AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 12, 1999

REGISTRATION NO. 333-73243

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1 TO

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: / /

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 APRIL 12, 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 April 7, 1999, the last reported price of our common stock on the Toronto Stock Exchange, stated in U.S. dollars, was $18.875 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 identified in 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.....	$	$	$	$

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. FIRST SECURITY VAN KASPER

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.

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 wheel chair 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 Nautilus Sleep Systems logo. Below the logo is a picture of the Company's airbed mattress in a bedroom setting with the Company's Instant Comfort logo and 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 premium quality, premium priced, 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 airbed mattress systems.

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.

In January 1999, we acquired substantially all of the assets of Nautilus International, Inc., the manufacturer and marketer of Nautilus brand commercial fitness equipment and consumer fitness accessories. Before the acquisition, Nautilus International suffered from several years of declining revenues and significant losses. We believe that we can effectively integrate the Nautilus business into our operations and stabilize its financial performance. We also believe that Nautilus is one of the most recognized brand names in the fitness industry and possesses significant direct marketing potential.

We believe that we have been successful primarily because of the direct marketing expertise, systems and procedures we have developed and refined while directly marketing our Bowflex products. We have developed sophisticated database management systems, a state-of-the-art customer service call center and a system for accurately tracking our advertising success and customer buying habits. We believe this expertise and experience enable us to:

- Develop proprietary, 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 premium quality, premium priced 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 airbeds;
- Develop and directly market additional premium quality, premium priced, branded 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.....	10,359,599 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 presently intend to declare any dividends in the near future.
Proposed Nasdaq National Market symbol.....	DFXI

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(1) Based on 9,534,599 shares outstanding as of March 31, 1999. Includes 86,076 shares of common stock issued after December 31, 1998, upon the exercise of options. Excludes:

- 464,542 shares of common stock issuable upon the exercise of outstanding options; and

- 696,961 shares available for future issuance under our Stock Option Plan.

See "Management - Benefit Plans" for a description of our Stock Option Plan.

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	50,295
Operating income (loss)	(531)	(59)	460	3,616	18,888	15,776
Net income (loss)	$ (510)	$ 15	$ 693	$ 2,421	$ 12,485	$ 9,868
Basic earnings (loss) per share	$ (0.06)	$ 0.00	$ 0.08	$ 0.27	$ 1.34	$ 1.06
Diluted earnings (loss) per share	$ (0.06)	$ 0.00	$ 0.08	$ 0.25	$ 1.28	$ 1.01
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(2)	PRO FORMA AS ADJUSTED(2)
		(UNAUDITED)	(UNAUDITED)
BALANCE SHEET DATA:			
Working capital	$ 15,682	$ 2,772	$ 16,654
Total assets	24,373	27,431	41,313
Long-term liabilities	67	166	166
Total stockholders' equity	$ 17,651	$ $17,651	$ 31,533

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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" for a discussion of pro forma adjustments.

(2) The unaudited pro forma and pro forma as adjusted balance sheet data assumes that we consummated the Nautilus acquisition on December 31, 1998. The data reflects the effects of purchase accounting adjustments. These adjustments are set forth in our "Unaudited Pro Forma Combined Financial Statements - Pro Forma Combined Balance Sheet," included elsewhere in this prospectus. We also adjusted the pro forma as adjusted balance sheet 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.

A SIGNIFICANT DECLINE IN CONSUMER INTEREST IN BOWFLEX PRODUCTS WOULD SHARPLY DIMINISH OUR SALES AND PROFITABILITY.

Our financial performance depends significantly on sales of our Bowflex line of home fitness equipment. Any significant diminished consumer interest in our Bowflex products would sharply reduce our sales and profitability. In 1998, approximately 99.6% of our net sales were attributable to our Bowflex products. We recently diversified our product line by introducing a line of premium airbeds and acquiring the Nautilus product line. We also intend to develop and introduce new products and product enhancements. If our diversification efforts do not succeed, our sales will continue to depend significantly on our Bowflex products. See "Business - New Product Development and Innovation" for a discussion of our efforts to develop new products and product enhancements.

WE ARE A RAPIDLY GROWING COMPANY, AND OUR FAILURE TO PROPERLY MANAGE GROWTH MAY ADVERSELY AFFECT OUR FINANCIAL PERFORMANCE.

We have grown significantly since 1996, with increases in net sales from $8.5 million in 1996 to $19.9 million in 1997 and $57.3 million in 1998. We also recently added substantial operations through our Nautilus acquisition and intend to continue to pursue an aggressive growth strategy. Our growth and the Nautilus acquisition have strained our management team, production facilities, information systems and other resources. We cannot assure you that we will succeed in effectively managing our existing operations or our anticipated growth, which could adversely affect our financial performance. See "Business - Growth Strategy" for a discussion of our growth strategies.

IF WE ARE UNABLE TO EFFECTIVELY INTEGRATE THE NAUTILUS BUSINESS INTO OUR OPERATIONS, WE MAY NOT ACHIEVE ANTICIPATED REVENUE, EARNINGS AND BUSINESS SYNERGIES.

We face significant challenges integrating our recently acquired Nautilus business into our operations, any of which could adversely affect the revenue, earnings and business synergies we expect from the acquisition. The distance between our Vancouver, Washington and Independence, Virginia facilities amplifies these challenges. Specifically, we must successfully integrate the following aspects of the Nautilus business into our operations:

- Manufacturing and other production facilities, including a new manufacturing management team;

- Employees, including those working in production, product development and administration;

- Marketing and product distribution systems, including a new marketing management team; and

- Administrative and financial policies and procedures.

OUR PROFITABILITY WILL DECLINE IF WE ARE UNABLE TO REVERSE NAUTILUS INTERNATIONAL'S RECENT LOSSES.

Prior to our Nautilus acquisition, Nautilus International had incurred several years of declining sales and accelerating losses. Unless our new Nautilus management team is able to revitalize commercial sales and reduce costs, our profitability will decline. For example, for the fiscal year ended

June 27, 1998, Nautilus International had an operating loss of approximately $14.8 million, of which $8.8 million constituted a one-time impairment charge, on net sales of $20.9 million.

OUR KEY EMPLOYEES ARE CRITICAL TO OUR SUCCESS, AND THEIR DEPARTURE MAY ADVERSELY AFFECT OUR BUSINESS.

As a direct marketing company, our success depends on our key marketing, sales, technical and managerial personnel, including our recently hired Nautilus management team. 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 key man life insurance policy in the amount of $500,000 on Brian R. Cook, our President and Chief Executive Officer.

A DECLINE IN CONSUMER SPENDING DUE TO UNFAVORABLE ECONOMIC CONDITIONS COULD HINDER SALES OF OUR CONSUMER PRODUCTS.

The success of each of our products depends substantially on how consumers decide to spend their money. Unfavorable economic conditions may depress consumer spending, especially for premium priced products like ours.

GOVERNMENT REGULATORY ACTIONS COULD DISRUPT OUR DIRECT MARKETING EFFORTS AND PRODUCT SALES.

Various federal, state and local government authorities, including the Federal Trade Commission and the Consumer Products Safety Commission, regulate our direct marketing efforts and products. If any of these authorities commence a regulatory enforcement action that interrupts our direct marketing efforts or results in a product recall, our sales and profitability could be significantly harmed.

A SIGNIFICANT AMOUNT OF OUR COMMON STOCK WILL BE PUBLICLY HELD AFTER THIS OFFERING, AND SALES OF A SUBSTANTIAL NUMBER OF THESE SHARES MAY DEPRESS OUR STOCK PRICE.

Our common stock has been publicly traded on the Toronto Stock Exchange since 1993, and we believe that as many as 8.3 million shares of our common stock will be freely tradable in the public market following this offering. Public sales of a substantial number of these shares could depress the market price for our common stock. See "Shares Eligible for Future Sale" for a more detailed discussion of our currently outstanding common stock and applicable resale restrictions.

AN ADVERSE OUTCOME FROM PENDING LITIGATION WITH SOLOFLEX, INC. COULD SIGNIFICANTLY HARM OUR FINANCIAL POSITION.

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. Although we intend to vigorously defend against Soloflex's claims, we cannot assure you that we will prevail in this dispute. If Soloflex successfully prosecutes any of its claims against us, our financial position could be significantly harmed. Soloflex claims 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. Soloflex has requested both monetary damages and injunctive relief. The requested injunctive relief would prohibit us from airing advertisements that allegedly would infringe upon Soloflex's intellectual property rights. See "Business - Legal Proceedings" for a more detailed description of the Soloflex litigation.

IF A UNITED STATES MARKET FOR OUR COMMON STOCK DOES NOT DEVELOP, SHAREHOLDER LIQUIDITY AND OUR STOCK PRICE COULD BE ADVERSELY AFFECTED.

We have applied to have our common stock listed for trading on Nasdaq, and we intend to delist our common stock from the Toronto Stock Exchange upon the completion of this offering. If an active United States market for our common stock fails to develop and our common stock is no longer publicly traded in Canada, our shareholders may have difficulty selling their shares and our stock price may decline.

WE MAY FAIL TO EFFECTIVELY IDENTIFY AND RESOLVE SIGNIFICANT YEAR 2000 PROBLEMS WITHIN OUR BUSINESS, OR IMPORTANT SUPPLIERS MAY BE UNABLE TO SUPPLY GOODS AND SERVICES TO US DUE TO YEAR 2000 PROBLEMS.

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 could interrupt our ability to process orders and ship our products. The resulting costs could be significant and we could suffer a significant decrease in sales. Similar problems and consequences could result if any of our key suppliers, such as telephone companies, carriers, manufacturers, suppliers and our

consumer credit facilitator, experience Year 2000 problems. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Year 2000 Compliance" for a more detailed discussion of Year 2000 issues as they affect our business.

WE HAVE A LIMITED OPERATING HISTORY ON WHICH YOU CAN BASE YOUR ANALYSIS OF OUR BUSINESS.

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 that these trends will continue or that we will remain profitable.

INCREASES IN PRODUCT RETURNS COULD ADVERSELY AFFECT OUR FINANCIAL PERFORMANCE.

Any material increase in the quantity of products returned by our customers for purchase-price refunds could adversely affect our financial performance. We have limited operating experience with our airbeds, which we began test marketing in August 1998, and therefore limited experience with the return rates for these products. See "Business - Products" for a discussion of our return policies.

OUR WARRANTY RESERVES MAY BE INSUFFICIENT TO COVER FUTURE WARRANTY CLAIMS, WHICH COULD ADVERSELY AFFECT OUR FINANCIAL PERFORMANCE.

We offer warranties on all of our principal products. If our warranty reserves are inadequate to cover future warranty claims on our products, our financial performance could be adversely affected. We have limited operating experience with our airbeds, which we began test marketing in August 1998, and therefore limited experience with warranty claims for these products. See "Business - Products" for a discussion of our warranty policies.

PRODUCT LIABILITY CLAIMS EXCEEDING OUR PRODUCT LIABILITY INSURANCE COVERAGE AND RESERVES COULD ADVERSELY AFFECT OUR BUSINESS.

We are subject to potential product liability claims if our products injure or allegedly injure our customers or other users. If our product liability insurance coverage and reserves fail to cover future product liability claims, we could become liable for significant monetary damages.

FUTURE ACQUISITIONS MAY DISRUPT OR OTHERWISE ADVERSELY AFFECT OUR BUSINESS.

As part of our growth strategy, we intend to explore strategic acquisitions that would enhance our direct marketing capabilities or our product lines. Future acquisitions are subject to the following risks that may negatively impact our financial performance and cause fluctuations in our operating results:

- Acquisitions may disrupt our ongoing operations and distract our management team;

- We may not be able to successfully integrate the products, services or personnel of the acquired businesses into our operations;

- We may acquire companies in markets in which we have little experience;

- Any acquisition may not produce the revenue, earnings or business synergies we anticipate; and

- An acquired product or technology may not perform as we expect.

To pay for an acquisition, we may use common stock or cash, including the proceeds of this offering. 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.

CERTAIN RISKS IN OUR INTERNATIONAL OPERATIONS COULD INTERRUPT THE SUPPLY OF OUR PRODUCT COMPONENTS OR THE INTERNATIONAL DISTRIBUTION OF OUR NAUTILUS PRODUCTS.

We currently acquire many of our product components from foreign manufacturers and distribute our Nautilus products internationally. Our international operations are subject to the inherent risks of doing business abroad. The loss of certain foreign suppliers, customers or distributors could harm our

ability to deliver our products on time and cause our sales to decline. Our financial performance could be materially adversely affected by many events and circumstances relating to our international operations, including:

- Shipping delays and cancellations;

- Increases in import duties and tariffs;

- Foreign exchange rate fluctuations;

- Changes in foreign laws and regulations; and

- Political and economic instability.

INCREASES IN ADVERTISING RATES MAY REDUCE OUR PROFITABILITY.

We depend primarily on 60-second or "spot" television commercials and television infomercials to market our products. 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 increase our selling and marketing expenses and decrease our profitability. See "Business - -Direct Marketing" for a more detailed discussion of our advertising efforts.

OUR SALES MAY MATERIALLY DECLINE IF OUR CUSTOMER SERVICE CALL CENTER STOPS OPERATING.

We receive and process almost all orders for our directly marketed products through our customer service call center. Our sales could materially decline if our call center stops operating for a significant time period. 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. See "Business - Direct Marketing" for a more detailed description of our call center operations.

OUR FAILURE OR INABILITY TO PROTECT OUR INTELLECTUAL PROPERTY COULD SIGNIFICANTLY HARM OUR COMPETITIVE POSITION, AND WE COULD ALSO INCUR SUBSTANTIAL COSTS TO DEFEND CLAIMS THAT WE HAVE VIOLATED THE PROPRIETARY RIGHTS OF OTHERS.

Protecting our intellectual property is an important factor in maintaining our competitive position in the fitness and mattress industries. If we do not or are unable to adequately protect our intellectual property, our sales and profitability could be adversely affected. We currently hold a number of patents and trademarks and have several patent and trademark applications pending. However, our efforts to protect our proprietary rights may be inadequate and applicable laws provide only limited protection. For example, the patent on our Bowflex Power Rods, a key component of our Bowflex products, expires on April 27, 2004. In addition, we may not be able to successfully prevent others from claiming that we have violated their proprietary rights. We could incur substantial costs in defending against such claims, even if they are invalid, and we could become subject to judgments requiring us to pay substantial damages. For a more detailed discussion of our efforts to protect our intellectual property rights, see "Business - Intellectual Property."

CERTAIN ANTITAKEOVER PROVISIONS OF WASHINGTON LAW MAY REDUCE OUR STOCK PRICE.

As a Washington corporation, we are subject to the Washington Business Corporation Act. Certain antitakeover provisions of this Act may make it more difficult for a third party to acquire us, even if an acquisition would benefit our shareholders. See "Description of Capital Stock - Antitakeover Effects of Certain Provisions of Washington Law" for a more detailed discussion of the antitakeover provisions.

USE OF PROCEEDS

We expect to receive approximately $13,881,985 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 $2,618,906 in net proceeds. In calculating estimated net proceeds, we assume an offering price of $18.875 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 for the following purposes and in the following order of priority:

	AMOUNT	PERCENTAGE OF NET PROCEEDS
Working capital	$ 7,381,985	53.2%
Capital equipment	1,500,000	10.8
General corporate	5,000,000	36.0
Total	$ 13,881,985	100.0%

We intend to direct the working capital proceeds toward such needs as increased direct marketing expenditures for our existing products, the growth of our Nautilus consumer product business, including the introduction of new Nautilus consumer products, and other working capital needs associated with our growth. We intend to direct our capital equipment proceeds toward such needs as the addition of a second product assembly and distribution center in the western United States and computer and related technology upgrades. We may use a portion of the general corporate 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 any of these 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 OUR COMMON STOCK AND DIVIDEND POLICY

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 current year and 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
1999				
1(st) Quarter	$ 28.00	$ 18.55	$ 18.39	$ 12.09

As of March 31, 1999, 9,534,599 shares of our common stock were issued and outstanding and held of record by 81 shareholders. See "Shares Eligible for Future Sale" for a discussion of our outstanding common stock.

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 presently intend to declare any cash dividends in the near 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:

- On an actual basis;

- On a pro forma basis to reflect the effects of the Nautilus acquisition, assuming the acquisition was consummated on December 31, 1998; and

- 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 $18.875 per share, after deducting estimated underwriting discounts and offering expenses.

You should read this information in conjunction with our financial statements and notes thereto and with the unaudited pro forma combined financial statements, which appear elsewhere in this prospectus.

	DECEMBER 31, 1998 (IN THOUSANDS)		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
		(UNAUDITED)	(UNAUDITED)
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	$ 3,566	$ 17,448
Retained earnings	14,085	14,085	14,085
Total stockholders' equity	17,651	17,651	31,533
Total capitalization	$ 17,651	$ 17,651	$ 31,533

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(1) Excludes:

- 86,076 shares of common stock issued after December 31, 1998, upon the exercise of options;

- 464,542 shares of common stock issuable upon the exercise of outstanding options under our Stock Option Plan at a weighted average exercise price of $2.39 per share; and

- 696,961 shares available for future issuance under the Stock Option Plan.

See "Management - Benefit Plans" for a description of our Stock Option Plan.

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	26,306
Gross profit	2,841	3,156	5,914	14,772	44,855	50,295
Operating expenses						
Selling and marketing	2,834	2,644	4,712	9,600	22,643	28,373
General and administrative	393	370	473	975	1,701	4,523
Royalties	145	201	269	581	1,623	1,623
Total operating expenses	3,372	3,215	5,454	11,156	25,967	34,519
Operating income (loss)	(531)	(59)	460	3,616	18,888	15,776
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	15,166
Income tax expense (benefit)	(31)	(68)	(249)	1,226	6,708	5,298
Net income (loss)	$ (510)	$ 15	$ 693	$ 2,421	$ 12,485	$ 9,868
Basic earnings (loss) per share(2)	$ (0.06)	$ 0.00	$ 0.08	$ 0.27	$ 1.34	$ 1.06
Diluted earnings (loss) per share(2)	$ (0.06)	$ 0.00	$ 0.08	$ 0.25	$ 1.28	$ 1.01
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	$ 2,711
Working capital	1,015	1,063	1,973	4,100	15,682	2,772
Total assets	1,940	2,150	3,515	7,922	24,373	27,431
Current liabilities	654	858	1,281	3,330	6,655	9,614
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 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 products. 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," and more recently under the trade name "Nautilus Sleep Systems." 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 $16.2 million in cash and assumed approximately $2.6 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:

- A direct marketing business that historically has generated a high percentage gross margin; and

- 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:

- Inventory component costs;

- Manufacturing and distribution salaries and bonuses;

- Distribution expense and shipping costs; and

- Facility costs.

Selling and marketing expenses primarily consist of:

- Television advertising expenses;

- The cost of printed and video marketing materials;

- Television commercial production and marketing material expenses;

- Commissions, salaries and bonuses earned by sales and marketing personnel; and

- 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 selling 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 selling and marketing expenses. We expect that our selling and marketing expenses will continue to increase in real dollar terms, but not as a percentage of net sales, 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, in both real dollar terms and as a percentage of net sales, 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 $16.2 million in cash for the Nautilus assets and assumed approximately $2.6 million in liabilities. The unaudited pro forma combined statements of operations reflect:

- Certain adjustments for the effects of purchase accounting;

- Certain assumptions described below regarding financing and cash management; and

- 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 $340,000 decrease in total operating expenses relating to the reduced amortization of the estimated intangible asset value of $4.4 million and $56,000 relating to reduced depreciation expense. As discussed below, Nautilus recorded an impairment charge to reduce the net

book value of its assets based upon the acquisition price. The intangible asset is assumed to be amortized over 20 years on a straight-line basis.

- An $11.2 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 $18.8 million acquisition price including assumption of $2.6 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 $1.4 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	34.3
Gross profit	65.7
Operating expenses	
Selling and marketing	37.1
General and administrative	5.9
Royalties	2.1
Total operating expenses	45.1
Income from operations	20.6
Other expense	0.8
Income before income taxes	19.8
Pro forma income taxes	6.9
Pro forma net income	12.9%

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 $16.2 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 also expect to materially increase our cash expenditures on spot commercials and informercials as we expand the direct marketing compaigns for our Bowflex and airbed products.

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

We believe that our existing cash balances, combined with our line 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. Notwithstanding the remedial efforts and third-party assurances discussed below, this "Year 2000" problem may adversely affect our operations. We believe that the most reasonably likely worst-case scenario would involve 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 financial performance.

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. To date, we have tested and assessed the Year 2000 compliance of over 90.0% of the software and hardware systems that we use internally in our business. We have upgraded approximately 95.0% of the computer hardware and equipment that we determined had Year 2000 problems. We expect to have a Year 2000 compliant financial accounting system and database marketing system installed by early June 1999.

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 premium quality, premium priced, 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 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. In 1993, we became a Washington corporation. 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 premium quality, premium priced branded products. After a careful review process that began in late 1997, in August 1998 we began test marketing a line of airbed mattress systems under the brand name "Instant Comfort" and more recently under the brand name "Nautilus Sleep Systems." 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 premium quality, premium priced, branded 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 airbeds in August 1998 under the brand name "Instant Comfort." More recently, we began test marketing our airbeds under the brand name "Nautilus Sleep Systems." 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 CONSUMER PRODUCTS. We will continue to evaluate internally and externally generated ideas for consumer products that have direct marketing potential. Generally, we look for products that:

- Have patented or patentable features that enhance our competitive position, increase product life and add real and perceived value to the product;

- Have a retail price point between $500 and $2,500;

- Can be marketed as a line that facilitates the promotion of premium products to consumers who are initially attracted by lower-priced, entry-level products; and

- 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 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. The cost of airing spot commercials and infomercials varies significantly, depending on the network, time slot and, for spot commercials, programming. Each spot commercial typically costs between $50 and $5,000 to air, and each infomercial typically costs between $1,200 and $15,000 to air. 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. For example, we are now promoting our web sites in our spot commercials and infomercials in an effort to further stimulate electronic product inquiries and e-commerce transactions. We do not presently advertise our products on third-party web sites, but we may in the future.

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. The first, www.bowflex.com, focuses on our Bowflex line of home exercise equipment. The second, www.instantcomfort.com, focuses on our newly introduced line of 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. The telemarketing agents for these companies collect only names, addresses and other basic information from callers and do not sell or promote our products. Consequently, we do not need to train these telemarketing agents. To preserve flexibility, we do not have formal contracts with the telemarketing companies.

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 non-exclusive 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 premium airbeds under the brand name "Instant Comfort" and more recently under the brand name "Nautilus Sleep Systems." 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 $1,500 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 $1,100 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.

RETURN POLICIES AND WARRANTIES

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 believe that our reserves are adequate to cover the financial costs associated with product returns.

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 accurately estimate future warranty claims and establish adequate reserves. We believe that our Nautilus business also has sufficient experience to accurately estimate and establish reserves to cover future warranty claims.

NEW PRODUCT DEVELOPMENT AND INNOVATION

DIRECT MARKETING PRODUCTS

We develop direct marketing products either from internally generated ideas or, as with our Bowflex technology, 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.

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.

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, 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 Sporting Goods Manufacturers' Association, 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, 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 International Sleep Products Association estimates that innerspring

mattresses accounted for approximately 90.0% of total domestic mattress sales in 1997. 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 International Sleep Products Association, 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 International Sleep Products Association, 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.

Of our four Bowflex patents, the most important covers our Power Rods. This patent expires on April 27, 2004. The other three patents expire on February 16, 2005, April 14, 2007, and January 4, 2010.

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" for a brief discussion of the risks associated with protecting our 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. None of our employees is subject to any collective bargaining agreement.

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. Our insurers are paying the costs of defending against these claims.

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:

- Feature Mr. Potter, a former model for Soloflex;

- Feature an image of Mr. Potter removing his shirt; or

- 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. Mr. Potter joined us in 1991 as a creative director and marketing manager. 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:

- Any profits it would have earned but for our allegedly improper activities;

- Any profits we earned during the period when an alleged violation may have occurred; and/or

- 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. 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.

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:

- Make recommendations to the board of directors regarding the selection of independent auditors;

- Review the results and scope of audits and other services provided by our independent auditors; and

- 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, which was $4.62 per share. 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. The exercise price for Mr. Brown's option is $9.56 per share. 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

		ANNUAL COMPENSATION		LONG-TERM COMPENSATION
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)(1)	BONUS ($)(2)	SECURITIES 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) In February 1999, the board of directors approved salary increases for each of the Named Executive Officers. The 1999 salaries for Messrs. Cook, Potter and Rice are $225,000, $150,000 and $120,000, respectively.

(2) 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 incentive stock options to any employee of Direct Focus or its subsidiaries and 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

In 1986, 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 equal to 3.0% of the net sales of our Bowflex products. Our typical royalty fees with independent third parties range between 3.0% and 5.0% of net product sales. We paid approximately $1.6 million to Mr. Shifferaw in 1998. In 1992, Mr. Shifferaw negotiated a separate royalty-based agreement with Brian R. Cook and Roland E. Wheeler. Under this agreement, 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.

The following table summarizes certain information regarding the beneficial ownership of our outstanding common stock as of March 31, 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 9,534,599 shares of our common stock are issued and outstanding, and have calculated post-offering percentages assuming that 10,359,599 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 representatives, D.A. Davidson & Co. and First Security Van Kasper, 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.	
First Security Van Kasper	
Total	1,000,000

The representatives have 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 the representatives. 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 has agreed that, for a period of 180 days after the effective date of this prospectus, he 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. However, 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.

The representatives have 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 the representatives 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 the representatives in a syndicate covering transaction and has therefore not been effectively placed by such underwriter or syndicate member. The representatives have 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 March 31, 1999, 9,534,599 shares of Direct Focus common stock were outstanding and held of record by 81 shareholders. Following this offering, 10,359,599 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:

- One vote per share at all shareholder meetings;

- Receive dividends ratably, if, as and when declared by our Board of Directors; and

- 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

Until we delist from the Toronto Stock Exchange, 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 American Securities Stock Transfer and Trust, Inc.

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 10,359,599 shares of our common stock will be outstanding (10,509,599 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 of the 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 1996. 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 and the related financial statement schedules included elsewhere in the registration statement 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 January 4, 1999, June 27, 1998, and June 28, 1997, and for the six-months ended January 4, 1999, 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.

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 premium quality, premium priced, 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 premium 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

(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
of impairment, management would prepare an estimate of future cash flows (undiscounted and without 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.

(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 $16.2 million for the assets and intellectual property of Nautilus and assumed $2.6 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	$ 9,868,213
Basic earnings per share	$ 1.06
Diluted earnings per share	$ 1.01

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

(3) INVENTORIES (CONTINUED)

	1997	1998
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.

(5) COMMITMENTS AND CONTINGENCIES (CONTINUED)
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

EMPLOYMENT CONTRACTS

Three officers of the Company are employed under employment contracts, which expire January 1, 2000 and provide for total compensation of $495,000.

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 to recover any profits it would have earned but for the Company's allegedly improper activities, any profits the Company earned during any period in which an alleged violation may have occurred, and/or the cost of any corrective advertising. If the competitor successfully prosecutes any of its claims against the Company, the resulting monetary damages and/or injunctive relief could 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

(7) STOCK OPTIONS (CONTINUED)
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 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.

(7) STOCK OPTIONS (CONTINUED)

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)	0.98	(7,300)	0.96
Exercised.....	(40,000)	0.12	(129,887)	0.12	(443,195)	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	

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)

(8) INCOME TAXES (CONTINUED)

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.

(10) RELATED-PARTY TRANSACTIONS (CONTINUED)

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 $16.2 million in cash for the assets and assumed approximately $2.6 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 BUSINESS	ADJUSTMENTS	PRO FORMA
Current Assets:				
Cash and cash equivalents	$ 18,910,675	13,309	$ (16,213,309) (1)	$ 2,710,675
Trade Receivables	218,207	3,226,325	(193,332) (2)	3,251,200
Inventories	2,614,673	4,104,131	(1,000,000) (2)	5,718,804
Prepaid expenses and other current assets	594,146	111,552	--	705,698
Total current assets	22,337,701	7,455,317	17,406,641	12,386,377
Furniture and equipment	1,842,712	10,663,438	(2,029,085) (2)	10,477,065
Other Assets	192,859	677,808	3,697,118 (3)	4,567,785
Total	$ 24,373,272	$ 18,796,563	$ (15,738,608)	$ 27,431,227
Current Liabilities:				
Trade payables	$ 3,602,074	$ 414,449	$ 441,000 (5)	$ 4,457,523
Income taxes payable	504,775	--	--	504,775
Accrued liabilities	2,548,401	2,437,577	(333,659)	4,652,319
Due to affiliate	--	39,562,874	(39,562,874) (4)	--
Total current liabilities	6,655,250	42,414,900	(39,455,533)	9,614,617
Long-term Liabilities	66,880	98,588	--	165,468
Total Stockholders' Equity	17,651,142	(23,716,925)	23,716,925 (4)	17,651,142
Total	$ 24,373,272	$ 18,796,563	$ (15,738,608)	$ 27,431,227

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(1) Represents $16.2 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 $16.2 million in cash and $2.6 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	4,104,131	3,104,131(b)
Prepaid expenses and other current assets	111,551(2)	111,551(2)
Furniture and equipment	$ 10,663,438	8,634,353
Liabilities assumed	(2,950,614)	(2,557,955)(c)
Total	$ 15,253,420	$ 12,325,074

(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 $59,000 of trade payables and $333,659 of accrued vacation not assumed.

(3) Includes $4,374,926 representing the estimated fair value of the Nautilus brand trademark, less $677,808 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.

(5) Includes $500,000 of acquisition costs and excludes $59,000 of trade payables not assumed.

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	14,932,771	(1,069,827)(1)	26,305,251
Gross profit	44,854,573	4,371,045	1,069,827	50,295,445
Total Operating Expenses	25,966,567	8,948,514	(396,000)(2)	34,519,081
Impairment Charges	--	11,200,000	(11,200,000)(3)	--
Operating income (loss)	18,888,006	(15,777,469)	12,665,827	15,776,364
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	(18,838,463)	14,811,878	15,166,493
Income Taxes	6,707,584	--	(1,409,305)(6)	5,298,279
Net Income (Loss)	$ 12,485,494	$ (18,838,463)	$ 16,221,182	$ 9,868,213
Basic Earnings Per Share	$ 1.34			$ 1.06
Diluted Earnings Per Share	$ 1.28			$ 1.01
Basic Outstanding Shares	9,336,525			9,336,525
Diluted Outstanding Shares	9,725,958			9,725,958

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(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 decrease in total operating expenses of $340,000 related to reduced amortization of the estimated intangible asset value of $4.4 million and $56,000 relating to reduced depreciation expense. As discussed in note 3 below, Nautilus recorded an impairment charge to reduce the net book value of its assets based upon the acquisition price. The intangible asset is assumed to be amortized over 20 years on a straight-line basis.

(3) The $11.2 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 $18.8 million acquisition price, including assumption of $2.6 million of current liabilities.

(4) Eliminates $3,142,238 of interest expense incurred by Nautilus on its debt during 1998 and includes $387,982 of interest expense Direct Focus would have incurred on short-term borrowings for a portion of the purchase price had the acquistion occurred on January 1, 1998. 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 $1.4 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 January 4, 1999, June 27, 1998 and June 28, 1997, and the related combined statements of operations and accumulated deficit and cash flows for the six-months ended January 4, 1999 and 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 Nautilus Business as of January 4, 1999, June 27, 1998 and June 28, 1997, and the results of its operations and cash flows for the six-months ended January 4, 1999, and each of the years in the three-year period ended June 27, 1998, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Greenville, South Carolina

February 19, 1999

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

ASSETS

	JUNE 28, 1997	JUNE 27, 1998	JANUARY 4, 1999
Current assets:			
Cash	$ 1,790	$ 1,600	$ 13,309
Accounts receivable (note 3):			
Customer	4,196,491	4,414,042	3,431,678
Other	155,049	74,912	51,315
Less allowance for doubtful accounts	(910,464)	(883,497)	(449,721)
	3,441,076	3,605,457	3,033,272
Financed notes, net (note 4)	579,974	321,223	193,053
Inventories (note 2):			
Raw materials	2,078,598	1,730,295	1,664,175
Work in process	1,597,676	1,614,862	1,593,417
Finished goods	702,141	970,206	823,364
Supplies	25,574	20,661	23,175
	4,403,989	4,336,024	4,104,131
Prepaids and other current assets (note 2)	125,544	122,103	111,552
Total current assets	8,552,373	8,386,407	7,455,317
Property, plant and equipment, net (note 5)	12,897,432	11,522,745	10,663,438
Financed notes receivable (note 4)	1,640,723	1,202,811	677,808
Intangible assets, net (note 6)	11,476,601	1,987,961	--
	$ 34,567,129	$ 23,099,924	$ 18,796,563

LIABILITIES AND STOCKHOLDER'S EQUITY

Current liabilities:			
Accounts payable	271,892	515,223	407,261
Bank overdraft	552,658	469,963	7,188
Accrued employee compensation	824,194	1,084,480	951,831
Other accrued expenses (note 7)	1,946,448	1,046,636	1,485,746
Due to affiliates, net (note 10)	33,011,924	36,992,270	39,562,874
Current bond obligations	116,566	--	--
Total current liabilities	36,723,682	40,108,572	42,414,900
Other liabilities	70,000	13,138	98,588
Total liabilities	36,793,682	40,121,710	42,513,488
Stockholder's deficit:			
Common stock, $1 par value, authorized, issued and outstanding 100 shares	100	100	100
Additional paid in capital	10,692,506	10,692,506	10,692,506
Accumulated deficit	(12,919,159)	(27,714,392)	(34,409,531)
Total stockholder's deficit	(2,226,553)	(17,021,786)	(23,716,925)
Commitments and contingencies			
	$ 34,567,129	$ 23,099,924	$ 18,796,563

See accompanying notes to combined financial statements

NAUTILUS BUSINESS

(AS DESCRIBED IN NOTE 1)

COMBINED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

	YEAR ENDED			SIX-MONTHS ENDED	
	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998	DECEMBER 27, 1997	JANUARY 4, 1999
				(UNAUDITED)	
Net sales	$ 28,591,447	$ 21,935,298	$ 20,851,063	$10,719,671	$ 9,172,424
Cost of goods sold	19,914,644	17,134,933	16,291,581	8,630,779	7,271,969
Gross profit	8,676,803	4,800,365	4,559,482	2,088,892	1,900,455
Selling, general and administrative expenses	(13,463,038)	(11,014,925)	(7,704,677)	(3,426,338)	(4,523,590)
Impairment charges (note 2)	--	--	(8,800,000)	--	(2,400,000)
Intercompany management fees	(228,000)	(302,428)	(194,471)	(125,535)	(3,573)
Royalty income (note 2)	474,125	445,121	268,779	181,572	97,724
Other income (expense)	4,028	90,265	(42,871)	58,120	(158,016)
Operating loss	(4,536,082)	(5,981,602)	(11,913,758)	(1,223,289)	(5,087,000)
Interest income (expense):					
Interest income	662,615	160,913	112,966	62,579	34,363
Interest expense	(67,656)	(19,141)	(24,774)	(24,774)	(3,506)
Intercompany interest expense	(1,879,433)	(2,158,509)	(2,969,667)	(1,466,425)	(1,638,996)
	(1,284,474)	(2,016,737)	(2,881,475)	(1,428,620)	(1,608,139)
Loss before taxes	(5,820,556)	(7,998,339)	(14,795,233)	(2,651,909)	(6,695,139)
Income tax benefit (note 9)	(2,495,057)	(1,202,379)	--	--	--
Net loss	(3,325,499)	(6,795,960)	(14,795,233)	(2,651,909)	(6,695,139)
Accumulated deficit, beginning of year	(2,797,700)	(6,123,199)	(12,919,159)	(12,919,159)	(27,714,392)
Accumulated deficit, end of year	$ (6,123,199)	$(12,919,159)	$(27,714,392)	$(15,571,068)	$ (34,409,531)

See accompanying notes to combined financial statements

NAUTILUS BUSINESS

(AS DESCRIBED IN NOTE 1)

COMBINED STATEMENTS OF CASH FLOWS

	YEAR ENDED			SIX-MONTHS ENDED	
	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998	DECEMBER 27, 1997	JANUARY 4, 1999
				(UNAUDITED)	
Operating activities:					
Net loss	$ (3,325,499)	$ (6,795,960)	$(14,795,233)	$(2,651,909)	$ (6,695,139)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:					
Depreciation	1,351,164	1,469,573	1,486,652	777,627	725,233
Amortization	692,753	689,846	688,640	346,036	200,454
Deferred taxes	(1,944,345)	(1,185,199)	--	--	--
Impairment charges	--	--	8,800,000	--	2,400,000
Provision for losses on accounts receivable	123,426	283,626	(119,575)	(145,278)	(308,594)
(Gain) loss on sale of property and equipment	--	(83,267)	1,595	--	--
Changes in operating assets and liabilities:					
Accounts receivable and financed notes receivable	2,595,441	1,543,410	651,857	(989,531)	1,533,952
Inventories	(292,303)	(231,699)	67,965	441,280	231,893
Prepaids and other current assets	73,130	317,671	3,441	8,858	10,551
Other noncurrent assets	111,268	--	--	--	--
Accounts payable	(333,376)	(658,453)	243,331	1,059,909	(107,962)
Bank overdraft	406,725	20,710	(82,695)	342,473	(462,775)
Accrued employee compensation	53,057	159,367	260,286	(240,338)	(132,649)
Other accrued expenses	478,266	412,894	(899,812)	(700,879)	439,110
Other liabilities	15,664	(669,103)	(56,862)	598,054	85,450
Net cash provided (used) by operating activities	5,371	(4,726,584)	(3,750,410)	(1,153,698)	(2,080,476)
Investing activities:					
Purchases of property, plant and equipment	(863,354)	(620,288)	(121,185)	(79,251)	(57,419)
Proceeds from sale of property, plant and equipment	--	266,386	7,625	--	--
Net cash used by investing activities	(863,354)	(353,902)	(113,560)	(79,251)	(57,419)
Financing activities:					
Principal payments on bond obligations	(9,576)	(58,661)	(116,566)	(24,332)	--
Change in due to affiliates, net	874,811	5,131,415	3,980,346	1,257,291	2,149,604
Net cash provided by financing activities	865,235	5,072,754	3,863,780	1,232,959	2,149,604
Increase (decrease) in cash	7,252	(7,732)	(190)	10	11,709
Cash at beginning of year	2,270	9,522	1,790	1,790	1,600
Cash at end of year	$ 9,522	$ 1,790	$ 1,600	$ 1,800	$ 13,309
Supplemental disclosures of cash flow information:					
Interest paid	$ 1,879,433	$ 2,158,509	$ 2,969,667	$ 1,466,425	$ 1,638,996
Non-cash 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

PERIOD ENDED JANUARY 4, 1999 AND
THREE YEARS ENDED JUNE 27, 1998

(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

(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 PERIODS

The Business' operations are based upon a fifty-two, fifty-three week fiscal year ending on the Saturday closest to June 30. Fiscal years 1998, 1997 and 1996 each consist of 52 weeks. The six-month period ended January 4, 1999, consists of 27 weeks.

(C) INTERIM FINANCIAL STATEMENTS

The combined financial statements for the six-month period ended December 27, 1997 are unaudited and are presented pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying combined financial statements reflect all adjustments (which are of normal recurring nature) necessary to present fairly the results of operations and cash flows for the interim period, but are not necessarily indicative of the results of operations for a full fiscal year.

(D) 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

(2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

consignment inventory is approximately $49,000, $43,000 and $57,000 as of June 28, 1997, June 27, 1998 and January 4, 1999, 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, $177,000 and $207,000 as of June 28, 1997, June 27, 1998 and January 4, 1999, respectively.

(E) 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.

(F) 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.

In 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 $2.4 million during the six-months ended January 4, 1999, which was recorded as a $2.2 million reduction in intangible assets, net and a $.2 million reduction in property, plant and equipment, net.

(G) OTHER ASSETS

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

(H) 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

(2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and 1998, respectively, and $310,000 for the six-months ended January 4, 1999. Advertising costs amounted to approximately $2,820,000, $1,142,000 and $600,000 in 1996, 1997 and 1998, respectively, and $357,000 for the six-months ended January 4, 1999.

(I) 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.

(J) 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. On January 4, 1999, the Business acquired the remaining 65% of the licensing rights to the royalties earned on the Nautilus licensees for approximately $421,000.

(K) INCOME TAXES

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

(L) 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 January 4, 1999, the Business has not begun to convert its systems to be Year 2000 compliant. However, Direct Focus, Inc., anticipates completing their Year 2000 remediation program by July 1999, which will include the Business operations. 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.

(M) 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, and $109,000 for the six-months

ended January 4, 1999. Accrued

(2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

warranty expense, which is included in other accrued expenses, was approximately $177,000 as of June 28, 1997, June 27, 1998 and January 4, 1999.

(N) 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.

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

(3) ACCOUNTS RECEIVABLE (CONTINUED)

Changes in the reserve for doubtful accounts for customer and financed notes receivable are as follows:

	FISCAL YEAR ENDED			SIX-MONTHS ENDED
	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998	JANUARY 4, 1999
Balance, beginning of period	$ 1,316,930	$ 1,440,356	$ 1,723,982	$ 1,604,407
Charged to expense	307,379	532,564	102,803	413,921
Balances written-off	(183,953)	(248,938)	(222,378)	(722,515)
Balances, end of period	$ 1,440,356	$ 1,723,982	$ 1,604,407	$ 1,295,813

(4) FINANCED NOTES RECEIVABLE

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, June 27, 1998 and January 4, 1999, was $180,000, $108,000 and $59,000, respectively. As of June 28, 1997, June 27, 1998 and January 4, 1999, the outstanding balance of these receivables sold with recourse was approximately $3,558,000, $1,973,000 and $1,196,000, respectively.

Both the owned financed notes receivable and the contingency for the sold financed notes receivable will be retained by DWI and not sold with the Business. The Business has current financed notes of $792,438, $473,171 and $380,885 as of June 28, 1997, June 27, 1998 and January 4, 1999, respectively, less reserves for doubtful accounts of $212,464, $151,948 and $187,832 as of June 28, 1997, June 27, 1998 and January 4, 1999, respectively. The Business has non-current financed notes of $2,241,777, $1,771,773 and $1,336,068 as of June 28, 1997, June 27, 1998 and January 4, 1999, respectively, less reserves for doubtful accounts of $601,054, $568,962 and $658,260 as of June 28, 1997, June 27, 1998 and January 4, 1999, respectively.

(5) PROPERTY, PLANT AND EQUIPMENT, NET

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

	ESTIMATED USEFUL LIFE	JUNE 28, 1997	JUNE 27, 1998	JANUARY 4, 1999
Land and land improvements	N/A	$ 204,813	$ 204,813	$ 204,813
Buildings	31.5	6,289,177	6,332,855	6,332,855
Machinery and equipment	10	9,387,138	9,781,880	9,781,880
Computers and software	3-5	706,565	737,621	759,133
Furniture and fixtures	7	356,192	356,192	356,192
Leasehold improvements	4	138,286	138,286	138,286
Automobiles	7	83,520	83,520	83,520
Construction in progress	N/A	363,334	--	35,907
		17,529,025	17,635,167	17,692,586
Less accumulated depreciation and amortization		(4,631,593)	(6,112,422)	(7,029,148)
Property, plant and equipment, net		$ 12,897,432	$ 11,522,745	$ 10,663,438

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.

(6) INTANGIBLE ASSETS, NET

Intangible assets, net consist of the following:

	JUNE 28, 1997	JUNE 27, 1998	JANUARY 4, 1999
Goodwill	$ 4,957,682	$ --	$ --
Trademark	6,553,000	6,553,000	6,974,000
Non-compete agreements	1,708,831	1,708,831	1,708,831
Other	1,025,622	1,025,622	1,025,622
	14,245,135	9,287,453	9,708,453
Less accumulated amortization	(2,768,534)	(7,299,492)	(9,708,453)
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.

During the six-months ended January 4, 1999, an additional impairment charge was recorded in accordance with SFAS 121 and resulted in an increase of accumulated amortization on intangible assets of approximately $2.2 million and an increase of accumulated depreciation on property, plant and equipment of approximately $.2 million.

(6) INTANGIBLE ASSETS, NET (CONTINUED)

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.

(7) OTHER ACCRUED EXPENSES

Other accrued expenses consist of the following:

	JUNE 28, 1997	JUNE 27, 1998	JANUARY 4, 1999
Customer deposits	$ 290,433	$ 330,571	399,909
Accrued severance	--	--	466,758
Accrued warranty	177,401	177,401	177,401
Accrued loss on sale of receivables	180,000	108,000	59,000
Accrued insurance	92,060	113,866	102,113
Deferred compensation	646,420	--	--
Accrued commissions	146,988	36,587	28,926
Accrued legal	129,371	86,745	99,956
Other	283,775	193,466	151,683
	$ 1,946,448	$ 1,046,636	$ 1,485,746

As of January 4, 1999, other accrued expenses includes approximately $467,000 of accrued severance costs. In December 1998, 16 full-time employees were terminated by the Business and offered severance payments in the amount of approximately $482,000 which is included in selling, general and administrative expenses for the six-months ended January 4, 1999.

(8) LEASES

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

Future minimum lease payments under noncancelable operating leases as of January 4, 1999 were as follows:

FISCAL YEAR	OPERATING
1999	$ 119,247
2000	220,122
2001	218,066
2002	80,446
2003	20,128
Thereafter	--
	$ 658,009

(8) LEASES (CONTINUED)

Rent expense for all operating leases was approximately $603,000, $480,000 and $364,000 for fiscal years 1996, 1997 and 1998, respectively, and approximately $179,000 for the six-months ended January 4, 1999.

(9) INCOME TAXES

The Business reports Federal income taxes in the consolidated return of Delta Woodside Industries, Inc. (DWI) and had taxable losses of $4.1 million for the period ended January 4, 1999, which will be reported in the fiscal 1999 consolidated Federal income tax return of its parent, DWI. 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:

	FISCAL YEAR ENDED			SIX-MONTHS ENDED
	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998	JANUARY 4, 1999
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)	$ --	$ --

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:

	FISCAL YEAR ENDED			SIX-MONTHS ENDED
	JUNE 29, 1996	JUNE 28, 1997	JUNE 27, 1998	JANUARY 4, 1999
Income tax benefit at the statutory rate	$(1,978,989)	$(2,719,435)	$(5,030,379)	$(2,276,347)
State income tax benefit, net of federal income taxes	(41,806)	(115,602)	--	--
Valuation allowance adjustments	160,196	2,191,404	3,681,592	2,200,254
Non-deductible amortization	42,963	39,842	1,501,842	--
Other	(677,421)	(598,588)	(153,055)	76,093
Income tax benefit	$(2,495,057)	$(1,202,379)	$ --	$ --

(9) INCOME TAXES (CONTINUED)

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

	JUNE 28, 1997	JUNE 27, 1998	JANUARY 4, 1999
Deferred tax assets:			
Net operating loss carryforward	$ 4,994,065	$ 7,407,672	$ 8,993,039
Intangibles	--	--	584,171
Inventory	222,047	181,034	71,451
Allowance for doubtful accounts	539,780	196,843	194,105
Accrued vacation	142,088	129,563	143,889
Other	667,449	616,135	573,930
Gross deferred tax assets	6,565,429	8,531,247	10,560,585
Less valuation allowance	(2,618,647)	(6,300,239)	(8,500,493)
Net deferred tax assets	3,946,782	2,231,008	2,060,092
Deferred tax liabilities:			
Depreciation	2,006,063	1,833,039	1,823,743
Intangibles	1,914,149	127,845	--
Other	26,570	270,124	236,349
Deferred tax liabilities	3,946,782	2,231,008	2,060,092
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, and an increase of $2,200,254 for the six-months ended January 4, 1999.

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. As a result of the sale of the Business, these carryovers most likely will not be available to the new owner, or their use may be subject to limitation.

(10) 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. Management believes this

(10) AFFILIATED PARTY TRANSACTIONS (CONTINUED)

allocation method is reasonable and approximates the actual cost of providing these services. These services were no longer provided to the Company in early 1999, as a result of the sale of the Company.

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:

	JUNE 28, 1997	JUNE 27, 1998	JANUARY 4, 1999
Delta Woodside Industries, Inc.	$ 29,838,338	$ 33,560,436	36,219,815
International Apparel Marketing Corporation	(145,053)	(81,665)	(170,438)
Alchem Capital Corporation	3,318,639	3,513,499	3,513,497
Due to affiliates, net	$ 33,011,924	$ 36,992,270	$ 39,562,874

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.

(11) 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, and $21,000 for the six-months ended January 4, 1999. The Business contributed approximately $16,000, $52,000 and $20,000 to the Retirement Plan during fiscal 1996, 1997 and 1998, respectively, and $10,000 for the six-months ended January 4, 1999.

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

(11) EMPLOYEE BENEFIT PLANS (CONTINUED)

accounts are credited with interest and are distributed after retirement, disability or employment termination. As of June 28, 1997, June 27, 1998 and January 4, 1999, the Business' liability was approximately $646,000, $13,000 and $98,000, 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, and $7,000 for the six-months ended January 4, 1999.

(12) 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.

[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	$ 115,000
Transfer agent fees	$ 4,878
Accounting fees and expenses	$ 120,000
Legal fees and expenses	$ 150,000
Blue Sky fees and expenses (including related legal fees)	$ 5,000
Miscellaneous	$ 40,000
Total	$ 522,000

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 3.4 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	Lease Agreement dated September 16, 1992, between Bow-Flex of America, Inc. and Christensen Group, Inc.
+10.3	First Amendment to Lease dated September 16, 1992, between Bow-Flex of America, Inc. and Christensen Group, Inc.
+10.4	Amendment to Bowflex, Inc. Lease Extension, dated August 27, 1996, between Bowflex, Inc. and Ogden Business Park Partnership.
+10.5	First Amendment to Lease, dated December 10, 1996, between Bowflex, Inc. and Ogden Business Park Partnership
+10.6	Lease Agreement, dated June 4, 1998, between Direct Focus, Inc. and Hart Enterprises
+10.7	Amendment to Lease, dated as of October 20, 1998, between Direct Focus, Inc. and LeRoy Hart Rentals.
+10.8	Borrowing Agreement, dated December 16, 1998, between Direct Focus, Inc. and Seafirst Bank.
+10.9	Royalty Agreement, dated as of April 9, 1988, between Bow-Flex of America, Inc. and Tessema D. Shifferaw.
+10.10	Royalty Payment Agreement, dated as of June 18, 1992, between Tessema D. Shifferaw, Brian R. Cook and R.E. "Sandy" Wheeler.
10.11**	First Amended and Restated Merchant Agreement dated as January 27, 1999, between Direct Focus, Inc. and Household Bank (SB), N.A.
10.12**	Exclusive Sales Agreement dated as of January 1, 1996, between Delta Consolidated Corporation and Novacare, Inc.
10.13	Asset Purchase Agreement, dated November 10, 1998, by and among Direct Focus, Inc., Delta Woodside Industries, Inc., Alchem Capital Corporation and Nautilus International, Inc.
+21.1	Subsidiaries of Direct Focus, Inc.
23.1	Consent of Deloitte & Touche LLP.
23.2	Consent of KPMG Peat Marwick LLP.

EXHIBIT NUMBER	DESCRIPTION
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.

\+ Previously filed with the Commission.

(b) Financial Statement Schedules

Schedule II--Direct Focus, Inc. Valuation and Qualifying Accounts

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 duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Vancouver, State of Washington, on April 12, 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 Amendment No. 1 to the 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)	April 12, 1999
/s/ ROD W. RICE Rod W. Rice	Chief Financial Officer (Principal Financial and Accounting Officer)	April 12, 1999
/s/ KIRKLAND C. ALY* Kirkland C. Aly	Director	April 12, 1999
/s/ C. REED BROWN* C. Reed Brown	Director	April 12, 1999
/s/ GARY L. HOPKINS* Gary L. Hopkins	Director	April 12, 1999
/s/ ROGER J. SHARP* Roger J. Sharp	Director	April 12, 1999
/s/ ROLAND E. WHEELER* Roland E. Wheeler	Director	April 12, 1999

*By: /s/ ROD W. RICE

Rod W. Rice April 12, 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	Lease Agreement dated September 16, 1992, between Bow-Flex of America, Inc. and Christensen Group, Inc.	
+10.3	First Amendment to Lease dated September 16, 1992, between Bow-Flex of America, Inc. and Christensen Group, Inc.	
+10.4	Amendment to Bowflex, Inc. Lease Extension, dated August 27, 1996, between Bowflex, Inc. and Ogden Business Park Partnership.	
+10.5	First Amendment to Lease, dated December 10, 1996, between Bowflex, Inc. and Ogden Business Park Partnership.	
+10.6	Lease Agreement, dated June 4, 1998, between Direct Focus, Inc. and LeRoy Hart Rentals.	
+10.7	Amendment to Lease, dated as of October 20, 1998, between Direct Focus, Inc. and LeRoy Hart Rentals.	
+10.8	Borrowing Agreement, dated December 16, 1998, between Direct Focus, Inc. and Seafirst Bank.	
+10.9	Royalty Agreement, dated as of April 9, 1988, between Bow-Flex of America, Inc. and Tessema D. Shifferaw.	
+10.10	Royalty Payment Agreement, dated as of June 18, 1992, between Tessema D. Shifferaw, Brian R. Cook and R.E. "Sandy" Wheeler.	
10.11**	First Amended and Restated Merchant Agreement, dated as January 27, 1999, between Direct Focus, Inc. and Household Bank (SB), N.A.	
10.12**	Exclusive Sales Agreement dated as of January 1, 1996, between Delta Consolidated Corporation and Novacare, Inc.	
10.13	Asset Purchase Agreement, dated November 10, 1998, by and among Direct Focus, Inc., Delta Woodside Industries, Inc., Alchem Capital Corporation and Nautilus International, 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.	
+24.3	Power of Attorney of Gary L. Hopkins.	
+24.4	Power of Attorney of Roger J. Sharp.	

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\+ Previously filed with the Commission.

UNDERWRITING AGREEMENT

_____, 1999

D.A. DAVIDSON & CO.
FIRST SECURITY VAN KASPER
As the Representatives 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 Representatives 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. 333-73243) 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 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; 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, LTD., 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 Act of 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 Representatives, 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 Custody Agreement (the "CUSTODY AGREEMENT") with American Securities Transfer & Trust, Inc., 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 Representatives 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 Representatives 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 Representatives copies of the Prospectus within the time provided in Section 5(d) hereof, the Representatives 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 Representatives. 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 Representatives so elect, 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 Representatives.

It is understood that you, individually, and not as the Representatives 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, Ltd., 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 Representatives, 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 Representatives 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 Representatives 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 Representatives 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 Representatives 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 Representatives so elect, 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 Representatives.

It is understood that you, individually, and not as the Representatives 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 Stockholder 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 Registration 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 Representatives 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 Representatives 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 outbreak 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 Representatives, 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:

FIRST SECURITY VAN KASPER,
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.	_____
First Security Van Kasper	_____
[NAMES OF OTHER UNDERWRITERS]	_____
TOTAL	1,000,000

SCHEDULE B

COMPANY	NUMBER OF COMPANY SHARES TO BE SOLD
Direct Focus, Inc.	825,000
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	100,000
Randal R. Potter	12,500
Rod W. Rice	12,500
TOTAL	175,000

[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. The omitted portions have been marked with an asterisk (*). 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. The omitted portions have been marked with an asterisk (*). 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 twenty percent (20%) 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) eighty percent (80%) 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 ten percent (10%) 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 eighty percent (80%) 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 eighty percent (80%) 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
$350,000

JANUARY 1, 1997 TO DECEMBER 31, 1997
$700,000

JANUARY 1, 1998 to DECEMBER 31, 1998
$2,000,000

JANUARY 1, 1999 TO DECEMBER 31, 2000
$2,500,000

JANUARY 1, 2001 TO DECEMBER 31, 2001 AND EACH YEAR THEREAFTER
the greater of: (i) 105% 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 $8,000,000, 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 four percent (4%) 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

ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement ("Agreement") is made as of November 10, 1998, by and among Direct Focus, Inc., a Washington corporation ("Buyer"), Delta Woodside Industries, Inc., a South Carolina corporation ("Delta Woodside"), Alchem Capital Corporation, a Delaware corporation ("Alchem"), and Nautilus International, Inc., a Virginia corporation (the "Company"). Delta Woodside, Alchem and the Company are referred to collectively herein as "Sellers."

RECITALS

WHEREAS, the Company is a direct wholly-owned subsidiary of Alchem and an indirect wholly-owned subsidiary of Delta Woodside; and

WHEREAS, the Company is engaged in the business of manufacturing, marketing and distributing fitness products and accessories and licensing of certain trademarks and other intellectual property (the "Business"); and

WHEREAS, this Agreement contemplates a transaction in which Buyer will purchase substantially all of the assets of the Company and certain assets owned by Alchem.

NOW, THEREFORE, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the parties agree as follows:

AGREEMENT

1. DEFINITIONS

For purposes of this Agreement, the following terms have the meanings specified or referred to in this Section 1:

"ACQUIRED ASSETS" -- as defined in Section 2.1.

"ADJUSTMENT AMOUNT" -- as defined in Section 2.6.

"APPLICABLE CONTRACT" -- any Contract (a) under which the Company or any of its Subsidiaries has or may acquire any rights, (b) under which the Company or any of its Subsidiaries has or may become subject to any obligation or liability, or (c) by which the Company or any of its Subsidiaries or any of the assets owned or used by it is or may become bound.

"AUDITED FINANCIAL STATEMENTS" -- as defined in Section 5.8.

"BALANCE SHEET" -- as defined in Section 5.8.

"BEST EFFORTS" -- the efforts that a prudent Person desirous of achieving a result would use in similar circumstances to ensure that such result is achieved as expeditiously as possible; PROVIDED, HOWEVER, that an obligation to use Best Efforts under this Agreement does not

require the Person subject to that obligation to take actions that would result in a materially adverse change in the benefits to such Person of this Agreement and the Contemplated Transactions or that would require such Person to incur any material cost.

"BILL OF SALE, ASSIGNMENT AND ASSUMPTION AGREEMENT" -- as defined in Section 2.5(a)(i).

"BREACH" -- a "Breach" of a representation, warranty, covenant, obligation, or other provision of this Agreement or any instrument delivered pursuant to this Agreement will be deemed to have occurred if there is or has been (a) any inaccuracy in or breach of, or any failure to perform or comply with, such representation, warranty, covenant, obligation, or other provision, or (b) any other occurrence or circumstance that is or was inconsistent with such representation, warranty, covenant, obligation, or other provision, and the term "Breach" means any such inaccuracy, breach, failure, occurrence, or circumstance.

"BUSINESS" -- as defined in the recitals of this Agreement.

"BUYER" -- as defined in the first paragraph of this Agreement.

"CLOSING" -- as defined in Section 2.4.

"CLOSING DATE" -- the date and time as of which the Closing actually takes place.

"COMPANY" -- as defined in the first paragraph of this Agreement.

"CONSENT" -- any approval, consent, ratification, waiver, or other authorization (including any Governmental Authorization).

"CLOSING FINANCIAL STATEMENTS" -- as defined in Section 2.6.

"CONTEMPLATED TRANSACTIONS" -- all of the transactions contemplated by this Agreement, including:

(a) the sale of the Acquired Assets by the Company and Alchem to Buyer;

(b) the execution, delivery, and performance of the Escrow Agreement;

(c) the performance by Buyer and Sellers of their respective covenants and obligations under this Agreement; and

(d) Buyer's acquisition and ownership of the Acquired Assets.

"CONTRACT" -- any agreement, contract, obligation, promise, or undertaking (whether written or oral and whether express or implied) that is legally binding.

"DAMAGES" -- as defined in Section 10.2.

"DISCLOSURE LETTER" -- the disclosure letter delivered by Sellers to Buyer concurrently with the execution and delivery of this Agreement.

"ENCUMBRANCE" -- any charge, claim, community property interest, equitable interest, lien, option, pledge, security interest, right of first refusal, or restriction of any kind, including any restriction on use, voting, transfer, receipt of income, or exercise of any other attribute of ownership.

"ENVIRONMENT" -- soil, land surface or subsurface strata, surface waters (including navigable waters, ocean waters, streams, ponds, drainage basins, and wetlands), groundwaters, drinking water supply, stream sediments, ambient air (including indoor air), plant and animal life, and any other environmental medium or natural resource.

"ENVIRONMENTAL, HEALTH, AND SAFETY LIABILITIES" -- any cost, damages, expense, liability, obligation, or other responsibility arising from or under Environmental Law or Occupational Safety and Health Law and consisting of or relating to:

(a) any environmental, health, or safety matters or conditions (including on-site or off-site contamination, occupational safety and health, and regulation of chemical substances or products);

(b) fines, penalties, judgments, awards, settlements, legal or administrative proceedings, damages, losses, claims, demands and response, investigative, remedial, or inspection costs and expenses arising under Environmental Law or Occupational Safety and Health Law;

(c) financial responsibility under Environmental Law or Occupational Safety and Health Law for cleanup costs or corrective action, including any investigation, cleanup, removal, containment, or other remediation or response actions ("Cleanup") required by applicable Environmental Law or Occupational Safety and Health Law (whether or not such Cleanup has been required or requested by any Governmental Body or any other Person) and for any natural resource damages; or

(d) any other compliance, corrective, investigative, or remedial measures required under Environmental Law or Occupational Safety and Health Law.

The terms "removal," "remedial," and "response action," include the types of activities covered by the United States Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. Section 9601 et seq., as amended ("CERCLA").

"ENVIRONMENTAL LAW" -- any Legal Requirement that requires or relates to:

(a) advising appropriate authorities, employees, and the public of intended or actual releases of pollutants or hazardous substances or materials, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the Environment;

(b) preventing or reducing to acceptable levels the release of pollutants or hazardous substances or materials into the Environment;

(c) reducing the quantities, preventing the release, or minimizing the hazardous

characteristics of wastes that are generated;

(d) assuring that products are designed, formulated, packaged, and used so that they do not present unreasonable risks to human health or the Environment when used or disposed of;

(e) protecting resources, species, or ecological amenities;

(f) reducing to acceptable levels the risks inherent in the transportation of hazardous substances, pollutants, oil, or other potentially harmful substances;

(g) cleaning up pollutants that have been released, preventing the threat of release, or paying the costs of such clean up or prevention; or

(h) making responsible parties pay private parties, or groups of them, for damages done to their health or the Environment, or permitting self-appointed representatives of the public interest to recover for injuries done to the Environment.

"ERISA" -- the Employee Retirement Income Security Act of 1974 or any successor law, and regulations and rules issued pursuant to that Act or any successor law.

"ESCROW AGREEMENT" -- as defined in Section 2.5.

"EXCLUDED ASSETS" -- as defined in Section 2.1.

"FACILITIES" -- any real property, leaseholds, or other interests currently or formerly owned or operated by the Company or any of its Subsidiaries and any buildings, plants, structures, or equipment (including motor vehicles, tank cars, and rolling stock) currently or formerly owned or operated by the Company or any of its Subsidiaries.

"GAAP" -- generally accepted United States accounting principles, applied on a basis consistent with the basis on which the Balance Sheet and the other financial statements referred to in the first sentence of Section 3.4 were prepared.

"GOVERNMENTAL AUTHORIZATION" -- any approval, consent, license, franchise, permit, waiver, or other authorization issued, granted, given, or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement.

"GOVERNMENTAL BODY" -- any:

(a) nation, state, county, city, town, village, district, or other jurisdiction of any nature;

(b) federal, state, local, municipal, foreign, or other government;

(c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal);

(d) multi-national organization or body; or

(e) body legally exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

"HAZARDOUS ACTIVITY" -- the distribution, generation, handling, importing, management, manufacturing, processing, production, refinement, Release, storage, transfer, transportation, treatment, or use (including any withdrawal or other use of groundwater) of Hazardous Materials in, on, under, about, or from the Facilities or any part thereof into the Environment, and any other act, business, operation, or thing that increases the danger, or risk of danger, or poses an unreasonable risk of harm to persons or property on or off the Facilities, or that may adversely affect the value of the Facilities or the Acquired Assets.

"HAZARDOUS MATERIALS" -- any waste or other substance that is listed, defined, designated, or classified as, or otherwise determined to be, hazardous, radioactive, or toxic or a pollutant or a contaminant under or pursuant to any Environmental Law, including any admixture or solution thereof, and specifically including petroleum and all derivatives thereof or synthetic substitutes therefor and asbestos or asbestos-containing materials.

"HSR ACT" -- the Hart-Scott-Rodino Antitrust Improvements Act of 1976 or any successor law, and regulations and rules issued pursuant to that Act or any successor law.

"INTELLECTUAL PROPERTY ASSETS" -- as defined in Section 3.22.

"IRC" -- the Internal Revenue Code of 1986, as amended, or any successor law, and regulations issued by the IRS pursuant to the Internal Revenue Code or any successor law.

"IRS" -- the United States Internal Revenue Service or any successor agency, and, to the extent relevant, the United States Department of the Treasury.

"KNOWLEDGE" -- an individual will be deemed to have "Knowledge" of a particular fact or other matter if:

(a) such individual is actually aware of such fact or other matter; or

(b) a prudent individual could be expected to discover or otherwise become aware of such fact or other matter in the course of conducting a reasonably comprehensive investigation concerning the existence of such fact or other matter.

A Person (other than an individual) will be deemed to have "Knowledge" of a particular fact or other matter if any individual who is currently serving as a director, officer, partner, executor, or trustee of such Person (or in any similar capacity) has Knowledge of such fact or other matter.

"LEGAL REQUIREMENT" -- any federal, state, local, municipal, foreign, international, multinational, or other administrative order, constitution, law, ordinance, principle of common law, regulation, statute, or treaty.

"NONCOMPETITION AGREEMENT" -- as defined in Section 2.5(a)(v).

"OCCUPATIONAL SAFETY AND HEALTH LAW" -- any Legal Requirement designed to provide safe and healthful working conditions and to reduce occupational safety and health hazards.

"ORDER" -- any award, decision, injunction, judgment, order, ruling, subpoena, or verdict entered, issued, made, or rendered by any court, administrative agency, or other Governmental Body or by any arbitrator.

"ORDINARY COURSE OF BUSINESS" -- an action taken by a Person will be deemed to have been taken in the "Ordinary Course of Business" only if:

(a) such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person; and

(b) such action is similar in nature and magnitude to actions customarily taken, without any authorization by the board of directors (or by any Person or group of Persons exercising similar authority), in the ordinary course of the normal day-to-day operations of other Persons of a similar size as such Person that are in the same line of business as such Person.

"ORGANIZATIONAL DOCUMENTS" -- (a) the articles or certificate of incorporation and the bylaws of a corporation; (b) the partnership agreement and any statement of partnership of a general partnership; (c) the limited partnership agreement and the certificate of limited partnership of a limited partnership; (d) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person; and (e) any amendment to any of the foregoing.

"OWNED PROPERTY" -- as defined in Section 2.1(a).

"PERSON" -- any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company or partnership, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Body.

"PROCEEDING" -- any action, arbitration, audit, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

"RELATED PERSON" -- with respect to a particular individual:

(a) each other member of such individual's Family;

(b) any Person that is directly or indirectly controlled by such individual or one or more members of such individual's Family;

(c) any Person in which such individual or members of such individual's Family hold (individually or in the aggregate) a Material Interest; and

(d) any Person with respect to which such individual or one or more members of such individual's Family serves as a director, officer, partner, executor, or trustee (or in a similar capacity).

With respect to a specified Person other than an individual:

(a) any Person that directly or indirectly controls, is directly or indirectly controlled by, or is directly or indirectly under common control with such specified Person;

(b) any Person that holds a Material Interest in such specified Person;

(c) each Person that serves as a director, officer, partner, executor, or trustee of such specified Person (or in a similar capacity);

(d) any Person in which such specified Person holds a Material Interest;

(e) any Person with respect to which such specified Person serves as a general, partner or a trustee (or in a similar capacity); and

(f) any Related Person of any individual described in clause (b) or (c).

For purposes of this definition, (a) the "Family" of an individual includes (i) the individual, (ii) the individual's spouse, (iii) any other natural person who is related to the individual or the individual's spouse within the second degree, and (iv) any other natural person who resides with such individual, and (b) "Material Interest" means direct or indirect beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of voting securities or other voting interests representing at least 5% of the outstanding voting power of a Person or equity securities or other equity interests representing at least 5% of the outstanding equity securities or equity interests in a Person.

"RELEASE" -- any spilling, leaking, emitting, discharging, depositing, escaping, leaching, dumping, or other releasing into the Environment, whether intentional or unintentional.

"REPRESENTATIVE" -- with respect to a particular Person, any director, officer, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants, and financial advisors.

"SECURITIES ACT" -- the Securities Act of 1933, as amended, or any successor law, and regulations and rules issued pursuant to that Act or any successor law.

"SELLERS" -- as defined in the first paragraph of this Agreement.

"SUBSIDIARY"-- with respect to any Person (the "Owner"), any corporation or other Person of which securities or other interests having the power to elect a majority of that corporation's or other Person's board of directors or similar governing body, or otherwise having the power to direct the business and policies of that corporation or other Person (other than securities or other interests having such power only upon the happening of a contingency

that has not occurred) are held by the Owner or one or more of its Subsidiaries; when used without reference to a particular Person, "Subsidiary" means a Subsidiary of the Company.

"TAX" -- any tax (including any income tax, capital gains tax, value-added tax, sales tax, property tax, gift tax, or estate tax), levy, assessment, tariff, duty (including any customs duty), deficiency, or other fee, and any related charge or amount (including any fine, penalty, interest, or addition to tax), imposed, assessed, or collected by or under the authority of any Governmental Body or payable pursuant to any tax-sharing agreement or any other Contract relating to the sharing or payment of any such tax, levy, assessment, tariff, duty, deficiency, or fee, or payable as a result of transferee liability, or payable as a result of being a member of an affiliated, consolidated, combined or unitary group for any period, or otherwise payable through operation of law.

"TAX RETURN" -- any return (including any information return), report, statement, schedule, notice, form, or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination, assessment, collection, or payment of any Tax or in connection with the administration, implementation, or enforcement of or compliance with any Legal Requirement relating to any Tax.

"THREAT OF RELEASE" -- a substantial likelihood of a Release that may require action in order to prevent or mitigate damage to the Environment that may result from such Release.

"THREATENED" -- a claim, Proceeding, dispute, action, or other matter will be deemed to have been "Threatened" if any demand or statement has been made (orally or in writing) or any notice has been given (orally or in writing), or if any other event has occurred or any other circumstances exist, that would lead a prudent Person to conclude that such a claim, Proceeding, dispute, action, or other matter is likely to be asserted, commenced, taken, or otherwise pursued in the future.

2. SALE AND TRANSFER OF ACQUIRED ASSETS; CLOSING

2.1 SALE AND TRANSFER OF THE ASSETS. Subject to the terms and conditions of this Agreement, on the Closing Date the Company and Alchem (to the extent Alchem immediately prior to the Closing owns any portion of the Intellectual Property Assets) will sell, convey, transfer, assign and deliver to Buyer all of the Company's right, title and interest in and to all of the assets, rights, properties and goodwill of the Company (including without limitation the Marks and Patents to be transferred by Alchem to the Company prior to the Closing) of every kind and description, wherever located, used in or relating to the Business other than the assets and property listed on Schedule 2.1 (the "Excluded Assets")(the assets, rights, properties and goodwill so acquired, the "Acquired Assets"). The Acquired Assets include, without limitation, the following assets, rights, properties and goodwill of the Company (unless they are Excluded Assets):

(a) all real property, leaseholds and subleaseholds therein, improvements, fixtures, and fittings thereon, and easements, rights-of-way, and other appurtenances thereto, including, without limitation, the real property (including all buildings, improvements and structures located thereon and all rights, privileges, easements and appurtenances thereto)

located at Independence, Virginia and Huntersville, North Carolina described on Schedule 2.1(a) (the "Owned Property");

(b) all tangible personal property, including, without limitation, furnishings, furniture, office supplies, vehicles, rolling stock, tools, machinery, equipment, and computer equipment (including software);

(c) all inventory, including without limitation, raw materials, work-in process, finished goods, packaging materials, spare parts and supplies;

(d) all Intellectual Property Assets, goodwill associated therewith, licenses and sublicenses granted and obtained with respect thereto, and rights thereunder, remedies against infringement thereof, and rights to protection of interests therein under the laws of all jurisdictions;

(e) the Contracts listed on Schedule 2.1(e), Applicable Contracts that involve the performance of services or delivery of goods or materials by one or more of the Company and its Subsidiaries entered into in the Ordinary Course of Business, and such Contracts entered into by the Company after the date of this Agreement and prior to the Closing Date as Buyer expressly elects to acquire at Closing by written addendum to this Agreement;

(f) all Governmental Authorizations, franchises, approvals, permits, licenses, orders, registrations, certificates, variances and similar rights obtained from any Governmental Body;

(g) all books, records, ledgers, files, documents, correspondence, lists, plats, architectural plans, drawings, and specifications, surveys, title policies, creative materials, advertising and promotional materials, studies, reports, product information, employment records and files and all other information and/or data;

(h) all accounts and other receivables;

(i) all claims, deposits, prepayments, refunds, causes of action, choses in action, rights of recovery, rights of set off, and rights of recoupment, including without limitation the actions listed on Schedule 2.1 (i);

(j) all telephone, telex and telecopier numbers and all existing listings in all telephone books and directories; and

(k) all warranties and guaranties received from vendors, suppliers or manufacturers.

2.2 NONASSUMPTION OF LIABILITIES; OBLIGATIONS ASSUMED. Except as expressly set forth in this Agreement, the sale and conveyance of the Acquired Assets hereunder shall be free and clear of any and all claims, liabilities, security interests, liens, mortgages, pledges, encumbrances, charges, equities, options, restrictive agreements or assessments of any kind whatsoever. Buyer is not assuming, nor shall it be deemed to

assume, any liabilities of Sellers of any nature whatsoever, whether accrued, absolute, contingent or otherwise and whether known or unknown; except Buyer shall assume as of the Closing Date (a) the Company's obligations under the Contracts described in Section 2.1(e) and all Governmental Authorizations assigned to Buyer to be performed from and after the Closing Date, but only to the extent that such obligations do not arise out of any default or breach by the Company of any such Contract or any such Governmental Authorization or any term thereof, (b) the Company's trade accounts payable as of the Closing Date incurred in the Ordinary Course of Business as and to the extent set forth on the Closing Financial Statements, (c) the Company's "other accrued expenses" (excluding the "accrued loss on receivables") as of the Closing Date incurred in the Ordinary Course of Business, as and to the extent set forth on the Closing Financial Statements, (d) accrued employee compensation as and to the extent set forth in the Closing Financial Statements, and (e) any counterclaim in any legal action listed in Schedule 2.1 (i).

2.3 PURCHASE PRICE

The purchase price (the "Purchase Price") for the Acquired Assets will be Sixteen Million Dollars ($16,000,000), plus the Adjustment Amount, plus the liabilities assumed by Buyer pursuant to Section 2.2 hereof.

2.4 CLOSING

The purchase and sale (the "Closing") provided for in this Agreement will take place at the offices of Delta Woodside Industries, Inc. in Greenville, South Carolina, at 10:00 am. (local time) on the date that is such date agreed to by the parties that is no later than five (5) business days after the satisfaction or waiver of the conditions set forth in Sections 7.3, 7.7 and 8.3, or at such other time and place as the parties may agree. Subject to the provisions of Section 9, failure to consummate the purchase and sale provided for in this Agreement on the date and time and at the place determined pursuant to this Section 2.4 will not result in the termination of this Agreement and will not relieve any party of any obligation under this Agreement.

2.5 CLOSING OBLIGATIONS

At the Closing:

(a) Sellers will deliver, or cause to be delivered, to Buyer:

(i) a bill of sale, assignment and assumption agreement in form reasonably acceptable to Buyer and Sellers (the "Bill of Sale, Assignment and Assumption Agreement");

(ii) warranty deeds in recordable form for the Owned Property that is owned by the Company;

(iii) such other instruments of transfer and documents as Buyer may reasonably request;

(iv) an affidavit in form and substance reasonably satisfactory to Buyer, duly

executed and acknowledged, certifying that none of Sellers is a foreign person within the meaning of Section 1445(f)(3) of the Code, and any corresponding affidavit required for state tax purposes;

(v) a noncompetition agreement in the form of Exhibit 2.5(a)(v), executed by Sellers (the "Noncompetition Agreement"); and

(vi) a certificate executed by Sellers representing and warranting to Buyer that each of Sellers' representations and warranties in this Agreement was accurate in all material respects as of the date of this Agreement and is accurate in all material respects as of the Closing Date as if made on the Closing Date (giving full effect to any supplements to the Disclosure Letter that were delivered by Sellers to Buyer prior to the Closing Date in accordance with Section 5.5); and

(b) Buyer will deliver to Sellers:

(i) Thirteen Million Dollars ($13,000,000) by wire transfer to an account specified by Sellers;

(ii) the sum of Three Million Dollars ($3,000,000), which the Buyer will deliver, on behalf of the Company, to the escrow agent referred to in Section 2.5(c) (the "Escrow Agent") by bank cashier's or certified check;

(iii) the Bill of Sale, Assignment and Assumption Agreement; and

(iv) a certificate executed by Buyer representing and warranting to Sellers that each of Buyer's representations and warranties in this Agreement was accurate in all material respects as of the date of this Agreement and is accurate in all material respects as of the Closing Date as if made on the Closing Date.

(c) Buyer and Sellers will enter into an escrow agreement in the form of Exhibit 2.5(c) (the "Escrow Agreement") with a mutually agreeable financial institution _____.

The parties agree that the amount delivered to the Escrow Agent pursuant to Section 2.5 (b) (ii) constitutes funds of the Company, received by the Company as a portion of the Purchase Price, that are delivered to the Escrow Agent on behalf of the Company to provide the Buyer with assurance of certain payments that may become due to the Buyer from the Company, as provided in the Escrow Agreement.

2.6 ADJUSTMENT AMOUNT; ADJUSTMENT PROCEDURE

(a) The Adjustment Amount (which may be a positive or negative number) will be determined in accordance with this Section 2.6. Sellers will prepare and will cause KPMG Peat Marwick, the Company's certified public accountants, to audit consolidated financial statements ("Closing Financial Statements") of the Company as of the Closing Date and for the period from the date of the Balance Sheet through the Closing Date. The Company will deliver the Closing Financial Statements to Buyer and Sellers within sixty (60) days after the

Closing Date. The Closing Financial Statements will be used to compute the Adjustment Amount, which shall be equal to the excess of (A) the excess of (i) the sum of the Company's accounts receivable (excluding financed notes), net of associated allowance for doubtful accounts, inventory and prepaids and other current assets, over (ii) the sum of accounts payable, accrued employee compensation, other accrued expenses (excluding the accrued loss on sale of receivables) and Reserves (as defined below), over (B) $4,009,000. For purposes of this Section 2.6(a), Reserves shall be defined as the sum of (x) to the extent not taken into account in determining other accrued expenses in the Closing Financial Statements, an additional product warranty reserve in the amount of $300,000, and (y) to the extent not taken into account in determining inventory in the Closing Financial Statements, an additional reserve for cardio-equipment and other slow-moving and obsolete inventory in the amount of $1,000,000. The parties agree that Exhibit 2.6(a) sets forth the methodology used to calculate the $4,009,000 amount. The Adjustment Amount will be determined mutually by Sellers and Buyer, reasonably and in good faith and using their respective best efforts on the basis of the Closing Financial Statements.

(b) If the Adjustment Amount is a positive number (i.e., the amount determined under clause 2.6(a)(A) exceeds $4,009,000), Buyer will pay the Adjustment Amount to the Company; if the Adjustment Amount is a negative number (i.e., the amount determined under clause 2.6(a)(A) is less than $4,009,000), then first, the Escrow Agent shall pay the Adjustment Amount to Buyer and the Escrow Amount will be reduced accordingly, and, second, if the Adjustment Amount exceeds the Escrow Amount, Sellers will pay, or cause to be paid, such excess to Buyer. All payments will be made on the tenth business day following the final determination by Sellers and Buyer (or the arbitrator, if paragraph (c) below applies) of the Adjustment Amount, together with interest at 10% compounded daily beginning on the Closing Date and ending on the date of payment. Payments must be made in immediately available funds. Payments to the Company must be made in the manner set forth in Section 2.5(b)(i). Payments to Buyer must be made by wire transfer to such bank account as Buyer will specify.

(c) In the event that by the 30th day following delivery of the Closing Financial Statements Sellers and Buyer have not agreed on the Adjustment Amount and delivered the notice provided for in Section 3(a) of the Escrow Agreement, determination of the Adjustment Amount shall be resolved by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Arbitration shall be by a single arbitrator experienced in financial accounting matters and selected by Buyer and Sellers in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The arbitration shall be held in such place in Richmond, Virginia as may be specified by the arbitrator (or any place agreed to by Buyer, Sellers and the arbitrator). The decision of the arbitrator shall be final and binding as to the Adjustment Amount; provided, however, if necessary, such decision may be enforced by either the Buyer or Sellers in any court of record having jurisdiction over the subject matter or over any of the parties to this Agreement. The determination of which party or parties bears the costs and expenses (including reasonable attorneys' fees) incurred in connection with any such arbitration proceeding shall be made by the arbitrator on the basis of the arbitrator's assessment of the relative merits of the parties' positions.

2.7 TAX ALLOCATION

Sellers shall allocate the Purchase Price to broad categories constituting components of the Acquired Assets and the noncompetition Agreement in accordance with the allocation adopted by Buyer following Closing. Buyer and Sellers shall report the purchase and sale of the Acquired Assets in accordance with such allocation for all Tax purposes (including the filing of the forms prescribed under Section 1060 of the Code and the Treasury Regulations promulgated thereunder), but such allocation shall not constrain reporting for other purposes.

2.8 SALES AND USE TAX

Buyer and Sellers shall cooperate in preparing, executing and filing sales and use Tax returns relating to the purchase and sale of the Acquired Assets, and at the Closing, Buyer shall pay, or cause to be paid, any and all sales, real estate, transfer or use Tax due with regard to the purchase and sale of the Acquired Assets. To the extent such Taxes cannot be accurately computed at the Closing, Buyer shall pay, or cause to be paid, such Taxes when they are due. Such Tax Returns shall be prepared in a manner that is consistent with the allocation of the Purchase Price contemplated by Section 2.7. Buyer shall also furnish Sellers with a form of resale certificate that complies with the requirements of applicable state taxation laws.

3. REPRESENTATIONS AND WARRANTIES OF SELLERS

Sellers jointly and severally represent and warrant to Buyer as follows:

3.1 ORGANIZATION AND GOOD STANDING

Part 3.1 of the Disclosure Letter contains a complete and accurate list for the Company and each of its Subsidiaries of its name, its jurisdiction of incorporation, other jurisdictions in which it is authorized to do business, and its capitalization (including the identity of each stockholder and the number of shares held by each). Each of the Company and each of its Subsidiaries is a corporation duly organized, validly existing, and in good standing under the laws of its jurisdiction of incorporation, with full corporate power and authority to conduct its business as it is now being conducted, to own or use the properties and assets that it purports to own or use, and to perform all its obligations under Applicable Contracts. Each of the Company and each of its Subsidiaries is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it, requires such qualification, except where the lack of such qualification would not have a material adverse effect on the financial condition of the Company and its Subsidiaries.

3.2 AUTHORITY; NO CONFLICT

(a) This Agreement constitutes the legal, valid, and binding obligation of each of Sellers, enforceable against each of Sellers in accordance with its terms. Upon the execution and delivery by Sellers of the Escrow Agreement and the Noncompetition Agreement (collectively, the "Sellers' Closing Documents", the Sellers' Closing Documents will

constitute the legal, valid, and binding obligations of each of Sellers, enforceable against each of Sellers in accordance with their respective terms. Each of Sellers has the absolute and unrestricted right, power, authority, and capacity to execute and deliver this Agreement and the Sellers' Closing Documents and to perform its obligations under this Agreement and the Sellers' Closing Documents.

(b) Except as set forth in Part 3.2(b) of the Disclosure Letter, neither the execution nor delivery of this Agreement nor the consummation or performance of any of the Contemplated Transactions by any of Sellers, directly or indirectly (with or without notice or lapse of time) will:

(i) contravene, conflict with, or result in a violation of (A) any provision of the Organizational Documents of any of Sellers, or (B) any resolution adopted by the board of directors or the stockholders of any of Sellers;

(ii) contravene, conflict with, or result in a violation of, or give any Governmental Body or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which any of Sellers or the Acquired Assets may be subject;

(iii) contravene, conflict with, or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate, or modify, any Governmental Authorization that is held by the Company or any of its Subsidiaries or that otherwise relates to the Business or the Acquired Assets;

(iv) contravene, conflict with, or result in a violation or breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Applicable Contract; or

(v) result in the imposition or creation of any Encumbrance upon or with respect to any of the Acquired Assets.

(c) Except as set forth in Part 3.2(c) of the Disclosure Letter, no Seller is or will be required to give any notice to or obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions, except where the failure to give notice or to obtain any Consent would not affect the ability of the parties to this Agreement to consummate the Contemplated Transactions.

3.3 CAPITALIZATION

All of the outstanding equity securities of the Company are owned of record and beneficially by Alchem, free and clear of all Encumbrances (other than a pledge in favor of General Electric Capital Corporation ("GECC") as agent.

3.4 FINANCIAL STATEMENTS

The Audited Financial Statements fairly present the financial condition and results of operations, changes in stockholders' equity, and cash flow of the Company and its Subsidiaries as at the respective dates of and for the periods referred to in such financial statements, all in accordance with GAAP as consistently applied throughout the periods involved. Sellers have delivered to Buyer unaudited consolidating financial statements of the Company and its Subsidiaries as of the fiscal period ended October 31, 1998 (the "Unaudited Financials"). The Unaudited Financials have been prepared in a manner consistent with prior unaudited financial statements prepared by the Company and fairly present the Company's financial condition and results of operations as of October 31, 1998 and for the period referred to therein.

3.5 BOOKS AND RECORDS

The books of account, minute books, stock record books, and other records of the Company and its Subsidiaries, all of which will be made available to Buyer prior to Closing, are complete and correct and have been maintained in accordance with sound business practices and the requirements of Section 13(b)(2) of the Securities Exchange Act of 1934, as amended (regardless of whether or not the Subsidiaries are subject to that Section), including the maintenance of an adequate system of internal controls. The minute books of the Company contain accurate and complete records of all meetings held of, and corporate action taken by, the stockholders, the Board of Directors, and committees of the Board of Directors of the Company, and no meeting of any such stockholders, Board of Directors, or committee has been held for which minutes have not been prepared and are not contained in such minute books.

3.6 TITLE TO PROPERTIES; ENCUMBRANCES

Part 3.6 of the Disclosure Letter contains a complete and accurate list of all real property, real property leaseholds, or other real property interests therein owned by the Company and its Subsidiaries and included with the Acquired Assets. Sellers have delivered or made available to Buyer copies of the deeds and other instruments (as recorded) by which the Company and its Subsidiaries acquired such real property and interests, and copies of all title insurance policies, opinions, abstracts, and surveys in the possession of Sellers or the Subsidiaries and relating to such property or interests. The Company and its Subsidiaries own or by Closing will own (with good and marketable title in the case of real property, subject only to the matters permitted by the following sentence) all the properties and assets (whether real, personal, or mixed and whether tangible or intangible) that they purport to own located in the facilities owned or operated by the Company and its Subsidiaries or reflected as owned in the books and records of the Company and its Subsidiaries, including all of the properties and assets reflected in the Balance Sheet (except for assets held under capitalized leases disclosed or not required to be disclosed in Part 3.6 of the Disclosure Letter and personal property sold since the date of the Balance Sheet, as the case may be, in the Ordinary Course of Business), and all of the properties and assets purchased or otherwise acquired by the Company and its Subsidiaries since the date of the Balance Sheet (except for personal property acquired and sold since the date of the Balance Sheet in the Ordinary Course of Business and consistent with past practice) which subsequently purchased or acquired properties and assets (other than inventory and short-term investments) were purchased or

acquired for an aggregate consideration of less than $50,000. All properties and assets reflected in the Balance Sheet (and still owned by the Company or any of its Subsidiaries) are free and clear of all Encumbrances and are not, in the case of real property, subject to any rights of way, building use restrictions, exceptions, variances, reservations, or limitations of any nature except, with respect to all such properties and assets, (a) mortgages or security interests shown on the Balance Sheet or Part 3.6 of the Disclosure Letter as securing specified liabilities or obligations, with respect to which no default (or event that, with notice or lapse of time or both, would constitute a default) exists, (b) mortgages or security interests incurred in connection with the purchase of property or assets after the date of the Balance Sheet (such mortgages and security interests being limited to the property or assets so acquired), with respect to which no default (or event that, with notice or lapse of time or both, would constitute a default) exists, (c) liens for current Taxes not yet due, and (d) with respect to real property, (i) minor imperfections of title, if any, none of which is substantial in amount, materially detracts from the value or impairs the use of the property subject thereto, or impairs the operations of the Company or any of its Subsidiaries, and (ii) zoning laws and other land use restrictions that do not impair the present or anticipated use of the property subject thereto. All buildings, plants, and structures owned by the Company and its Subsidiaries lie wholly within the boundaries of the real property owned by the Company and its Subsidiaries and do not encroach upon the property of, or otherwise conflict with the property rights of, any other Person.

3.7 CONDITION AND SUFFICIENCY OF ASSETS

The buildings, plants, structures, and equipment of the Company and its Subsidiaries are generally adequate for the continued conduct of the Company's and its Subsidiaries' businesses after the Closing in substantially the same manner as conducted prior to the Closing; provided, however, that Sellers do not provide any representation or warranty as to the physical condition of any of the tangible personal property of any of the Company and its Subsidiaries.

3.8 ACCOUNTS RECEIVABLE

All accounts receivable of the Company and its Subsidiaries that are reflected on the Balance Sheet or on the accounting records of the Company and its Subsidiaries as of the Closing Date (collectively, the "Accounts Receivable") represent or will represent valid obligations arising from sales actually made or services actually performed in the Ordinary Course of Business. Unless paid prior to the Closing Date, the Accounts Receivable are or will be as of the Closing Date current and collectible net of the respective reserves shown on the Balance Sheet or on the accounting records of the Company and its Subsidiaries as of the Closing Date (which reserves are adequate and calculated consistent with past practice). Except as covered by any reserve, there is no contest, claim, or right of set-off, other than returns in the Ordinary Course of Business, under any Contract with any obligor of an Account Receivable relating to the amount or validity of such Account Receivable.

3.9 INVENTORY

All inventory of the Company and its Subsidiaries, whether or not reflected in the

Balance Sheet, consists of a quality and quantity usable and salable in the Ordinary Course of Business, except for obsolete items and items of below-standard quality, all of which have been written off or written down to net realizable value in the Balance Sheet or on the accounting records of the Company and its Subsidiaries as of the Closing Date, as the case may be. All inventories not written off have been priced at the lower of cost or market on a first in, first out basis. The quantities of each general type of inventory (i.e., raw materials, work-in-process, or finished goods) are not excessive, but are reasonable in the present circumstances of the Company and its Subsidiaries.

3.10 NO UNDISCLOSED LIABILITIES

Except as set forth in Part 3.10 of the Disclosure Letter, the Company and its Subsidiaries have no liabilities or obligations of any nature (whether known or unknown and whether absolute, accrued, contingent, or otherwise) except for liabilities or obligations reflected or reserved against in the Balance Sheet and current liabilities incurred in the Ordinary Course of Business since the date thereof.

3.11 TAXES

(a) The Company and its Subsidiaries have filed or caused to be filed (on a timely basis since January 20, 1993) all Tax Returns that are or were required to be filed by or with respect to any of them, either separately or as a member of a group of corporations, pursuant to applicable Legal Requirements. The Company and its Subsidiaries have paid, or made provision for the payment of, all Taxes that have or may have become due from any of the Company or its Subsidiaries pursuant to those Tax Returns or otherwise, or pursuant to any assessment received by Sellers or any Subsidiary, except such Taxes, if any, as are listed in Part 3.11 of the Disclosure Letter and are being contested in good faith and as to which adequate reserves (determined in accordance with GAAP) have been provided in the Balance Sheet. Part 3.11 of the Disclosure Letter lists all federal, state, local and foreign income Tax Returns filed with respect to or including the Company or any of its Subsidiaries for taxable periods ended after July 3, 1993, indicates those income Tax Returns that have been audited, and indicates those income Tax Returns that currently are the subject of audit. Sellers have delivered or made available to Buyer correct and complete copies of all information respecting the Company and its Subsidiaries that was included in the consolidated federal income Tax Returns, examination reports, and statements of deficiencies assessed against or agreed to by any of the Company and its Subsidiaries with respect to any period since July 3, 1993. Sellers have made available copies of all other Tax Returns of the Company and its Subsidiaries filed since July 3, 1993.

(b) Except as described in Part 3.11 of the Disclosure Letter, neither the Company nor any Subsidiary has given waivers or extensions (or is or would be subject to a waiver or extension given by any other Person) of any statute of limitations relating to the payment of Taxes of the Company or any of its Subsidiaries or for which the Company or any of its Subsidiaries may be liable.

(c) The charges, accruals, and reserves with respect to Taxes on the respective books of the Company and each of its Subsidiaries are adequate (determined in accordance

with GAAP) and are at least equal to that company's liability for Taxes. There exists no proposed tax assessment against the Company or any of its Subsidiaries, except as disclosed in the Balance Sheet or in Part 3.11 of the Disclosure Letter. No consent to the application of Section 341(f)(2) of the IRC has been filed with respect to any property or assets held, acquired, or to be acquired by the Company or any of its Subsidiaries. All Taxes that the Company or any of its Subsidiaries is or was required by Legal Requirements to withhold or collect have been duly withheld or collected and, to the extent required, have been paid to the proper Governmental Body or other Person. There are no liens for Taxes (other than for current Taxes not yet due and payable) upon the assets of the Company or any of its Subsidiaries.

(d) All Tax Returns filed by (or that include on a consolidated, combined or unitary basis) the Company or any of its Subsidiaries are true, correct, and complete in all respects insofar as concerns the Company and its Subsidiaries. Neither the Company nor any of its Subsidiaries is, or within the five-year period preceding the Closing Date has been, an "S" corporation.

3.12 NO MATERIAL ADVERSE CHANGE

Since the date of the Unaudited Financials, there has not been any material adverse change in the business, operations, properties, prospects, assets, or condition of the Company, and no event has occurred or circumstance exists that may result in such a material adverse change.

3.13 EMPLOYEE BENEFITS

(a) As used in this Section 3.13, the following terms have the meanings set forth below.

"EMPLOYEE BENEFIT PLAN" means (a) nonqualified deferred compensation or retirement plan or arrangement that is an Employee Pension Benefit Plan, (b) qualified defined contribution retirement plan or arrangement that is an Employee Pension Benefit Plan (including any Multiemployer Plan), (c) qualified defined benefit retirement plan or arrangement that is an Employee Pension Benefit Plan (including any Multiemployer Plan), (d) Employee Welfare Benefit Plan, or (e) any other practice, arrangement, obligation or benefit for the benefit of employees other than salary or wages.

"EMPLOYEE PENSION BENEFIT PLAN" has the meaning set forth in ERISA Sec. 3(2).

"EMPLOYEE WELFARE BENEFIT PLAN" has the meaning set forth in ERISA Sec. 3(1).

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"MULTIEMPLOYER PLAN" has the meaning set forth in ERISA Sec. 3(37).

"PBGC" means the Pension Benefit Guaranty Corporation.

"REPORTABLE EVENT" has the meaning set forth in ERISA Sec. 4043.

(b) Part 3.13 of the Disclosure Letter lists each Employee Benefit Plan that any of the Company and its Subsidiaries maintains or to which any of the Company and its Subsidiaries contributes.

(i) Each such Employee Benefit Plan (and each related trust, insurance contract, or fund) complies in form and in operation in all respects with the applicable requirements of ERISA and the IRC.

(ii) All contributions (including all employer contributions and employee salary reduction contributions) that are due have been paid to each such Employee Benefit Plan that is an Employee Pension Benefit Plan.

(iii) The latest determination letter respecting the 401(k) plan in which the Company participates to the effect that the plan meets the requirements of IRC Sec. 401(a) that has been received from the Internal Revenue Service is dated August 8, 1996.

(iv) As of the last day of the most recent prior plan year, the market value of assets under each such Employee Benefit Plan that is an Employee Pension Benefit Plan equaled or exceeded the present value of liabilities thereunder (determined in accordance with then current funding assumptions).

(v) Sellers have delivered or made available to Buyer correct and complete copies of the plan documents and summary plan descriptions, the most recent determination letter received from the Internal Revenue Service, the most recent Form 5500 Annual Report, and all related trust agreements, insurance contracts, and other funding agreements that implement each such Employee Benefit Plan.

(vi) No such Employee Benefit Plan that is an Employee Pension Benefit Plan has been completely or partially terminated or been the subject of a Reportable Event as to which notices would be required to be filed with the PBGC. No proceeding by the PBGC to terminate any such Employee Pension Benefit Plan has been instituted.

(vii) No action, suit, proceeding, hearing, or investigation with respect to the administration or the investment of the assets of any such Employee Benefit Plan (other than routine claims for benefits) is pending.

(viii) Neither the Company nor any of its Subsidiaries has incurred any liability to the PBGC (other than PBGC premium payments) or otherwise under Title IV of ERISA (including any withdrawal liability) with respect to any such Employee Benefit Plan that is an Employee Pension Benefit Plan.

(ix) Except to the extent required under ERISA Section 601, ET. SEQ., and IRC Section 4980B, and except for limited medical coverage provided for certain retirees under the Delta Woodside Industries, Inc. Group Benefit Plan, neither the Company nor any

Subsidiary provides health or welfare benefits for any retired or former employee or is obligated to provide health or welfare benefits to any active employee following such employee's retirement or other termination of service.

(x) Sellers, the Company and its Subsidiary have complied with the provisions of ERISA Section 601 ET. SEQ., and IRC Section 4980B.

3.14 COMPLIANCE WITH LEGAL REQUIREMENTS; GOVERNMENTAL AUTHORIZATIONS

(a) Except as set forth in Part 3.14 of the Disclosure Letter:

(i) The Company and each of its Subsidiaries is, and at all times since January 20, 1993 has been, in full compliance in all respects with each Legal Requirement that is or was applicable to it or to the conduct or operation of its business or the ownership or use of any of its assets.

(ii) no event has occurred or circumstance exists that (with or without notice or lapse of time) (A) may constitute or result in a violation by the Company or any of its Subsidiaries of, or a failure on the part of the Company or any of its Subsidiaries to comply with, any Legal Requirement, or (B) may give rise to any obligation on the part of the Company or any of its Subsidiaries to undertake, or to bear all or any portion of the cost of, any remedial action of any nature pursuant to any Legal Requirement; and

(iii) neither the Company nor any of its Subsidiaries has received, at any time since January 20, 1993, any notice or other communication (whether oral or written) from any Governmental Body or any other Person regarding (A) any actual, alleged, possible, or potential violation of, or failure to comply with, any Legal Requirement, or (B) any actual, alleged, possible, or potential obligation on the part of the Company or any of its Subsidiaries to undertake, or to bear all or any portion of the cost of, any remedial action of any nature pursuant to any Legal Requirement.

(b) Part 3.14 of the Disclosure Letter contains a complete and accurate list of each Governmental Authorization that is held by the Company or any of its Subsidiaries or that otherwise relates to the Business or any of the Acquired Assets, except for those Governmental Authorizations the failure to possess would not have an adverse effect on the financial condition of the Company and its Subsidiaries, taken as a whole. Each Governmental Authorization listed or required to be listed in Part 3.14 of the Disclosure Letter is valid and in full force and effect. Except as set forth in Part 3.14 of the Disclosure Letter:

(i) the Company and each of its Subsidiaries is, and at all times since January 20, 1993 has been, in full compliance in all respects with all of the terms and requirements of each Governmental Authorization identified or required to be identified in Part 3.14 of the Disclosure Letter;

(ii) no event has occurred or circumstance exists that may (with or without notice or lapse of time) (A) constitute or result directly or indirectly in a violation of or a

failure to comply with any term or requirement of any Governmental Authorization, or (B) result directly or indirectly in the revocation, withdrawal, suspension, cancellation, or termination of, or any modification to, any Governmental Authorization;

(iii) neither the Company nor any of its Subsidiaries has received, at any time since January 20, 1993, any notice or other communication (whether oral or written) from any Governmental Body or any other Person regarding (A) any actual, alleged, possible, or potential violation of or failure to comply with any term or requirement of any Governmental Authorization, or (B) any actual, proposed, possible, or potential revocation, withdrawal, suspension, cancellation, termination of, or modification to any Governmental Authorization; and

(iv) all applications required to have been filed for the renewal of the Governmental Authorizations listed or required to be listed in Part 3.14 of the Disclosure Letter have been duly filed on a timely basis with the appropriate Governmental Bodies, and all other filings required to have been made with respect to such Governmental Authorizations have been duly made on a timely basis with the appropriate Governmental Bodies.

3.15 LEGAL PROCEEDINGS; ORDERS

(a) Except as set forth in Part 3.15 of the Disclosure Letter, there is no pending Proceeding:

(i) that has been commenced by or against the Company or any of its Subsidiaries or that otherwise relates to or may affect the Business or any of the Acquired Assets; or

(ii) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions.

(1) Except as set forth in Part 3.15 of the Disclosure Letter, no such Proceeding has been Threatened, and (2) no event has occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such Proceeding. Sellers will cause the attorneys representing the Company to furnish Buyer, upon request by Buyer, with copies of all pleadings, correspondence, and other documents relating to each Proceeding listed in Part 3.15 of the Disclosure Letter. The Proceedings listed in Part 3.15 of the Disclosure Letter will not have a material adverse effect on the business, operations, assets, condition, or prospects of the Company or any of its Subsidiaries.

(b) Except as set forth in Part 3.15 of the Disclosure Letter:

(i) there is no Order to which the Company or any of its Subsidiaries, or any of the assets owned or used by the Company or any of its Subsidiaries, is subject;

(ii) neither Seller is subject to any Order that relates to the Business or any of the Acquired Assets; and

(iii) no officer, director, or employee of the Company or any of its

Subsidiaries is subject to any Order that prohibits such officer, director, or employee from engaging in or continuing any conduct, activity, or practice relating to the business of the Company or any of its Subsidiaries.

(c) Except as set forth in Part 3.15 of the Disclosure Letter:

(i) each of the Company and each of its Subsidiaries is, and at all times since January 20, 1993 has been, in full compliance with all of the terms and requirements of each Order to which it, or any of the assets owned or used by it, is or has been subject;

(ii) no event has occurred or circumstance exists that may constitute or result in (with or without notice or lapse of time) a violation of or failure to comply with any term or requirement of any Order to which the Company or any of its Subsidiaries, or any of the assets owned or used by the Company or any of its Subsidiaries, is subject; and

(iii) neither the Company nor any of its Subsidiaries has received, at any time since January 20, 1993, any notice or other communication (whether oral or written) from any Governmental Body or any other Person regarding any actual, alleged, possible, or potential violation of, or failure to comply with, any term or requirement of any Order to which the Company or any of its Subsidiaries, or any of the assets owned or used by the Company or any of its Subsidiaries, is or has been subject.

3.16 ABSENCE OF CERTAIN CHANGES AND EVENTS

Except as set forth in Part 3.16 of the Disclosure Letter, since the date of the Balance Sheet, the Company and its Subsidiaries have conducted their businesses only in the Ordinary Course of Business and there has not been any:

(a) change in the Company's or any of its Subsidiaries' authorized or issued capital stock; grant of any stock option or right to purchase shares of capital stock of the Company or any of its Subsidiaries; issuance of any security convertible into such capital stock; grant of any registration rights with respect to such capital stock; purchase, redemption, retirement, or other acquisition by the Company or any of its Subsidiaries of any shares of any such capital stock; or declaration or payment of any dividend or other distribution or payment in respect of shares of such capital stock;

(b) amendment to the Organizational Documents of the Company or any of its Subsidiaries;

(c) payment or increase by the Company or any of its Subsidiaries of any bonuses, salaries, or other compensation to any stockholder, director, officer, or (except in the Ordinary Course of Business) employee or entry into any employment, severance, or similar Contract with any director, officer, or (except in the Ordinary Course of Business) employee;

(d) adoption of, or increase in the payments to or benefits under, any profit sharing, bonus, deferred compensation, savings, insurance, pension, retirement, or other employee benefit plan for or with any employees of the Company or any of its Subsidiaries;

(e) damage to or destruction or loss of any asset or property of the Company or any of its Subsidiaries, whether or not covered by insurance, adversely affecting the properties, assets, business, financial condition, or prospects of the Company and its Subsidiaries, taken as a whole;

(f) entry into, termination of, or receipt of notice of termination of (i) any license, distributorship, dealer, sales representative, joint venture, credit, or similar agreement, or (ii) any Contract or transaction that, in the case of clause (i) or (ii) involves a total remaining commitment by or to the Company or any of its Subsidiaries of at least $50,000;

(g) sale (other than sales of inventory in the Ordinary Course of Business), lease, or other disposition of any asset or property of the Company or any of its Subsidiaries (other than the sale or other disposition of assets that are not inventory for an aggregate consideration of less than $50,000) or mortgage, pledge, or imposition of any lien or other encumbrance on any asset or property of the Company or any of its Subsidiaries, including the sale, lease, or other disposition of any of the Intellectual Property Assets;

(h) cancellation or waiver of any claims or rights with a value to the Company or any of its Subsidiaries in excess of $10,000 individually or $50,000 in the aggregate;

(i) change in the accounting methods used by the Company or any of its Subsidiaries; or

(j) agreement, whether oral or written, by the Company or any of its Subsidiaries to do any of the foregoing.

3.17 CONTRACTS; NO DEFAULTS

(a) Part 3.17(a) of the Disclosure Letter contains a complete and accurate list (excluding in each case Applicable Contracts that will be fully performed by all parties as of the Closing Date), and Sellers have made available to Buyer true and complete copies, of:

(i) each Applicable Contract that involves performance of services or delivery of goods or materials by one or more of the Company and its Subsidiaries of an amount or value in excess of $50,000;

(ii) each Applicable Contract that involves performance of services or delivery of goods or materials to one or more of the Company and its Subsidiaries of an amount or value in excess of $50,000;

(iii) each Applicable Contract that was not entered into in the Ordinary Course of Business and that involves expenditures or receipts of one or more of the Company and its Subsidiaries in excess of $50,000;

(iv) each Applicable Contract in the form of a lease, rental or occupancy agreement, or license, installment and conditional sale agreement, and other Applicable Contract affecting the ownership of, leasing of, title to, use of, or any leasehold or other interest in, any real or personal property (except any such agreement having a value per item

or aggregate payments of less than $50,000);

(v) each Applicable Contract that is a licensing agreement or other Applicable Contract with respect to patents, trademarks, copyrights, or other intellectual property, including agreements with current or former employees, consultants, or contractors regarding the appropriation or the non-disclosure of any of the Intellectual Property Assets;

(vi) each Applicable Contract with any labor union or other employee representative of a group of employees;

(vii) each joint venture, partnership, and other Applicable Contract (however named) involving a sharing of profits, losses, costs, or liabilities by the Company or any of its Subsidiaries with any other Person;

(viii) each Applicable Contract containing covenants that in any way purport to restrict in any material respect the business activity of the Company or any of its Subsidiaries or limit in any material respect the freedom of the Company or any of its Subsidiaries to engage in any line of business or to compete with any Person;

(ix) each material Applicable Contract providing for payments to or by any Person based on sales, purchases, or profits, other than direct payments for goods;

(x) each power of attorney granted by the Company or any of its Subsidiaries that is currently effective and outstanding;

(xi) each Applicable Contract for capital expenditures in excess of $50,000;

(xii) each material written warranty, guaranty, and or other similar undertaking with respect to contractual performance extended by the Company or any of its Subsidiaries other than in the Ordinary Course of Business; and

(xiii) each amendment, supplement, and modification (whether oral or written) in respect of any of the foregoing.

(b) Except as set forth in Part 3.17(b) of the Disclosure Letter:

(i) neither Delta Woodside nor Alchem (and no Related Person of either of them other than the Company) has or may acquire any rights under, and neither Seller has or may become subject to any obligation or liability under, any Contract that relates to the Business or any of the Acquired Assets; and

(ii) no officer, director, or employee of the Company or any of its Subsidiaries is bound by any Contract that purports to limit in any respect the ability of such officer, director, or employee to (A) engage in or continue any conduct, activity, or practice relating to the business of the Company or any of its Subsidiaries, or (B) assign to the Company or any of its Subsidiaries any rights to any invention, improvement, or discovery.

(c) Except as set forth in Part 3.17(c) of the Disclosure Letter, each Contract

identified or required to be identified in Part 3.17(a) of the Disclosure Letter is in full force and effect and is valid and enforceable in accordance with its terms.

(d) Except as set forth in Part 3.17(d) of the Disclosure Letter:

(i) the Company and each of its Subsidiaries is, and at all times since January 20, 1993 has been, in full compliance in all respects with all applicable terms and requirements of each Contract under which such company has or had any obligation or liability or by which the Company or any of its Subsidiaries or any of the assets owned or used by such company is or was bound;

(ii) each other Person that has or had any obligation or liability under any Contract under which the Company or any of its Subsidiaries has or had any rights is, and at all times since January 20, 1993 has been, in full compliance in all respects with all applicable terms and requirements of such Contract;

(iii) no event has occurred since January 20, 1993 or circumstance exists that (with or without notice or lapse of time) may contravene, conflict with, or result in a violation or breach of, or give the Company or any of its Subsidiaries or other Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Applicable Contract; and

(iv) neither the Company nor any of its Subsidiaries has given to or received from any other Person, at any time since January 20, 1993, any notice or other communication (whether oral or written) regarding any actual, alleged, possible, or potential violation or breach of, or default under, any Contract.

(e) There are no renegotiations of, attempts to renegotiate, or outstanding rights to renegotiate any amounts paid or payable to the Company or any of its Subsidiaries under current or completed Contracts with any Person and no such Person has made written demand for such renegotiation.

(f) The Contracts relating to the sale, design, manufacture, or provision of products or services by the Company and its Subsidiaries have been entered into in the Ordinary Course of Business and have been entered into without the commission of any act alone or in concert with any other Person, or any consideration having been paid or promised, that is or would be in violation of any Legal Requirement.

3.18 INSURANCE

(a) Sellers shall deliver to Buyer prior to Closing:

(i) true and complete copies of all policies of general liability insurance to which the Company or any of its Subsidiaries is a party or under which the Company or any of its Subsidiaries is or has been covered at any time since January 20, 1993; and

(ii) any statement since January 20, 1993 by the auditor of the Company's or any of its Subsidiaries' financial statements with regard to the adequacy of such entity's

coverage or of the reserves for claims.

(b) Part 3.18(b) of the Disclosure Letter describes:

(i) any self-insurance arrangement by or affecting the Company or any of its Subsidiaries, including any reserves established thereunder; and

(ii) any material contract or arrangement, other than a policy of insurance, for the transfer or sharing of any risk by the Company or any of its Subsidiaries.

(c) Part 3.18(c) of the Disclosure Letter sets forth, by year, for the current policy year and each of the preceding policy years since January 20, 1993:

(i) a summary of the loss experience under each general liability policy;

(ii) a statement describing each claim under a general liability insurance, policy for an amount in excess of $50,000, which sets forth:

(A) the name of the claimant;

(B) a description of the policy by insurer, type of insurance, and period of coverage; and

(C) the amount and a brief description of the claim.

(d) Except as set forth on Part 3.18(d) of the Disclosure Letter:

(i) All general liability policies to which the Company or any of its Subsidiaries is a party or that provide coverage to the Company or any of its Subsidiaries:

(A) are valid, outstanding, and enforceable;

(B) are issued by an insurer that is financially sound and reputable;

(C) taken together, provide adequate insurance coverage for the assets and the operations of the Company and its Subsidiaries for all risks to which the Company and its Subsidiaries are normally exposed;

(D) are sufficient for compliance with all Legal Requirements and Contracts to which the Company or any of its Subsidiaries is a party or by which any of them is bound; and

(E) will continue in full force and effect following the consummation of the Contemplated Transactions.

(ii) Neither the Company nor any Subsidiary has received any notice of cancellation of any insurance policy currently in effect to which the Company or any of its Subsidiaries is a party or that provides coverage to the Company or any of its Subsidiaries or any other indication that any such insurance policy is no longer in full force or effect or will

not be renewed or that the issuer of any policy is not willing or able to perform its obligations thereunder.

(iii) Since January 20, 1993, the Company and its Subsidiaries have paid all premiums due, and have otherwise performed all of their respective obligations, under each policy to which the Company or any of its Subsidiaries is a party or that provides coverage to the Company or any of its Subsidiaries.

3.19 ENVIRONMENTAL MATTERS

Except as set forth in part 3.19 of the Disclosure Letter:

(a) The Company and each of its Subsidiaries is, and at all times has been, in full compliance in all respects with, and has not been and is not in violation of or liable under, any Environmental Law. No Seller or Subsidiary has any basis to expect, nor has any of them or any other Person for whose conduct they are or may be held to be responsible, received any actual or Threatened order, notice, or other communication from (i) any Governmental Body or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any Facilities, of any actual or potential violation or failure to comply in any respect by the Company or any of its Subsidiaries with any Environmental Law, or of any actual or Threatened obligation of the Company or any of its Subsidiaries to undertake or bear the cost of any Environmental, Health, and Safety Liabilities with respect to any of the Facilities or any other properties or assets (whether real, personal, or mixed) in which the Company or any of its Subsidiaries has had an interest, or with respect to any property or Facility at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, used, or processed by the Company, any of its Subsidiaries, or any other Person for whose conduct they are or may be held responsible, or from which Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled, or received by the Company, any of its Subsidiaries, or any other Person for whose conduct they are or may be held responsible.

(b) There are no pending or Threatened claims, Encumbrances, or other restrictions of any nature, resulting from any Environmental, Health, and Safety Liabilities or arising under or pursuant to any Environmental Law, with respect to or affecting any of the Facilities or any other properties and assets (whether real, personal, or mixed) in which the Company or any of its Subsidiaries has or had an interest.

(c) No Seller or Subsidiary has any basis to expect, nor has any of them or any other Person for whose conduct they are or may be held responsible, received any citation, directive, inquiry, notice, Order, summons, or warning that relates to Hazardous Activity, Hazardous Materials, or any alleged, actual, or potential violation or failure to comply with any Environmental Law, or of any alleged, actual, or potential obligation to undertake or bear the cost of any Environmental, Health, and Safety Liabilities with respect to any of the Facilities or any other properties or assets (whether real, personal, or mixed) in which the Company or any of its Subsidiaries had an interest, or with respect to any property or facility to which Hazardous Materials generated, manufactured, refined, transferred, imported, used, or processed by the Company, any Subsidiary, or any other Person for whose conduct they are

or may be held responsible, have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

(d) Neither the Company, any Subsidiary, nor any other Person for whose conduct they are or may be held responsible, has any Environmental, Health, and Safety Liabilities with respect to the Facilities or with respect to any other properties and assets (whether real, personal, or mixed) in which the Company or any Subsidiary (or any predecessor), has or had an interest, or at any property geologically or hydrologically adjoining the Facilities or any such other property or assets.

(e) There are no Hazardous Materials present on or in the Environment at the Facilities or at any geologically or hydrologically adjoining property, including any Hazardous Materials contained in barrels, above or underground storage tanks, landfills, land deposits, dumps, equipment (whether moveable or fixed) or other containers, either temporary or permanent, and deposited or located in land, water, sumps, or any other part of the Facilities or such adjoining property, or incorporated into any structure therein or thereon, except for such Hazardous Materials listed in Part 3.19(e) of the Disclosure Letter as are present and used at the Facilities in, and in quantities no greater than reasonably necessary for, the Ordinary Course of Business. Except as stated in the immediately preceding sentence, neither the Company, any Subsidiary, nor any other Person for whose conduct they are or may be held responsible has permitted of conducted, or has Knowledge of, any Hazardous Activity conducted with respect to the Facilities or any other properties or assets (whether real, personal, or mixed) in which Sellers or any Subsidiary has or had an interest.

(f) There has been no Release or Threat of Release, of any Hazardous Materials at or from the Facilities or at any other locations where any Hazardous Materials were generated, manufactured, refined, transferred, produced, imported, used, or processed from or by the Facilities, or from or by any other properties and assets (whether real, personal, or mixed) in which the Company or any Subsidiary has or had an interest, or any geologically or hydrologically adjoining property, by the Company, any Subsidiary, or any other Person for whose conduct they are or may be held responsible.

(g) Sellers shall make available to Buyer prior to Closing true and complete copies and results of any reports, studies, analyses, tests, or monitoring possessed or initiated by Sellers or any Subsidiary pertaining to Hazardous Materials or Hazardous Activities in, on, or under the Facilities, or concerning compliance by the Company, any Subsidiary, or any other Person for whose conduct they are or may be held responsible, with Environmental Laws.

3.20 EMPLOYEES

(a) Part 3.20 of the Disclosure Letter contains a complete and accurate list of the following information for each employee of the Company and its Subsidiaries, including each employee on leave of absence or layoff status: employer; name; job title; current compensation paid or payable and any change in compensation since June 1, 1997; vacation accrued; sick leave or any other paid leave accrued; and service credited for purposes of vesting and eligibility to participate under the Company's or any of its Subsidiaries' pension, retirement, profit-sharing, thrift-savings, deferred compensation, stock bonus, stock option,

cash bonus, employee stock ownership (including investment credit or payroll stock ownership), severance pay, insurance, medical, welfare, or vacation plan, other Employee Pension Benefit Plan or Employee Welfare Benefit Plan, or any other employee benefit plan of the Company or any of its Subsidiaries.

(b) No employee of the Company or any of its Subsidiaries is a party to, or is otherwise bound by, any agreement or arrangement, including any confidentiality, noncompetition, or proprietary rights agreement, between such employee and any other Person ("Proprietary Rights Agreement") that in any way adversely affects or will adversely affect (i) the performance of his duties as an employee of the Company and its Subsidiaries, or (ii) the ability of the Company or any of its Subsidiaries to conduct its business, including any Proprietary Rights Agreement with Sellers or the Subsidiaries by any such employee. To Sellers' Knowledge, no key employee of the Company or any of its Subsidiaries intends to terminate his employment with such company.

(c) Part 3.20 of the Disclosure Letter also contains a complete and accurate list of the following information for each retired employee of the Company and its Subsidiaries, or their dependents, receiving benefits or scheduled to receive benefits from the Company or any of its Subsidiaries in the future: name, such pension benefit, such pension option election, such retiree medical insurance coverage, such retiree life insurance coverage, and other such benefits.

3.21 LABOR RELATIONS; COMPLIANCE

Since January 20, 1993, neither the Company nor any of its Subsidiaries has been or is a party to any collective bargaining or other similar labor Contract. Except as set forth in Part 3.21 of the Disclosure Letter, with respect to the Company or any of its Subsidiaries, since January 20, 1993, there has not been, there is not presently pending or existing, and there is not Threatened, (a) any strike, general work slowdown, picketing, general work stoppage, or material employee grievance process, (b) any Proceeding against or affecting the Company or any of its Subsidiaries relating to the alleged violation of any Legal Requirement pertaining to labor relations or employment matters, including any charge or complaint filed by an employee or union with the National Labor Relations Board, the Equal Employment Opportunity Commission, or any comparable Governmental Body, organizational activity, or other labor or employment dispute against or affecting Sellers or any of its Subsidiaries, or (c) any application for certification of a collective bargaining agent. No event has occurred or circumstance exists that could provide the basis for any work stoppage or other labor dispute. There is no lockout of any employees by the Company or any of its Subsidiaries, and no such action is contemplated by the Company or any of its Subsidiaries. The Company and each of its Subsidiaries has complied in all respects with all Legal Requirements relating to employment, equal employment opportunity, nondiscrimination, immigration, wages, hours, benefits, collective bargaining, the payment of social security and similar Taxes, occupational safety and health, and plant closing. Neither the Company nor any of its Subsidiaries is liable for the payment of any compensation, damages, Taxes, fines, penalties, or other amounts, however designated, for failure to comply with any of the foregoing Legal Requirements.

3.22 INTELLECTUAL PROPERTY

(a) INTELLECTUAL PROPERTY ASSETS -- The term "Intellectual Property Assets" includes:

(i) the name "Nautilus International, Inc."; all fictional business names, trading names, registered and unregistered trademarks, service marks, domain names and applications used in the Business, all of which are listed in Part 3.22 (e) of the Disclosure Letter (collectively, "Marks");

(ii) all patents, patent applications, and inventions and discoveries that may be patentable used in the Business, all of which are listed in Part 3.22 (d) of the Disclosure Letter (collectively, "Patents");

(iii) all copyrights in both published works and unpublished works used in the Business, all of which are listed in Part 3.22 (f) of the Disclosure Letter (collectively, "Copyrights");

(iv) all rights in mask works used in the Business (collectively, "Rights in Mask Works"); and

(v) all know-how, trade secrets, confidential information, technical information, data, process technology, plans, drawings, and blue prints used exclusively in the Business (collectively, "Trade Secrets"); owned, used, or licensed by the Company or any of its Subsidiaries as licensee or licensor.

(b) AGREEMENTS -- Part 3.22(b) of the Disclosure Letter contains a complete and accurate list and summary description, including any royalties paid or received by the Company and its Subsidiaries, of all material Contracts relating to the Intellectual Property Assets to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound, except for any license implied by the sale of a product and perpetual, paid-up licenses for commonly available software programs with a value of less than $50,000 under which the Company or any of its Subsidiaries is the licensee. There are no outstanding and, to Sellers' Knowledge, no Threatened disputes or disagreements with respect to any such agreement.

(c) KNOW-HOW NECESSARY FOR THE BUSINESS

(i) The Intellectual Property Assets are all those necessary for the operation of the Company's and its Subsidiaries' businesses as they are currently conducted. Except as set forth in Part 3.22 (c) of the Disclosure Letter, one or more of the Company and its Subsidiaries is, or by the Closing will be, the owner of all right, title, and interest in and to each of the Intellectual Property Assets, free and clear of all liens, security interests, charges, encumbrances, equities, and other adverse claims, and has, or by Closing will have, the right to use without payment to a third party all of the Intellectual Property Assets.

(ii) Except as set forth in Part 3.22(c) of the Disclosure Letter, since August 1, 1996, all employees of the Company and each of its Subsidiaries have executed written Contracts with one or more of the Company and its Subsidiaries that assign to one or more of

the Company and its Subsidiaries all rights to any inventions, improvements, discoveries, or information relating to the business of the Company or any of its Subsidiaries. No employee of the Company or any of its Subsidiaries has entered into any Contract that restricts or limits in any way the scope or type of work in which the employee may be engaged or requires the employee to transfer, assign, or disclose information concerning his work to anyone other than one or more of the Company and its Subsidiaries.

(d) PATENTS

(i) Part 3.22(d) of the Disclosure Letter contains a complete and accurate list and summary description of all Patents. One or more of the Company and its Subsidiaries is, or by Closing will be, the owner of all right, title, and interest in and to each of the Patents, free and clear of all liens, security interests, charges, encumbrances, entities, and other adverse claims.

(ii) All of the issued Patents are currently in compliance in all respects with formal legal requirements (including payment of filing, examination, and maintenance fees and proofs of working or use), are valid and enforceable, and are not subject to any maintenance fees or Taxes or actions falling due within ninety days after the Closing Date.

(iii) No Patent has been or is now involved in any interference, reissue, reexamination, or opposition proceeding. There is no potentially interfering patent or patent application of any third party with respect to any Patent.

(iv) No Patent is infringed or has been challenged or threatened in any way. None of the products manufactured and sold, nor any process or know-how used, by the Company or any of its Subsidiaries infringes or is alleged to infringe any patent or other proprietary right of any other Person.

(v) All products made, used, or sold by the Company or any of its Subsidiaries under the Patents have been marked with the proper patent notice.

(e) TRADEMARKS

(i) Part 3.22(e) of Disclosure Letter contains a complete and accurate list and summary description of all Marks. One or more of the Company and its Subsidiaries is, or by Closing will be, the owner of all right, title, and interest in and to each of the Marks, free and clear of all liens, security interests, charges, encumbrances, equities, and other adverse claims.

(ii) All Marks that have been registered with the United States Patent and Trademark Office or with similar foreign authorities are currently in compliance in all respects with all formal legal requirements (including the timely post-registration filing of affidavits of use and incontestability and renewal applications), are valid and enforceable, and are not subject to any maintenance fees or Taxes or actions falling due within ninety days after the Closing Date.

(iii) Except as set forth in Part 3.22 (e) of the Disclosure Letter, no Mark has been or is now involved in any opposition, invalidation, or cancellation and no such action is Threatened with the respect to any of the Marks.

(iv) There is no potentially interfering trademark or trademark application of any third party with respect to any Mark.

(v) No Mark is infringed or has been challenged or threatened in any way. None of the Marks used by the Company or any of its Subsidiaries infringes or is alleged to infringe any trade name, trademark, or service mark of any third party.

(vi) All products and materials of the Company or any of its Subsidiaries containing a Mark bear the proper federal registration notice where permitted by law.

(f) COPYRIGHTS

(i) Part 3.22(f) of the Disclosure Letter contains a complete and accurate list and summary description of all Copyrights. One or more of the Company and its Subsidiaries is the owner of all right, title, and interest in and to each of the Copyrights, free and clear of all liens, security interests, charges, encumbrances, equities, and other adverse claims.

(ii) All the Copyrights have been registered and are currently in compliance in all respects with formal legal requirements, are valid and enforceable, and are not subject to any maintenance fees or Taxes or actions falling due within ninety days after the date of Closing.

(iii) No copyright is infringed or has been challenged or threatened in any way. None of the subject matter of any of the Copyrights infringes or is alleged to infringe any copyright of any third party or is a derivative work based on the work of a third party.

(iv) All works of the Company or any of its Subsidiaries encompassed by the Copyrights have been marked with the proper copyright notice.

(g) TRADE SECRETS

(i) With respect to each Trade Secret, the documentation relating to such Trade Secret is current, accurate, and sufficient in detail and content to identify and explain it and to allow its full and proper use without reliance on the knowledge or memory of any individual.

(ii) The Company and its Subsidiaries have taken all reasonable precautions to protect the secrecy, confidentiality, and value of their confidential Trade Secrets.

(iii) One or more of the Company and its Subsidiaries has good title and an absolute (but not necessarily exclusive) right to use the Trade Secrets. The confidential Trade Secrets are not part of the public knowledge or literature, and have not been used, divulged, or appropriated either for the benefit of any Person (other than one or more of the Company

and its Subsidiaries) or to the detriment of the Company and its Subsidiaries. No Trade Secret is subject to any adverse claim or has been challenged or threatened in any way.

(h) Y2K COMPLIANT

Except as set forth in Part 3.22(h) of the Disclosure Letter, all Company Intellectual Property Assets in the form of computer software that are owned, developed or utilized by the Company in the operation of its business or licensed by the Company to others as part of the Company's business have been tested and are fully capable in all respects of providing accurate results using data having data ranges spanning the twentieth ("20th") and twenty-first ("21st") centuries. Without limiting the generality of the foregoing, except as set forth in Part 3.22(h) of the Disclosure Letter, all software licensed from and/or developed by the Company, in all respects, (a) manages and manipulates data involving all dates from the 20th and 21st centuries without functional or data abnormality related to such dates; (b) manages and manipulates data involving all dates from the 20th or 21st centuries without inaccurate results related to such dates; (c) has user interfaces and data fields formatted to distinguish between dates from the 20th and 21st centuries; and (d) represents all data related to include indications of the millennium, century, and decade as well as the actual year.

3.23 CERTAIN PAYMENTS

Since January 20, 1993, neither the Company, its Subsidiaries, nor any director, officer, agent, or employee thereof, acting for or on behalf of the Company or any of its Subsidiaries, or any other Person acting for or on behalf of the Company or any of its Subsidiaries, has directly or indirectly in violation of any Legal Requirement (a) made any contribution, gift, bribe, rebate, payoff, influence payment, kickback, or other payment to any Person, private or public, regardless of form, whether in money, property, or services (i) to obtain favorable treatment in securing business, (ii) to pay for favorable treatment for business secured, or (iii) to obtain special concessions or for special concessions already obtained, for or in respect of the Company or any of its Subsidiaries or any Affiliate thereof, or (b) established or maintained any fund or asset that has not been recorded in the books and records of the Company and its Subsidiaries.

3.24 DISCLOSURE

(a) No representation or warranty of Sellers in this Agreement and no statement in the Disclosure Letter omits to state a material fact necessary to make the statements herein or therein, in light of the circumstances in which they were made, not misleading.

(b) No notice given pursuant to Section 5.5 will contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein or in this Agreement, in light of the circumstances in which they were made, not misleading.

(c) There is no fact known to either Sellers that has specific application to either the Company or any Subsidiary of the Company (other than general economic or industry conditions) and that materially adversely affects the assets, business, prospects, financial condition, or results of operations of the Company and its Subsidiaries (on a consolidated basis) that has not been set forth in this Agreement or the Disclosure Letter.

(d) The information that would be included in the Disclosure Letter in order to make each representation and warranty in Section 3 true and correct, but is not included solely by reason of the various provisions in this Section 3 permitting the omission of information that is not material to the Company and its Subsidiaries, taken as a whole, does not, viewed in the aggregate, constitute information material to the Company and its Subsidiaries, taken as a whole.

3.25 RELATIONSHIPS WITH RELATED PERSONS

Except as set forth in Part 3.25 of the Disclosure Letter, no Related Person of the Company or any of its Subsidiaries has, or since January 1, 1996 has had, any interest in any property (whether real, personal, or mixed and whether tangible or intangible), used in or pertaining to the Company or any businesses of the Company and its Subsidiaries. Except as set forth in Part 3.25 of the Disclosure Letter, no Related Person of the Company or any of its Subsidiaries is, or since January 1, 1996 has owned (of record or as a beneficial owner) an equity interest or any other financial or profit interest in, a Person that has (i) had material business dealings or a financial interest in any transaction with the Company or any of its Subsidiaries, or (ii) engaged in competition with the Company or any of its Subsidiaries with respect.to any line of the products or services (other than the licensing of one or more of the Marks) of such company (a "Competing Business") in any market presently served by company. Except as set forth in Part 3.25 of the Disclosure Letter, no Related Person of the Company or any of its Subsidiaries is a party to any Contract with, or has any claim or right against, the Company or any of its Subsidiaries.

3.26 BROKERS OR FINDERS

Except for the fee payable to Chase Securities, Inc. (which fee Sellers shall pay), Sellers and their agents have by their actions incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with this Agreement.

4. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Sellers as follows:

4.1 ORGANIZATION AND GOOD STANDING

Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Washington.

4.2 AUTHORITY; NO CONFLICT

(a) This Agreement constitutes the legal, valid, and binding obligation of Buyer, enforceable against Buyer in accordance with its terms. Upon the execution and delivery by Buyer of the Escrow Agreement and the Promissory Note (collectively, the "Buyer's Closing Documents"), the Buyer's Closing Documents will constitute the legal, valid, and binding obligations of Buyer, enforceable against Buyer in accordance with their respective terms. Buyer has the absolute and unrestricted right, power, and authority to execute and deliver this

Agreement and the Buyer's Closing Documents and to perform its obligations under this Agreement and the Buyer's Closing Documents.

(b) Except as set forth in Schedule 4.2, neither the execution and delivery of this Agreement by Buyer nor the consummation or performance of any of the Contemplated Transactions by Buyer will give any Person the right to prevent, delay, or otherwise interfere with any of the Contemplated Transactions pursuant to:

(i) any provision of Buyer's Organizational Documents;

(ii) any resolution adopted by the board of directors or the stockholders of Buyer;

(iii) any Legal Requirement or Order to which Buyer may be subject; or

(iv) any Contract to which Buyer is a party or by which Buyer may be bound.

(c) Except as set forth in Schedule 4.2, Buyer is not and will not be required to obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions.

(d) Neither the execution and delivery of this Agreement by Buyer nor the consummation or performance of any of the Contemplated Transactions by Buyer will (A) violate any constitution, statute, regulation, rule, injunction, judgment, order, degree, ruling, charge, or other restriction of any government, governmental agency, or court to which Buyer is subject or any provision of Buyer's charter or bylaws, or (B) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any material agreement, contract, lease, license, instrument, or other arrangement to which Buyer is a party or by which Buyer is bound or to which any of Buyer's assets is subject.

4.3 CERTAIN PROCEEDINGS

There is no pending Proceeding that has been commenced against Buyer and that challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions or that may reasonably have a material adverse effect on Buyer. To Buyer's Knowledge, no such Proceeding has been Threatened.

4.4 BROKERS OR FINDERS

Except for the fee payable to D.A. Davidson, Buyer's investment banker (which fee Buyer shall pay), Buyer and its officers and agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with this Agreement and will indemnify and hold harmless Sellers from any such payment alleged to be due by or through Buyer as a result of the action of Buyer or its officers or agents.

4.5 FINANCING

Buyer has adequate funds immediately available to fulfill its obligations under this Agreement, either in the form of cash on hand or in the form of a binding commitment by a suitable commercial lender to provide Buyer with adequate credit.

5. COVENANTS OF SELLERS PRIOR TO CLOSING DATE

5.1 ACCESS AND INVESTIGATION

Between the date of this Agreement and the Closing Date, Sellers will, and will cause each Subsidiary and its Representatives to, (a) afford Buyer and its Representatives and prospective lenders and their Representatives (collectively, "Buyer's Advisors") full and free access at all reasonable times, and in a manner so as not to interfere with the normal business operations of the Company and its Subsidiaries, to the Company's and each of its Subsidiaries' personnel, properties (including subsurface testing), contracts, books and records, and other documents and data, (b) furnish Buyer and Buyer's Advisors with copies of all such contracts, books and records, and other existing documents and data as Buyer may reasonably request, and (c) furnish Buyer and Buyer's Advisors with such additional financial, operating, and other data and information as Buyer may reasonably request.

5.2 OPERATION OF THE BUSINESSES OF THE ACQUIRED COMPANIES

Between June 28, 1998 and the date of this Agreement Sellers have caused, and from the date of this Agreement to the Closing Date Sellers will cause, the Company and each Subsidiary to:

(a) conduct the business of the Company and each of its Subsidiaries only in the Ordinary Course of Business;

(b) use their Best Efforts to preserve intact the current business organization of the Company and each of its Subsidiaries, keep available the services of the current employees, and agents of the Company and each of its Subsidiaries, and maintain the relations and good will with suppliers, customers, landlords, creditors, employees, agents, and others having business relationships with the Company and each of its Subsidiaries;

(c) from and after the date of this Agreement, confer with Buyer concerning anticipated material changes with respect to operational matters of a material nature; and

(d) from and after the date of this Agreement, otherwise report periodically to Buyer concerning the status of the business, operations, and finances of the Company and each of its Subsidiaries.

5.3 NEGATIVE COVENANT

Except as otherwise expressly permitted by this Agreement, between the date of this Agreement and the Closing Date, Sellers will not, and will cause each Subsidiary not to, without the prior consent of Buyer (which consent shall not be unreasonably withheld), take

any affirmative action, or fail to take any reasonable action within their or its control, as a result of which any of the changes or events listed in Section 3.16 is likely to occur.

5.4 REQUIRED APPROVALS

As promptly as practicable after the date of this Agreement, Sellers will, and will cause each Subsidiary to, make all filings required by Legal Requirements to be made by them in order to consummate the Contemplated Transactions and shall pay the costs associated with any such filing (including all filings under the HSR Act). Between the date of this Agreement and the Closing Date, Sellers will, and will cause each Subsidiary to, (a) cooperate with Buyer with respect to all filings that Buyer elects to make or are required by Legal Requirements to make in connection with the Contemplated Transactions, and (b) cooperate with Buyer in obtaining all consents identified in Schedule 4.2 (including taking all reasonable actions requested by Buyer to cause early termination of any applicable waiting period under the HSR Act).

5.5 NOTIFICATION

Between the date of this Agreement and the Closing Date, each Seller will promptly notify Buyer in writing if such Seller or any Subsidiary becomes aware of any fact or condition that causes or constitutes a Breach of any of Sellers' representations and warranties as of the date of this Agreement, or if such Seller or any Subsidiary becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a Breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. Should any such fact or condition require any change in the Disclosure Letter if the Disclosure Letter were dated the date of the occurrence or discovery of any such fact or condition, Sellers will promptly deliver to Buyer a supplement to the Disclosure Letter specifying such change. During the same period, each Seller will promptly notify Buyer of the occurrence of any Breach of any covenant of Sellers in this Section 5 or of the occurrence of any event that may make the satisfaction of the conditions in Section 7 impossible or unlikely.

5.6 NO NEGOTIATION

Until such time, if any, as this Agreement is terminated pursuant to Section 9, Sellers will not, and will cause each Subsidiary and each of their Representatives not to, directly or indirectly solicit, initiate, or encourage any inquiries or proposals from, discuss or negotiate with, provide any non-public information to, or consider the merits of any unsolicited inquiries or proposals from, any Person (other than Buyer) relating to any transaction involving the sale of the business or assets (other than in the Ordinary Course of Business) of the Company or any of its Subsidiaries, or any of the capital stock of the Company or any of its Subsidiaries, or any merger, consolidation, business combination, or similar transaction involving the Company or any of its Subsidiaries.

5.7 BEST EFFORTS

Between the date of this Agreement and the Closing Date, Sellers will use their Best

Efforts to cause the conditions in Sections 7 and 8 to be satisfied.

5.8 AUDITED FINANCIAL STATEMENTS

Sellers have obtained, at Buyer's expense, and delivered to Buyer audited consolidated balance sheets of the Company and its Subsidiaries as of fiscal year end 1996 through 1998, and the related audited consolidated statements of income, changes in stockholders' equity and cash flow for each of the fiscal years then ended, together with the report thereon of KPMG Peat Marwick, independent certified public accountants (the "Audited Financial Statement"); PROVIDED, that Buyer shall not be obligated to pay any fees and costs related to such audit in excess of $90,000. The balance sheet for fiscal year 1998, including the notes thereto, is referred to in this Agreement as the "Balance Sheet."

6. COVENANTS OF BUYER PRIOR TO CLOSING DATE

6.1 BEST EFFORTS

Between the date of this Agreement and the Closing Date, Buyer will use its Best Efforts to cause the conditions in Sections 7 and 8 to be satisfied; provided that this Agreement will not require Buyer to dispose of or make any material change in any material portion of its business or to incur any other material burden to obtain a Governmental Authorization.

6.2 REQUIRED APPROVALS

As promptly as practicable after the date of this Agreement, Buyer will make all filings required by Legal Requirements to be made by it in order to consummate the Contemplated Transactions and shall pay the costs associated with any such filing (excluding the filing fee under the HSR Act, which shall be paid by Sellers). Between the date of this Agreement and the Closing Date, Buyer will (a) cooperate with Sellers with respect to all filings that Sellers elect to make or are required by Legal Requirements to make in connection with the Contemplated Transactions, and (b) will use its Best Efforts to obtain all consents identified in Schedule 4.2 (including taking all actions reasonably requested by Sellers to cause early termination of any applicable waiting period under the HSR Act).

6.3 NOTIFICATION

Between the date of this Agreement and the Closing Date, Buyer will promptly notify Sellers in writing if Buyer becomes aware of any fact or condition that causes or constitutes a Breach of any of Buyer's representations and warranties as of the date of this Agreement, or if Buyer becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a Breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. Should any such fact or condition require any change in Buyer's representations and warranties in this Agreement if this Agreement were dated the date of the occurrence or discovery of any such fact or condition, Buyer will promptly deliver to Sellers a supplement to this Agreement

specifying such change. During the same period, Buyer will promptly notify Sellers of the occurrence of any Breach of any covenant of Buyer in this Section 6 or of the occurrence of any event that may make the satisfaction of the conditions in Section 8 impossible or unlikely.

7. CONDITIONS PRECEDENT TO BUYER'S OBLIGATION TO CLOSE

Buyer's obligation to purchase the Acquired Assets and to take the other actions required to be taken by Buyer at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Buyer, in whole or in part):

7.1 ACCURACY OF REPRESENTATIONS

(a) All of Sellers' representations and warranties in this Agreement (considered collectively), and each of these representations and warranties (considered individually), must have been accurate in all material respects as of the date of this Agreement, and must be accurate in all material respects as of the Closing Date as if made on the Closing Date, without giving effect to any supplement to the Disclosure Letter.

(b) Each of Sellers' representations and warranties in Sections 3.3, 3.4, 3.10, 3.12, and 3.24 must have been accurate in all respects as of the date of this Agreement, and must be accurate in all respects as of the Closing Date as if made on the Closing Date, without giving effect to any supplement to the Disclosure Letter.

7.2 SELLERS' PERFORMANCE

(a) All of the covenants and obligations that Sellers are required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), must have been duly performed and complied with in all material respects.

(b) Each document required to be delivered pursuant to Section 2.5 must have been delivered and each of the other covenants and obligations in Article 5 must have been performed and complied with in all material respects.

7.3 CONSENTS

Each of the Consents identified in Schedule 7.3 must have been obtained and must be in full force and effect.

7.4 ADDITIONAL DOCUMENTS

Each of the following documents must have been delivered to Buyer:

(a) an opinion of Wyche, Burgess, Freeman & Parham, P.A., counsel to Sellers, with respect to certain matters governed by the Delaware General Corporation Law or South Carolina law, dated the Closing Date, in the form of Exhibit 7.4(a);

(b) an opinion of Woods, Rogers & Hazlegrove PLC, special Virginia counsel to

the Company, with respect to certain matters governed by Virginia Law, dated the Closing Date, in the form of Exhibit 7.4(b);

(c) estoppel certificate executed on behalf of the landlord of the Huntersville, North Carolina leased real estate, in form reasonably acceptable to Buyer;

(d) good standing or comparable certificates for the Company, dated within ten (10) days of the Closing Date, issued by the States of Virginia, California, Massachusetts, New Jersey, New York, North Carolina and Texas;

(e) an opinion of Alston & Bird, patent and trademark counsel to Sellers, with respect to the transfer of the Intellectual Property Assets, in form and substance reasonably acceptable to Buyer; and

(f) such other documents as Buyer may reasonably request for the purpose of (i) enabling its counsel to provide the opinion referred to in Section 8.4(a), (ii) evidencing the accuracy of any of Sellers' representations and warranties, (iii) evidencing the performance by Sellers of, or the compliance by Sellers with, any covenant or obligation required to be performed or complied with by Sellers, (iv) evidencing the satisfaction of any condition referred to in this Section 7, or (v) otherwise facilitating the consummation or performance of any of the Contemplated Transactions.

7.5 NO PROCEEDINGS

Since the date of this Agreement, there must not have been commenced or Threatened against Buyer, or against any Person affiliated with Buyer, any Proceeding (a) involving any challenge to, or seeking damages or other relief in connection with, any of the Contemplated Transactions, or (b) that may have the effect of preventing, delaying, making illegal, or otherwise interfering with any of the Contemplated Transactions.

7.6 NO PROHIBITION

Neither the consummation nor the performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time), materially contravene, or conflict with, or result in a material violation of, or cause Buyer or any Person affiliated with Buyer to suffer any material adverse consequence under, (a) any applicable Legal Requirement or Order, or (b) any Legal Requirement or Order that has been published, introduced, or otherwise proposed by or before any Governmental Body that would be applicable to Buyer or the Contemplated Transactions and Buyer concludes reasonably and in good faith that there is a reasonable likelihood that such Legal Requirement or Order will be enacted or issued.

7.7 REGULATORY APPROVALS

Buyer shall have obtained any approvals required under the rules of the Toronto Stock Exchange for completion of the Contemplated Transactions.

7.8 TRANSFER OF MARKS AND PATENTS; CANCELLATION OF AGREEMENTS

Alchem shall have transferred to the Company or Buyer all of its right, title and interest in and to the Intellectual Property Assets owned by it as of the date of this Agreement, and all agreements between the Company, on the one hand, and Alchem, Delta Woodside or any affiliate of Alchem or Delta Woodside, on the other hand, relating to Intellectual Property Assets shall have been terminated.

8. CONDITIONS PRECEDENT TO SELLERS' OBLIGATION TO CLOSE

Sellers' obligation to sell or to cause the Company to sell the Acquired Assets and to take the other actions required to be taken by Sellers at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Sellers, in whole or in part):

8.1 ACCURACY OF REPRESENTATIONS

All of Buyer's representations and warranties in this Agreement (considered collectively), and each of these representations and warranties (considered individually), must have been accurate in all material respects as of the date of this Agreement and must be accurate in all material respects as of the Closing Date as if made on the Closing Date.

8.2 BUYER'S PERFORMANCE

(a) All of the covenants and obligations that Buyer is required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), must have been duly performed and complied with in all material respects.

(b) Buyer must have delivered each of the documents required to be delivered by Buyer pursuant to Section 2.5 and must have made the cash payments required to be made by Buyer pursuant to Sections 2.5(b)(i) and 2.5(b)(ii) and each of the other covenants and obligations in Article 6 must have been performed and complied with in all material respects.

8.3 CONSENTS

The filing and completion or waiver of waiting period under the HSR Act has occurred without the objection of any governmental body.

8.4 ADDITIONAL DOCUMENTS

Buyer must have caused the following documents to be delivered to Sellers:

(a) an opinion of Garvey, Schubert & Barer, dated the Closing Date, in the form of Exhibit 8.4(a); and

(b) such other documents as Sellers may reasonably request for the purpose of

(i) enabling their counsel to provide the opinions referred to in Section 7.4(a) and (b), (ii) evidencing the accuracy of any representation or warranty of Buyer, (iii) evidencing the performance by Buyer of, or the compliance by Buyer with, any covenant or obligation required to be performed or complied with by Buyer, (iv) evidencing the satisfaction of any condition referred to in this Section 8, or (v) otherwise facilitating the consummation of any of the Contemplated Transactions.

8.5 NO INJUNCTION

There must not be in effect or Threatened any Legal Requirement or any injunction or other Order that (a) prohibits the sale of the Acquired Assets by the Company to Buyer or the consummation and performance of the Contemplated Transactions, and (b) has been adopted or issued, or has otherwise become effective or been made, since the date of this Agreement.

8.6 NO PROHIBITION

Neither the consummation nor the performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time), materially contravene, or conflict with, or result in a material violation of, or cause Sellers or any of the Subsidiaries to suffer any material adverse consequence under, (a) any applicable Legal Requirement or Order, or (b) any Legal Requirement or Order that has been published, introduced, or otherwise proposed by or before any Governmental Body that would be applicable to Sellers, or any of the Subsidiaries or the Contemplated Transactions and Sellers conclude reasonably and in good faith that there is a reasonable likelihood that such Legal Requirement or Order will be enacted or issued.

9. TERMINATION

9.1 TERMINATION EVENTS

This Agreement may, by notice given prior to or at the Closing, be terminated:

(a) by either Buyer or Sellers if a material Breach of any provision of this Agreement has been committed by the other party and such Breach has not been waived;

(b) (i) by Buyer if any of the conditions in Section 7 has not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of Buyer to comply with its obligations under this Agreement) and Buyer has not waived such condition on or before the Closing Date; or (ii) by Sellers, if any of the conditions in Section 8 has not been satisfied of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of Sellers to comply with their obligations under this Agreement) and Sellers have not waived such condition on or before the Closing Date;

(c) by mutual consent of Buyer and Sellers; or

(d) by either Buyer or Sellers if the Closing has not occurred (other than through the failure of any party seeking to terminate this Agreement to comply fully with its

obligations under this Agreement) on or before January 4, 1999, or such later date as the parties may agree upon.

9.2 EFFECT OF TERMINATION

Each party's right of termination under Section 9.1 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies. If this Agreement is terminated pursuant to Section 9.1, all further obligations of the parties under this Agreement will terminate, except that the obligations in Sections 11.1 and 11.3 will survive; provided, however, that if this Agreement is terminated by a party because of the Breach of the Agreement by the other party or because one or more of the conditions to the terminating party's obligations under this Agreement is not satisfied as a result of the other party's failure to comply with its obligations under this Agreement, the terminating party's right to pursue all legal remedies will survive such termination unimpaired.

10. INDEMNIFICATION; REMEDIES

10.1 SURVIVAL; RIGHT TO INDEMNIFICATION NOT AFFECTED BY KNOWLEDGE

All representations, warranties, covenants, and obligations in this Agreement, the Disclosure Letter, the supplements to the Disclosure Letter, the certificate delivered pursuant to Section 2.5(a)(vi) or 2.5(b)(iv), and any other certificate or document delivered pursuant to this Agreement will survive the Closing. The right to indemnification, payment of Damages or other remedy based on such representations, warranties, covenants, and obligations will not be affected by any investigation conducted with respect to, or any Knowledge acquired (or capable of being acquired) at any time, whether before or after the execution and delivery of this Agreement or the Closing Date, with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant, or obligation.

10.2 INDEMNIFICATION AND PAYMENT OF DAMAGES BY SELLERS

Sellers, jointly and severally, will indemnify and hold harmless Buyer and its Representatives, stockholders, controlling persons, and affiliates (collectively, the "Indemnified Persons") for, and will pay to the Indemnified Persons the amount of, any loss, liability, Taxes, claim, damage (including incidental and consequential damages), expense (including costs of investigation and defense and reasonable attorneys' fees) or diminution of value, whether or not involving a third-party claim (collectively, "Damages"), arising, directly or indirectly, from or in connection with:

- - (a) any Breach of any representation or warranty made by Sellers in this Agreement (giving effect to any supplement to the Disclosure Letter), the Disclosure Letter (giving effect to any supplement to the Disclosure Letter), the supplements to the Disclosure Letter, or any other certificate or document delivered by Sellers pursuant to this Agreement;

(b) any Breach of any representation or warranty made by Sellers in this Agreement as if such representation or warranty were made on and as of the Closing Date,

giving effect to any supplement to the Disclosure Letter, other than any such Breach that is disclosed in a supplement to the Disclosure Letter;

(c) any Breach by Sellers of any covenant or obligation of Sellers in this Agreement;

(d) the conduct of the Business, or the ownership of assets by the Sellers or any Subsidiary of the Company, prior to the Closing;

(e) any product shipped or manufactured by, or any services provided by, the Company or any of its Subsidiaries prior to the Closing Date;

(f) any matter disclosed in Part 3.15 of the Disclosure Letter but not included in Schedule 2.1 (i);

(g) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such Person with either the Company or any of its Subsidiaries (or any Person acting on their behalf) in connection with any of the Contemplated Transactions;

(h) the failure of the parties to this Agreement to comply with the provisions of the Bulk Sales laws with respect to the Contemplated Transactions; or

(i) except to the extent assumed by Buyer pursuant to Section 2.2, the employment or termination of employment of any employee of Sellers on or prior to the Closing, including without limitation any claim for wages, salary, severance pay, health, welfare or retirement benefits, vacation pay or any other form of compensation or damages, whether based on contract, statute, regulation, common law or otherwise;

provided, however, that except for a claim for indemnification by reason of a breach of Sections 3.1, 3.2, 3.3, 3.24(c) or 3.26 or by reason of clauses (e), (f), (g), (h) and (i) of this Section 10.2 (collectively, the "Non-Limited Claims"), no Seller shall have any obligation to indemnify, hold harmless or pay any Indemnified Person pursuant to this Section 10.2 until the Indemnified Persons have suffered aggregate Damages encompassed by this Section 10.2 for claims that are not Non-Limited Claims in excess of a $500,000 aggregate deductible (after which point Sellers will be obligated only to indemnify, hold harmless and pay the Indemnified Persons from and against further such Damages (i.e. in excess of such $500,000 aggregate deductible) up to the aggregate amount of $3,000,000).

The remedies provided in this Section 10.2 will not be exclusive of or limit any other remedies that may be available to Buyer or the other Indemnified Persons; provided, however, that Buyer acknowledges and agrees that, except for damages recoverable by Buyer following termination pursuant to Section 9.1 of this Agreement due to a Breach by Sellers, the foregoing indemnification provisions in this Section 10.2 shall be the exclusive remedy of Buyer and the other Indemnified Persons for any Breach of Section 5 or of the representations and warranties of Sellers in Section 3 of this Agreement.

10.3 INDEMNIFICATION AND PAYMENT OF DAMAGES BY SELLERS -- ENVIRONMENTAL MATTERS

(a) In addition to (and not limited by) the provisions of Section 10.2, Sellers, jointly and severally, will indemnify and hold harmless Buyer and the other Indemnified Persons for, and will pay to Buyer and the other Indemnified Persons the amount of, any Damages (including costs of cleanup, containment, or other remediation) incurred by them arising, directly or indirectly, from or in connection with any Hazardous Materials that may have been caused to be delivered to any of the following sites by the Company, any Subsidiary or any other Person for whose conduct they are or may be held responsible or any predecessor thereto or Nautilus Sports/Medical Industries, Inc.:

(i) Aqua-Tech Environmental Site, Spartanburg, South Carolina;

(ii) Seaboard Chemical Corporation Site, Jamestown, North Carolina;

(iii) Enterprise Recovery Systems Site, Byhalia, Marshall County, Mississippi; or

(iv) any other site that is not all or part of the Facilities.

(b) In addition to (and not limited by) the provisions of Section 10.2, Sellers, jointly and severally, will indemnify and hold harmless Buyer and the other Indemnified Persons for, and will pay to Buyer and the other Indemnified Persons the amount of, any Damages incurred by them arising, directly or indirectly, from or in connection with the liquidation of Nautilus, B.V. (a private limited company organized under the laws of the Netherlands) and any liabilities of Nautilus, B.V. existing as of, or arising with respect to the period prior to and including, the Closing Date.

(c) Sellers will be entitled to have exclusive control of any Proceeding and any Cleanup with respect to which indemnity may be sought under this Section 10.3.

10.4 INDEMNIFICATION AND PAYMENT OF DAMAGES BY BUYER

Buyer will indemnify and hold harmless Sellers, and will pay to Sellers the amount of any Damages arising, directly or indirectly, from or in connection with:

(a) any Breach of any representation or warranty made by Buyer in this Agreement or in any certificate delivered by Buyer pursuant to this Agreement,

(b) any Breach by Buyer of any covenant or obligation of Buyer in this Agreement,

(c) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by such Person with Buyer (or any Person acting on its behalf) in connection with any of the Contemplated Transactions,

(d) any product shipped or manufactured by, or any services provided by, Buyer or its assigns, or

(e) the conduct of the Business, or the ownership of assets by Buyer or its assigns, after the Closing.

10.5 TIME LIMITATIONS

(a) Except as provided in Section 10.5(b), Sellers will have no liability (for indemnification or otherwise) with respect to any representation or warranty, or covenant or obligation to be performed and complied with prior to the Closing Date, unless on or before the date that is eighteen (18) months after the Closing Date Buyer notifies Sellers of a claim, which notice shall specify the factual basis of that claim in reasonable detail to the extent then known by Buyer.

(b) A claim with respect to Sections 3.3, 3.11, 3.24(c) or 5.5, or a claim for indemnification or reimbursement not based upon any representation or warranty or any covenant or obligation to be performed and complied with prior to the Closing Date (including, without limitation, a claim pursuant to any of Sections 10.2(d)-(i)), or a claim for indemnification or reimbursement under Section 10.3, may be made at any time. A claim with respect to Section 3.19 may be made at any time on or before the date that is ten (10) years after the Closing Date.

(c) If the Closing occurs, Buyer will have no liability (for indemnification or otherwise) with respect to any representation or warranty, or covenant or obligation to be performed and complied with prior to the Closing Date, unless on or before the date that is eighteen (18) months after the Closing Date Sellers notify Buyer of a claim specifying the factual basis of that claim in reasonable detail to the extent then known by Sellers; a claim for indemnification or reimbursement not based upon any representation or warranty or any covenant or obligation to be performed and complied with prior to the Closing Date (including, without limitation, a claim pursuant to any of Sections 10.4 (c)-(e)) may be made at any time.

10.6 ESCROW

Upon notice to Sellers specifying in reasonable detail the basis for such claim, Buyer may give notice of a Claim in such amount under the Escrow Agreement. The failure to give a notice of a Claim under the Escrow Agreement will not constitute an election of remedies or limit Buyer in any manner in the enforcement of any other remedies that may be available to it.

10.7 PROCEDURE FOR INDEMNIFICATION -- THIRD PARTY CLAIMS

(a) Promptly after receipt by an indemnified party under Section 10.2, 10.3 or 10.4 of notice of the COMMENCEMENT of any Proceeding against it, such indemnified party will, if a claim is to be made against an indemnifying party under such Section, give notice to the indemnifying party of the commencement of such claim, but the failure to notify the indemnifying party will not relieve the indemnifying party of any liability that it may have to

any indemnified party, except to the extent that the indemnifying party demonstrates that the defense of such action is prejudiced by the indemnifying party's failure to give such notice.

(b) If any Proceeding referred to in Section 10.7(a) is brought against an indemnified party and it gives notice to the indemnifying party of the commencement of such Proceeding, the indemnifying party will be entitled to participate in such Proceeding and, to the extent that it wishes (unless (i) the indemnifying party is also a party to such Proceeding and the indemnified party determines in good faith that joint representation would be inappropriate, or (ii) the indemnifying party fails to provide reasonable assurance to the indemnified party of its financial capacity to defend such Proceeding and provide indemnification with respect to such Proceeding), to assume the defense of such Proceeding with counsel reasonably satisfactory to the indemnified party and, after notice from the indemnifying party to the indemnified party of its election to assume the defense of such Proceeding, the indemnifying party will not, as long as it diligently conducts such defense, be liable to the indemnified party under this Section 10 for any fees of other counsel or any other expenses with respect to the defense of such Proceeding, in each case subsequently incurred by the indemnified party in connection with the defense of such Proceeding, other than reasonable costs of investigation. If the indemnifying party assumes the defense of a Proceeding, (i) it will be conclusively established for purposes of this Agreement that the claims made in that Proceeding are within the scope of and subject to indemnification; (ii) no compromise or settlement of such claims may be effected by the indemnifying party without the indemnified party's consent (which consent shall not be unreasonably withheld or delayed) unless (A) there is no finding or admission of any violation by the indemnified party of Legal Requirements or any violation by the indemnified party of the rights of any Person and no effect adverse to the indemnified party on any other claims that may be made against the indemnified party, and (B) the sole relief provided is monetary damages that are paid in full by the indemnifying party; (iii) the indemnified party will have no liability with respect to any compromise or settlement of such claims effected without its consent (which consent shall not be unreasonably withheld or delayed); and (iv) no compromise or settlement of such claims may be effected by the indemnified party without the indemnifying party's consent (which consent shall not be unreasonably withheld or delayed). If notice is given to an indemnifying party of the commencement of any Proceeding and the indemnifying party does not, within ten (10) business days after the indemnified party's notice is given, give notice to the indemnified party of its election to assume the defense of such Proceeding, the indemnifying party will be bound by any determination made in such Proceeding or any compromise or settlement effected by the indemnified party with the consent of the indemnifying party (which consent shall not be unreasonably withheld or delayed).

(c) Notwithstanding the foregoing, if an indemnified party determines reasonably and in good faith that there is a reasonable probability that a Proceeding may adversely affect it or its affiliates other than as a result of monetary damages for which it would be entitled to indemnification under this Agreement, the indemnified party may, by notice to the indemnifying party, participate with the indemnifying party in the defense, compromise, or settlement of such Proceeding, but the indemnifying party will not be bound by any determination of a Proceeding so defended or any compromise or settlement effected without its consent (which may not be unreasonably withheld or delayed).

(d) Each of the parties to this Agreement hereby consents to the non-exclusive jurisdiction of any court in which a Proceeding is brought against any indemnified party for purposes of any claim that an indemnified party may have under this Agreement with respect to such Proceeding or the matters alleged therein, and agrees that process may be served on such party with respect to such a claim anywhere in the world.

(e) This Section 10.7 is subject to Section 10.3 with respect to a claim for indemnification or reimbursement under Section 10.3.

(f) In no event shall an indemnifying party be liable for the fees and expenses of more than one counsel in addition to its own counsel in connection with a matter covered by this Section 10.7.

10.8 PROCEDURE FOR INDEMNIFICATION -- OTHER CLAIMS

A claim for indemnification for any matter not involving a third-party claim may be asserted by notice to the party from whom indemnification is sought.

11. GENERAL PROVISIONS

11.1 EXPENSES

Except as otherwise expressly provided in this Agreement, each party to this Agreement will bear its respective expenses incurred in connection with the preparation, execution, and performance of this Agreement and the Contemplated Transactions, including all fees and expenses of agents, representatives, counsel, and accountants. Sellers will pay all HSR Act filing fees for filings required by Buyer or Sellers in connection with this Agreement or the Contemplated Transactions. Sellers will cause the Company and its Subsidiaries not to incur any material out-of-pocket expenses in connection with this Agreement. In the event of termination of this Agreement, the obligation of each party to pay its own expenses will be subject to any rights of such party arising from a breach of this Agreement by another party.

11.2 PUBLIC ANNOUNCEMENTS

Public announcement with respect to this Agreement and the Contemplated Transactions will be issued upon execution and delivery of this Agreement by all parties to this Agreement. Sellers and Buyer will consult with each other concerning the means by which the Company's and its Subsidiaries' employees, customers, and suppliers and others having dealings with the Company and its Subsidiaries will be informed of the Contemplated Transactions, and Buyer will have the right to be present for any such communication to the extent prior notice thereof to Buyer is reasonably practicable.

11.3 CONFIDENTIALITY

(a) Buyer will treat and hold as confidential any Confidential Information that it receives from any of Sellers or the Subsidiaries in connection with this Agreement and the Contemplated Transactions, will not use any of the Confidential Information at any time

except in connection with this Agreement, and, if this Agreement is terminated for any reason whatsoever, will return to the Sellers and the Subsidiaries all tangible embodiments (and all copies) of the Confidential Information that are in its possession. For purposes of this paragraph (a), "Confidential Information" shall mean information concerning the businesses and affairs of any of Sellers or the Subsidiaries, unless (a) such information is already known to Buyer or to others not bound by a duty of confidentiality or such information becomes publicly available through no fault of Buyer, (b) the use of such information is necessary in making any filing or obtaining any consent or approval required for the consummation of the Contemplated Transactions, or (c) the furnishing or use of such information is required by or necessary in connection with legal proceedings.

(b) In addition to Buyer's obligations under paragraph (a) of this Section 11.3, between the date of this Agreement and the Closing Date, Buyer and Sellers will maintain in confidence, and will cause the directors, officers, employees, agents, and advisors of Buyer and the Subsidiaries to maintain in confidence, written information stamped "confidential" when originally furnished by another party or the Company or any of its Subsidiaries in connection with this Agreement or the Contemplated Transactions, unless (a) such information is already known to such party or to others not bound by a duty of confidentiality or such information becomes publicly available through no fault of such party, (b) the use of such information is necessary in making any filing or obtaining any consent or approval required for the consummation of the Contemplated Transactions, or (c) the furnishing or use of such information is required by or necessary in connection with legal proceedings.

(c) In addition to Buyer's obligations under paragraph (a) of this Section 11.3, if the Contemplated Transactions are not consummated, each party will return or destroy as much of such written information as the other party may reasonably request.

11.4 NOTICES

All notices, consents, waivers, and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand (with written confirmation of receipt), (b) sent by telecopier (with written confirmation of receipt), provided that a copy is mailed by certified or registered mail, return receipt requested, or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and telecopier numbers set forth below (or to such other addresses and telecopoier numbers as a party may designate by notice to the other parties):

Sellers: Delta Woodside Industries, Inc.
Alchem Capital Corporation
Nautilus International, Inc.
108 - 1/2 Courthouse Square
Edgefield, South Carolina 29824
Attention: Bettis C. Rainsford
Facsimile No. 803-637-6066

with copy to: Wyche, Burgess, Freeman & Parham, P.A.

44 East Camperdown Way
Greenville, SC 29601
Attention: Eric B. Amstutz, Esq.
Facsimile No. 864-235-8900

Buyer: Direct Focus, Inc.
2200 N.E. 65th Avenue
Vancouver, WA 98661
Attention: C. Reed Brown
Facsimile No. 360-694-7755

with copy to: Garvey, Schubert & Barer
Second & Seneca Bldg., 18th Floor
1191 Second Avenue
Seattle, WA 98101-2939
Attention: Bruce A. Robertson
Facsimile No. 206-464-0125

11.5 FURTHER ASSURANCES

The parties agree (a) to furnish upon request to each other such further information, (b) to execute and deliver to each other such other documents, and (c) to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

11.6 WAIVER

The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

11.7 ENTIRE AGREEMENT AND MODIFICATION

This Agreement supersedes all prior agreements between the parties with respect to its subject matter (including the Letter of Intent between Buyer and Sellers dated August 21, 1998, but excluding the confidentiality agreement executed by Buyer on or about the

commencement of negotiations or document production by Sellers) and constitutes (along with the documents referred to in this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. This Agreement may not be amended or waived except by a written agreement executed by the party to be charged with the amendment or waiver.

11.8 DISCLOSURE LETTER

The disclosures in the Disclosure Letter, and those in any Supplement thereto, must relate only to the representations and warranties in the Section of the Agreement to which they expressly relate and not to any other representation or warranty in this Agreement.

11.9 ASSIGNMENTS, SUCCESSORS, AND NO THIRD-PARTY RIGHTS

Neither party may assign any of its rights under this Agreement without the prior written consent of the other parties, which will not be unreasonably withheld, except that Buyer may assign any of its rights, but not its obligations, under this Agreement to any Subsidiary of Buyer and except that any party may grant to any of its lenders a security interest in its rights in this Agreement. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any legal or equitable right, remedy, or claim under or with respect to this Agreernent or any provision of this Agreement. This Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their respective successors and assigns.

11.10 SEVERABABILITY

If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

11.11 SECTION HEADINGS, CONSTRUCTION

The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to "Section" or "Sections" refer to the corresponding Section or Sections of this Agreement. All words used in this Agreement will be construed to be of such gender or number, as the circumstances require. Unless otherwise expressly provided, the word "including" does not limit the preceding words or terms.

11.12 TIME OF ESSENCE

With regard to all dates and time periods set forth or referred to in this Agreement, time is of the essence.

11.13 GOVERNING LAW

This Agreement will be governed by the laws of the Commonwealth of Virginia without regard to conflicts of laws principles.

11.14 COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

11.15 LITIGATION SUPPORT

In the event and for so long as any party to this Agreement actively is pursuing, contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand in connection with (i) any Contemplated Transaction or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, or failure to act, or transaction on or prior to the Closing Date involving any of Sellers or any of Sellers' Subsidiaries, each of the other parties to this Agreement shall cooperate with the first party and its counsel in the pursuit, defense or contest, make available such other party's personnel, and provide such testimony and access to such other party's books and records as shall be reasonably necessary in connection with the pursuit, defense or contest, all at the sole cost and expense of the pursuing, contesting or defending party (unless the pursuing, contesting or defending party is entitled to indemnification therefor from the other party under Section 10).

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

BUYER:

DIRECT FOCUS, INC.

By: /s/ [Illegible]

Title: President

SELLERS:

NAUTILUS INTERNATIONAL, INC.

By: /s/ [Illegible]

Title: Executive Vice President, Treasurer and CFO

ALCHEM CAPITAL CORPORATION

By: /s/ [Illegible]

Title: Executive Vice President, Treasurer and CFO

DELTA WOODSIDE INDUSTRIES, INC.

By: /s/ [Illegible]

Title: Executive Vice President, Treasurer and CFO

INDEPENDENT AUDITOR'S CONSENT AND REPORT ON SCHEDULES

We consent to the use in this Amendment No. 1 to Registration Statement No. 333-73243 of Direct Focus, Inc. on Form S-1 of our report dated February 26, 1999, appearing in the prospectus, which is a part of this Registration Statement, and to the reference to us under the heading "Experts" in such prospectus.

Our audits of the financial statements referred to in our aforementioned report also included the financial statement schedules of Direct Focus, Inc., listed in Item 16. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP
Portland, Oregon
April 9, 1999

EXHIBIT 23.2

INDEPENDENT AUDITOR'S CONSENT

To the Board of Directors

Delta Woodside, Inc.:

We consent to the inclusion of our report dated February 19, 1999 with respect to the combined balance sheets of the Nautilus Business as of January 4, 1999, June 27, 1998 and June 28, 1997, and the related combined statements of operations and accumulated deficit and cash flows for the six-months ended January 4, 1999, and 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
April 9, 1999