

NAUTILUS GROUP INC
Form 11-K
June 28, 2002

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(Mark One)

Annual report pursuant to Section 15(d) of the Securities Exchange
Act of 1934

For the fiscal year ended December 31, 2001

Or

Transition report pursuant to Section 15(d) of the Securities
Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 000-25867

A. Full title of the plan and the address of the plan, if different
from that of the issuer named below:

Direct Focus, Inc.
401(k) Savings Plan

B. Name of issuer of the securities held pursuant to the plan and
the address of its principal executive office:

The Nautilus Group, Inc.
1400 NE 136th Avenue
Vancouver, WA 98684

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Schedules not filed herewith are omitted because of the absence of the conditions under which they are required.

INDEPENDENT AUDITORS' REPORT

Direct Focus, Inc. 401(k) Savings Plan
Vancouver, Washington

We have audited the accompanying statements of net assets available for benefits of the Direct Focus, Inc. 401(k) Savings Plan (the "Plan") as of December 31, 2001 and 2000, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 net assets available for benefits of the Plan as of December 31, 2001 and 2000, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the Table of Contents are presented for the purpose of additional analysis and are not a required part of the basic 2001 financial statements, but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

DELOITTE & TOUCHE LLP

June 14, 2002

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DIRECT FOCUS, INC. 401(k) SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2001 AND 2000

| | 2001 | 2000 |
|-------------------------------------|--------------|--------------|
| | ----- | ----- |
| ASSETS: | | |
| Investments, at fair value (Note 3) | \$ 3,991,045 | \$ 1,596,860 |
| | ----- | ----- |
| Receivables: | | |
| Employee contributions | 51,362 | 31,214 |
| Employer contributions | 207,941 | 145,939 |
| | ----- | ----- |
| Total receivables | 259,303 | 177,153 |
| | ----- | ----- |
| LIABILITIES - Accounts payable | (3,935) | -- |
| | ----- | ----- |
| NET ASSETS AVAILABLE FOR BENEFITS | \$ 4,246,413 | \$ 1,774,013 |

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See notes to financial statements.

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DIRECT FOCUS, INC. 401(k) SAVINGS PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2001 AND 2000

| | 2001 | 2000 |
|--|--------------|--------------|
| | ----- | ----- |
| ADDITIONS: | | |
| Dividends | \$ 28,890 | \$ 127,317 |
| Net appreciation (depreciation) in fair value of investments (Note 3) | 364,338 | (49,945) |
| | ----- | ----- |
| Net investment income | 393,228 | 77,372 |
| | ----- | ----- |
| Contributions: | | |
| Participant contributions | 1,085,208 | 701,274 |
| Employer matching contributions | 207,941 | 145,939 |
| Rollover contributions | 1,006,993 | 96,918 |
| | ----- | ----- |
| Total contributions | 2,300,142 | 944,131 |
| | ----- | ----- |
| Total additions | 2,693,370 | 1,021,503 |
| DEDUCTIONS - Benefits paid to participants | 220,970 | 50,047 |
| | ----- | ----- |
| NET INCREASE | 2,472,400 | 971,456 |
| NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR | 1,774,013 | 802,557 |
| | ----- | ----- |
| NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR | \$ 4,246,413 | \$ 1,774,013 |

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See notes to financial statements.

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DIRECT FOCUS, INC. 401(k) SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2001 AND 2000

1. DESCRIPTION OF PLAN

The following description of the Direct Focus, Inc. 401(k) Savings Plan (the "Plan") is provided for general information purposes only. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

GENERAL - The Plan is a defined contribution 401(k) plan maintained for the benefit of all eligible employees of Direct Focus, Inc. (the "Company"). On May 21, 2002, the Company changed its name to The Nautilus Group, Inc., and now trades under the stock ticker symbol "NLS." The Plan was established effective January 1, 1999 and contributions to the Plan began on March 4, 1999. The Plan is available to all eligible employees of the Company who are age 18 or older. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA").

CONTRIBUTIONS - Participants may voluntarily contribute between 1% and 20% of their compensation, limited to \$10,500 in 2001 and 2000, as prescribed by ERISA. Participants may change their contribution percentage quarterly. Participants may also contribute amounts representing distributions from other qualified defined benefit or contribution plans. Participants direct the investment of their contributions and employer matching contributions into various investment options offered by the Plan. The Plan currently offers ten mutual funds and one employer stock fund as investment options for participants. Participants can change the allocation of contributions or transfer balances between funds up to six times per year. The Company may match a portion of the participant's elective contribution. The Company makes matching contributions of 50% of the employee contributions on the first 6% of allowable employee compensation for all eligible employees excluding Nautilus Human Performance Systems, Inc. ("Nautilus HPS") employees. For Nautilus HPS employees, the Company matches 35% of employee contributions on the first 4% of allowable employee compensation. Matching contributions are subject to certain limitations. Generally, participants must have worked a minimum of 1,000 hours during the Plan year and must be employed by the Company on the last day of the Plan year in order to receive the matching contributions. In addition to the above requirements, participants must have worked 12 months before initially

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becoming eligible to receive the match.

On September 20, 2001, the Company acquired the Fitness Division ("Schwinn Fitness") of Schwinn/GT Corp. As a result of this acquisition, Schwinn Fitness employees became eligible to participate in the Plan and execute rollover contributions to the Plan beginning October 1, 2001.

PARTICIPANT ACCOUNTS - A separate account is maintained for each participant, which is credited with the participant's contributions, the Company's matching contributions, and an allocation of Plan earnings or losses. Allocation of Plan earnings or losses is based upon participant account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

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VESTING - Participants are fully vested at all times in that portion of their accounts attributable to their own contributions and earnings or losses thereon. A participant vests in the Company's matching contributions and earnings or losses thereon pursuant to the following vesting schedule.

| YEARS OF SERVICE | VESTING PERCENTAGE |
|------------------|--------------------|
| ----- | ----- |
| Less than 1 | 0% |
| 1 | 25% |
| 2 | 50% |
| 3 | 75% |
| 4 | 100% |

PAYMENT OF BENEFITS - Upon termination of service, a participant will be paid a lump-sum amount equal to the vested account value if less than \$5,000. In addition to the lump-sum payment option, participants who maintain a balance greater than \$5,000 may elect to maintain their account in the Plan until a future date, elect a partial distribution, or elect to receive installment payments.

FORFEITURES - Forfeited balances of terminated participants' nonvested accounts are allocated as a discretionary matching contribution for the plan year in which the forfeiture occurs.

TERMINATION - Although it has not expressed any intent to do so, the Company may terminate the Plan or discontinue contributions at any time, subject to the provisions of ERISA. In the event of total or partial termination of the Plan, the accounts of all affected participants shall become fully vested and nonforfeitable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING - The financial statements of the Plan are prepared under the accrual method of accounting.

INVESTMENT VALUATION AND INCOME RECOGNITION - The Plan's investments are stated at fair value, which is based on published market prices at year-end.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

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BENEFIT PAYMENTS - Benefits are recorded when paid.

ADMINISTRATIVE EXPENSES are paid by the Plan to the extent not paid by the Company.

USE OF ESTIMATES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

INCOME TAXES - The Plan document is based on a non-standardized prototype plan and adoption agreement, which were approved by the Internal Revenue Service ("IRS"), as to form, by a letter dated November 19, 2001. However, the Plan has not yet received a determination letter from the IRS for the specific provisions of the adoption agreement as adopted by the Plan. The Plan Administrator believes that the Plan is currently designed and being operated in accordance with the applicable requirements of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the Plan's financial statements.

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RECLASSIFICATIONS - Certain prior year amounts have been reclassified to conform to the current year presentation.

3. INVESTMENTS

The following presents investments that represent 5% or more of the Plan's net assets available for benefits at December 31:

| | 2001 | 2000 |
|--|-----------|------------|
| | ----- | ----- |
| AIM Balanced Fund | \$ -- | \$ 111,691 |
| American Balanced Fund, Inc. Income Fund | 301,039 | -- |
| Direct Focus, Inc. Common Stock | 1,345,250 | 315,092 |
| Fundamental Investors Fund | 303,352 | 240,177 |
| Growth Fund of America, Inc. | 926,189 | 533,005 |
| New Perspective Fund | 325,508 | 233,243 |

Net appreciation (depreciation) by investment type for the year ended December 31 is as follows:

| | 2001 | 2000 |
|--------------|--------------|--------------|
| | ----- | ----- |
| Mutual funds | \$ (233,632) | \$ (111,265) |
| Common stock | 597,970 | 61,320 |
| Total | \$ 364,338 | \$ (49,945) |
| | ===== | ===== |

4. PARTY-IN-INTEREST TRANSACTIONS

The Plan invests in shares of the Company's common stock at the direction of the participants.

5. CONCENTRATION OF RISK

The Plan's assets consist of financial instruments including temporary

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cash investments, mutual funds, and Company common stock. These financial instruments may subject the Plan to concentrations of risk as, from time to time, cash balances exceed amounts insured by the Federal Deposit Insurance Corporation, and investments in mutual funds and Company stock are subject to changes in market values of such investments. Due to the level of risk associated with such investments, it is reasonably possible that changes in the values of such investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

6. SUBSEQUENT EVENT

On February 8, 2002, the Company acquired StairMaster Sports/Medical Inc. ("StairMaster"). As a result of this acquisition, StairMaster employees became eligible to participate in the Plan and execute rollover contributions to the Plan beginning March 1, 2002.

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DIRECT FOCUS, INC. 401(k) SAVINGS PLAN

SCHEDULE H, LINE 4i - SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES
AT YEAR END
DECEMBER 31, 2001

| (a) | (b) Identity of Issue/ (c) Description of Investment | (d) Cost | (e) Current Value |
|-----|---|-------------|-------------------------|
| | CASH | | \$ 120,617 |
| | | | ----- |
| | MUTUAL FUNDS: | | |
| | American Balanced Fund, Inc. Income Fund | | 301,039 |
| | Dreyfus Premier Core Fund | | 76,856 |
| | Euro Pacific Growth Fund | | 92,785 |
| | Franklin Small Capital Growth Fund | | 131,533 |
| | Fundamental Investors Fund | | 303,352 |
| | Growth Fund of America, Inc. | | 926,189 |
| | MetLife Stable Value Fund | | 197,523 |
| | New Perspective Fund | | 325,508 |
| | Munder Index 500 A Fund | | 114,746 |
| | Putnam Small Cap Value A Fund | | 55,647 |
| | | | ----- |
| | Total mutual funds | | 2,525,178 |
| | | | ----- |
| * | COMMON STOCK - Direct Focus, Inc. | | 1,345,250 |
| | | | ----- |
| | TOTAL INVESTMENTS | | \$3,991,045 |

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* Denotes a party-in-interest with respect to the Plan

NOTE: Historical cost information is not required for participant-directed investments

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DIRECT FOCUS, INC. 401(k) SAVINGS PLAN

SCHEDULE G - SCHEDULE OF NONEXEMPT TRANSACTIONS
YEAR ENDED DECEMBER 31, 2001

| (a) Identity of Party Involved | (b) Relationship to Plan | (c) Description of Transaction | (d) Purchase Price | (e) Selling Price | (f) Lease Rental | (g) Expense Incurred With Trans- action |
|--------------------------------------|--------------------------------|---|--------------------------|-------------------------|------------------------|---|
| Direct Focus, Inc. | Plan Sponsor | Untimely remittance of employee contributions* | \$ -- | \$ -- | \$ -- | \$ -- |

* In 2001, the Plan Sponsor failed to remit certain employee deferrals to the trustee within the required time frame. The deferrals, plus estimated earnings thereon, were remitted to the trustee and allocated to participant accounts subsequent to this date.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the plan administrator of the Direct Focus, Inc. 401(k) Savings Plan has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

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DIRECT FOCUS, INC. 401(k) SAVINGS PLAN

By: THE NAUTILUS GROUP, INC.,
the plan administrator

Date: June 14, 2002

By: /s/ Rod W. Rice

Rod W. Rice, Chief Financial Officer,
Treasurer and Secretary
Direct Focus, Inc. 401(k) Savings Plan
Administrator

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EXHIBIT INDEX

Document

Independent Auditors' Consent

Exhibit Number

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