. Neither party may disclose the contents of this Agreement to any person except for its employees, affiliates or agents who have a need to know

such information, without the prior written consent of the other (which consent shall not be unreasonably withheld) except as may be required by law. Notwithstanding anything herein to the contrary, upon execution of this Agreement by both parties, NovaCare may issue a one-time Press Release regarding the general terms of this Agreement, provided that the Press Release is reviewed and approved by Nautilus Marketing in advance of release or other publication and may advertise itself as a Nautilus distributor so long as the specific details of this Agreement are kept confidential.

14.13 NOTICE. All notice given hereunder shall be in writing and shall be validly given if delivered in person, by telex, by verbally confirmed facsimile, by telegram, or by the United States mail, as follows:

If to Nautilus Marketing:	ATTN: President Delta Consolidated Corporation Hammond Square, Suite 200 233 North Main Street Greenville, SC 29601
With a copy to:	ATTN: President Nautilus International, Inc. 9800 West Kincey Avenue Calhoun Building, Suite 150 Huntersville, NC 28078
and:	Wyche Law Firm Attn: Henry L. Parr, Jr. P. 0. Box 728 44 East Camperdown Way Greenville, South Carolina 29602 Facsimile No. (803) 235-8900 Verify No. 803-242-8200
If to NovaCare:	NovaCare, Inc. 1016 West Ninth Avenue King of Prussia, PA 19406 ATTN: C. Arnold Renschler, M.D.

IN WITNESS WHEREOF, the parties hereto have hereunder executed this Agreement as of the date indicated on the first page of this Agreement.

DELTA CONSOLIDATED CORPORATION	NOVACARE, INC.
By: /s/ Danny L. Stanton	By: /s/ C. Arnold Renschler
Name and title: Danny L. Stanton Pres-Nautilus International	Name and title: Sr. VP, Nova Care Inc. President, The Polaris Group

EXHIBIT 21.1

SUBSIDIARIES OF DIRECT FOCUS, INC.

Nautilus Fitness Products, Inc, a Washington corporation.
Nautilus Human Performance Systems, Inc., a Virginia corporation.
Nautilus, Inc., a Washington corporation.
Direct Focus Sales Corporation, a Washington corporation.
Direct Focus FSC, Ltd., a Barbados corporation.
DFI Properties, LLC, a Virginia limited liability company.
BFI Advertising, Inc., a Washington corporation.
Instant Comfort Corporation, a Washington corporation.

EXHIBIT 23.1

INDEPENDENT AUDITOR'S CONSENT

We consent to the use in this Registration Statement of Direct Focus, Inc. on Form S-1 of our report dated February 26, 1999 appearing in the prospectus, which is part of this Registration Statement. We also consent to the reference to us under the headings "Experts" in such prospectus.

/s/_DELOITTE & TOUCHE LLP__
Deloitte & Touche LLP
Portland, Oregon
March 2, 1999

EXHIBIT 23.2

INDEPENDENT AUDITOR'S CONSENT

To the Board of Directors

Delta Woodside, Inc.:

We consent to the inclusion of our report date October 2, 1998 with respect to the combined balance sheets of the Nautilus Business as of June 27, 1998 and June 28, 1997, and the related combined statements of operations and accumulated deficit and cash flows for each of the years in the three-year period ended June 27, 1998, which report appears in the Form S-1 of Direct Focus, Inc. and to the reference to our firm under the heading "Experts" in the prospectus.

/s/_KPMG PEAT MARWICK LLP__
KPMG Peat Marwick LLP
Greenville, South Carolina
March 1, 1999

POWER OF ATTORNEY

Know by all these presents, that the undersigned hereby constitutes and appoints Brian Cook and Rod Rice, or either of them, the undersigned's true and lawful attorney-in-fact to:

(1) Execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Direct Focus, Inc. (the "Company"), a registration statement on Form S-1, registering the sale of up to 1,150,000 shares of the Company's common stock.

(2) Do and perform any and all acts for and on behalf of the undersigned which may be necessary or desirable to complete and execute any such registration statement on Form S-1 and timely file such registration statement with the United States Securities and Exchange Commission and any stock exchange or similar authority; and

(3) Take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney-in-fact, may be of benefit to, in the best interest of, or legally required by, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

The undersigned hereby grants to such attorney-in-fact full power and authority to do and perform any and every act and thing whatsoever requisite, necessary, or proper to be done in the exercise of any of the rights and powers herein granted, as fully to all intents and purposes as the undersigned might or could do if personally present, with full power of substitution or revocation, hereby ratifying and confirming all that such attorney-in-fact, or such attorney-in-fact's substitute or substitutes, shall lawfully do or cause to be done by virtue of this Power of Attorney and the rights and powers herein granted.

This Power of Attorney shall remain in full force and effect until revoked by the undersigned in a signed writing delivered to the foregoing attorney-in-fact.

IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of this 20th day of February, 1999

/s/ Kirkland C. Aly

Kirkland C. Aly

POWER OF ATTORNEY

Know by all these presents, that the undersigned hereby constitutes and appoints Brian Cook and Rod Rice, or either of them, the undersigned's true and lawful attorney-in-fact to:

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This Power of Attorney shall remain in full force and effect until revoked by the undersigned in a signed writing delivered to the foregoing attorney-in-fact.

IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of this 20th day of February, 1999

/s/ C. Reed Brown

C. Reed Brown

POWER OF ATTORNEY

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(2) Do and perform any and all acts for and on behalf of the undersigned which may be necessary or desirable to complete and execute any such registration statement on Form S-1 and timely file such registration statement with the United States Securities and Exchange Commission and any stock exchange or similar authority; and

(3) Take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney-in-fact, may be of benefit to, in the best interest of, or legally required by, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

The undersigned hereby grants to such attorney-in-fact full power and authority to do and perform any and every act and thing whatsoever requisite, necessary, or proper to be done in the exercise of any of the rights and powers herein granted, as fully to all intents and purposes as the undersigned might or could do if personally present, with full power of substitution or revocation, hereby ratifying and confirming all that such attorney-in-fact, or such attorney-in-fact's substitute or substitutes, shall lawfully do or cause to be done by virtue of this Power of Attorney and the rights and powers herein granted.

This Power of Attorney shall remain in full force and effect until revoked by the undersigned in a signed writing delivered to the foregoing attorney-in-fact.

IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of this 20th day of February, 1999

/s/ Gary L. Hopkins

Gary L. Hopkins

POWER OF ATTORNEY

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(2) Do and perform any and all acts for and on behalf of the undersigned which may be necessary or desirable to complete and execute any such registration statement on Form S-1 and timely file such registration statement with the United States Securities and Exchange Commission and any stock exchange or similar authority; and

(3) Take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney-in-fact, may be of benefit to, in the best interest of, or legally required by, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

The undersigned hereby grants to such attorney-in-fact full power and authority to do and perform any and every act and thing whatsoever requisite, necessary, or proper to be done in the exercise of any of the rights and powers herein granted, as fully to all intents and purposes as the undersigned might or could do if personally present, with full power of substitution or revocation, hereby ratifying and confirming all that such attorney-in-fact, or such attorney-in-fact's substitute or substitutes, shall lawfully do or cause to be done by virtue of this Power of Attorney and the rights and powers herein granted.

This Power of Attorney shall remain in full force and effect until revoked by the undersigned in a signed writing delivered to the foregoing attorney-in-fact.

IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of this 20th day of February, 1999

/s/ Roger J. Sharp

Roger J. Sharp

POWER OF ATTORNEY

Know by all these presents, that the undersigned hereby constitutes and appoints Brian Cook and Rod Rice, or either of them, the undersigned's true and lawful attorney-in-fact to:

(1) Execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Direct Focus, Inc. (the "Company"), a registration statement on Form S-1, registering the sale of up to 1,150,000 shares of the Company's common stock.

(2) Do and perform any and all acts for and on behalf of the undersigned which may be necessary or desirable to complete and execute any such registration statement on Form S-1 and timely file such registration statement with the United States Securities and Exchange Commission and any stock exchange or similar authority; and

(3) Take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney-in-fact, may be of benefit to, in the best interest of, or legally required by, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

The undersigned hereby grants to such attorney-in-fact full power and authority to do and perform any and every act and thing whatsoever requisite, necessary, or proper to be done in the exercise of any of the rights and powers herein granted, as fully to all intents and purposes as the undersigned might or could do if personally present, with full power of substitution or revocation, hereby ratifying and confirming all that such attorney-in-fact, or such attorney-in-fact's substitute or substitutes, shall lawfully do or cause to be done by virtue of this Power of Attorney and the rights and powers herein granted.

This Power of Attorney shall remain in full force and effect until revoked by the undersigned in a signed writing delivered to the foregoing attorney-in-fact.

IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of this 20th day of February, 1999

/s/ Roland E. Wheeler

Roland E. Wheeler

YEAR	
	DEC-31-1998
	JAN-01-1998
	DEC-31-1998
	18,910,675
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	258,207
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	(57,296,880)
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	(12,485,494)
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	0
	(12,485,494)
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	1.28