

NAUTILUS, INC.
Form DEFA14A
November 26, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Nautilus, Inc.

(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Investor Presentation

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This presentation includes forward-looking statements, including statements concerning estimated future sales and earnings, new product introduction, and operational improvement.

Factors that could cause Nautilus, Inc. s

(Nautilus)

actual results to differ materially from these forward-looking statements include availability of media time and fluctuating advertising rates, a decline in consumer spending due to unfavorable economic conditions, its ability to effectively develop, market, and sell future products, its ability to get foreign-sourced product through customs in a timely manner, its

ability to effectively identify, negotiate and integrate any future strategic acquisitions, its ability to protect its

intellectual property, introduction of lower-priced competing products, unpredictable events and circumstances relating to international operations including its use of foreign manufacturers, government regulatory action, and general economic conditions. Please refer to our reports and filings with the Securities and Exchange Commission, including our most recent annual report on Form 10-K and quarterly reports on Form 10-Q, for a further discussion of these risks and uncertainties. We also caution you not to place undue reliance on forward-looking statements, which speak only as

of the date they are made. We undertake no obligation to update publicly any forward-looking statements to reflect new information, events or circumstances after the date they were made or to reflect the occurrence of unanticipated events. All views and estimates expressed herein are based on economic and market conditions and other circumstances as they exist and can be evaluated as of November 20, 2007.

In connection with the solicitation of proxies, Nautilus has filed with the SEC and mailed to shareholders a definitive proxy statement (the "Proxy Statement"). The Proxy Statement contains detailed information about Nautilus, the special meeting and individuals who are deemed to be participants in Nautilus' solicitation of proxies. Nautilus' shareholders are urged to read the Proxy Statement carefully in its entirety. Shareholders may obtain additional free copies of the Proxy Statement and other relevant documents filed with the SEC by Nautilus through the website maintained by the SEC at www.sec.gov or at Nautilus' website at www.nautilusinc.com.

If you have any questions or need assistance in voting your shares, please contact our proxy solicitor, Innisfree M&A Incorporated, toll-free at (888) 750-5834; banks and brokers may call collect at (212) 750-5833.

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Summary
Why We Are Here
Sharp Contrast in
Value Creation Plans
Stewards of
Shareholder Value

Nautilus
Board of Directors, after the Company's second quarter operating loss (its first quarterly operating loss in Nautilus history as a public company), fired its former CEO and launched a restructuring plan to maximize shareholder value.

The Company hired Bob Falcone, Nike's former CFO, as the new CEO to implement this turnaround.

At this critical juncture in Nautilus history, Sherborne Investors LP (Sherborne) is seeking to have its nominees control Nautilus Board and unwind Nautilus strategy.

Management is vigorously pursuing a diversified strategy.

Strategy takes advantage of large retail and commercial markets.

Sherborne would like to focus on the Direct channel, an approach that has already proven to be unsuccessful for Nautilus.

The Direct channel has been relatively flat with diminished profit profile over the last five years and is Nautilus smallest market.

Nautilus management and Board:

Experienced, proven fitness industry and operational leadership.

In process of aggressively implementing turnaround plan.

Best stewards for value creation.

Sherborne:

Turned down a Nautilus offer of proportional Board representation.

Trying to control Company s Board without ownership of a controlling economic interest.

Mixed track-record; limited relevant experience.

Who We Are

Nautilus is a leading provider of high performance fitness equipment.

The Company has five of the industry s top brands by quality and performance.

Nautilus
designs,
produces
and
markets
products
for
a
wide
range
of
end-users
to help
people achieve a fit and healthy lifestyle.

4

New Executive Leadership: Robert Falcone

\$3,405

\$3,931

\$3,790

\$4,761

\$6,471

\$9,187

\$9,553

\$2,000

\$4,000

\$6,000

\$8,000

\$10,000

1992

1993
1994
1995
1996
1997
1998

21 years with PricewaterhouseCoopers; last seven as engagement partner on the Nike account.

Chief
Financial
Officer
of
Nike,
Inc.
(1992

1998).

Responsible for company's global finances and investor relations.

Senior Vice President and Chief Financial Officer of 800.com (2000-2002).

Executive Vice President and Chief Financial Officer of BearingPoint, Inc. (2003-2004).

Chief Executive Officer of private equity firm Catalyst Acquisitions Group (2004-2006).

Chief Executive Officer of GCR Custom Research (2005-2007).

Sold in 2007.

Nautilus Board of Directors (2003-Present).

President and CEO (October 2007-Present)
(Interim CEO from August 2007 to October 2007).

Biography
Nike Sales During Mr. Falcone's Tenure
(\$ in millions)

Source: Capital IQ.

Named Nautilus
Chairman, President, and CEO in October 2007.

More than 33 years of management and board experience.

Significant domestic and international operational experience, complemented by accounting, financial and capital markets experience.

Active Nautilus Board member for four years (Audit Committee Chair, Lead Director).

Informed
vision
for
building
upon
Nautilus
21-year
legacy,
with
conviction
required
for
making
tough
decisions quickly.

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Key Recent Events

July 16, 2007

Nautilus announces 2nd quarter results with a \$0.04 per share net income, including gain from legal settlement. Excluding the gain from the legal settlement, 2nd quarter loss is \$0.30 per share.

July 26, 2007

Sherborne files 13D indicating it has acquired 19.9% of Nautilus' equity.

August 12, 2007

Nautilus announces Gregg Hammann will step down as CEO and Robert Falcone

will act as Interim CEO.

October 11, 2007

Nautilus announces workforce reduction.

October 17, 2007

Nautilus announces 3rd quarter results with a \$0.42 unadjusted net income loss per share.

Excluding non-recurring charges, 3rd quarter loss is \$0.29 per share. Management also reviews restructuring plan.

October 19, 2007

Sherborne files 13D/A indicating it has acquired a 25.0% stake in Nautilus.

Notice of Special Meeting sent to shareholders.

October 29, 2007

Nautilus announces implementation of limited duration Shareholder Rights Plan.

August 22, 2007

Sherborne and Nautilus meet to discuss

Nautilus business and turnaround strategy.

September 13, 2007

Representatives

of

Nautilus

Board

meet

with

Sherborne

who indicates that it wants to

actively

participate

in

Nautilus

operations

and

to have one of its representatives serve as

Chairman of the Board.

September 20, 2007

Sherborne

sends a demand letter to Nautilus

to call a special meeting to, among other

things, remove a majority of the Nautilus

directors and replace them with Sherborne's

nominees.

October 4, 2007

Nautilus offers Sherborne

two board seats

and representation on each of its committees;

Sherborne
rejects the proposal.
October 12, 2007

In response to Sherborne's request to
participate in the Company's operations,
Nautilus offers to create a new executive
committee, on which Sherborne
nominees
would serve.

October 16, 2007

Sherborne
rejects
Nautilus
revised
proposal.
Robert Falcone named President and CEO.

November 6, 2007

Sherborne
commences soliciting proxies to
elect directors controlling a majority of
Nautilus
Board.
Implementation of Strategic Plan

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Both Nautilus and the Industry Have Experienced
Recent Difficulties

Indexed Stock Price Performance

Source: Capital IQ.

* Peer index includes Amer and Brunswick.

S&P 500: 2.8%

Cybex: (30.7%)

Nautilus: (72.0%)

The industry has suffered recent weakness in consumer spending.

Mortgage crises.

Slower housing starts and slower home sales have decreased short-term demand for home fitness equipment products.

Significant competition for discretionary spending.

Higher fuel prices.

Consumer credit issues with certain segments of the Direct channel buying base.

20

40

60

80

100

120

140

Nov-06

Jan-07

Mar-07

May-07

Jul-07

Sep-07

Nov-07

Nautilus

Cybex

S&P 500

Peer Index *

Peer Index: (11.9%)

9
U.S. Retail
\$3.5
U.S. Commercial
\$1.1
Direct
\$1.0
International
Equipment
\$4.5

Prospects for Nautilus and the Industry Are Strong

Nautilus plays in a \$10.2 billion global market.

Market has grown at 3.0% - 5.0% per annum historically.

41.3 million Americans belonged to a health club in 2005, up from 32.8 million in 2000.

70% of Americans intend to increase their exercise regimen in the next 12 months.

Obesity is an epidemic in the United States.

28% of Americans seriously tried to lose weight in 2006.

The CDC estimated that in 2000, nearly \$200 billion in direct and indirect costs were related to obesity and inactivity.

Proportion of State Populations Facing Obesity Crises

No Data	<10%	10%	14%				
15%	19%	20%	24%	25%	29%	=	
30%							

Sources: Nautilus, CDC Behavioral Risk Factor Surveillance System, SGMA.

1998

2006

1990

2006 Market Size (\$ Billions)

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Key Points of Differentiation Equip Nautilus To Be
The Leader in the Global Fitness Industry
Strong Portfolio of Brands

Five strong brands, each with their own history, reputation and target consumer.

-

Nautilus, Bowflex, Stairmaster, Universal, Schwinn Fitness.

244 years of brand heritage.

Multidimensional Distribution Strategy

Target the global fitness equipment market.

Ability to reach consumers wherever they shop or exercise.

Ability to place the right brand in the right channel.

-

Bowflex in Direct, Nautilus and Stairmaster in Commercial and Specialty Retail, Universal in big box retail, and Schwinn in multiple channels.

Not reliant on any individual channel for value creation.

Growing penetration among retailers and fitness clubs.

Leveragable Global Footprint

Products available in approximately 50 countries.

As turnaround strategy takes root, ability to leverage SG&A and research and development costs across a global footprint.

Vertical Integration Creates Competitive Advantage

Land America acquisition provides significant margin expansion opportunity, more control over the supply chain, and improved ability to serve big box retail profitably.

Renegotiated purchase price.

Innovative Product Line

Portfolio of market leading, innovative products.

11

#1 brand in home fitness equipment leveraging 20-years of experience.

Target fitness participants primarily through infomercials, internet, and big box retailers.

Unmatched and Valuable Brand Portfolio

Brand

Year Founded /

Added to
Portfolio
Overview

Brand recognition nearly double that of any other fitness brand.

Product line that spans strength and cardio categories.

Numerous industry awards from trade organizations such as FIBO.

Portfolio of five heritage brands provides ability to sell products at the full spectrum of price points through multiple channels, globally.

Strong
patent
support:
109
issued
and
62
pending
in
the
U.S.,
91
issued
and
112
pending
internationally.
1970 / 1999
1986 / 1986

Iconic stepping brand with strong name recognition.

Selected Top 25 Eureka Innovations in past 25 years by USA
Today.
1983 / 2002

Leading brand in indoor cycling.

112-year brand heritage.
1895 / 2001

Highly recognizable brand purchased in 2006.
1957 / 2006

Note: Excludes PEARL iZUMi because of potential divestiture.

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Targets fitness participants for home use.

Product enables home gym consumers a full free-weight workout at a significant discount to a full free-weight system.

Full rack of free-weight dumbbells in a compact and convenient package.

Innovative, Industry-Leading Product Portfolio

Bowflex SelectTech Dumbbells

Bowflex Revolution

Nautilus One

Nautilus TreadClimber

Targets fitness participants for home use.

Innovative evolution of Bowflex's legacy rod-based home gym.

Utilizes linear elastic resistance technology developed by SpiraFlex Inc. and NASA.

Ranked among Men's Health's Top 100 Products in 2005.

Innovative new weight selection mechanism for Commercial strength equipment.

Only product of its kind; significant differentiator for the Nautilus brand.

Cardio machine that provides the benefits of a treadmill with lower impact.

Burns twice the calories of walking on a traditional treadmill.

Won the Global Innovation Award at the FIBO 2007 international trade show for health and fitness.

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Global footprint, but relatively low market share in most markets.

Significant opportunity to grow in multiple

international markets.

Completing comprehensive
review of global operations.

In process of bringing selected
distribution in-house.

Significant International Opportunity

Significant International Experience

Global Reach

Office Locations

Nautilus Products Available

\$2,278

\$2,532

\$2,436

\$3,004

\$3,973

\$5,532

\$5,173

\$1,127

\$1,399

\$1,353

\$1,757

\$2,498

\$3,655

\$4,380

\$3,405

\$3,931

\$3,790

\$4,761

\$6,471

\$9,187

\$9,553

\$0

\$2,000

\$4,000

\$6,000

\$8,000

\$10,000

1992

1993

1994

1995

1996

1997

1998

Nike Domestic Sales

Nike International Sales

(\$ in millions)

Robert Falcone and Timothy Joyce have a combined 26 years of experience with Nike.

From 1992 to 1998 when both Falcone and Joyce were on the Nike team, the duo was able to help drive the company's sales at a CAGR of 19%, while increasing the international portion of sales from 33% to 46% over the same time period.

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Vertical Integration through Land America
Acquisition Creates Competitive Advantage

Exercised option to purchase Land America.

Largest contract manufacturer for Nautilus.

Nautilus currently represents 95%+ of capacity.

Manufactures home gyms, benches, and TreadClimber products for the home.

Immediate gross margin improvement of 150 to 200 bps with potential for additional improvement with increased volume.

Renegotiated Land America transaction terms and extended payment.

\$7.0 million price concession, reducing the purchase price to \$65.0 million, including the purchase of \$5.0 million in inventory.

\$22.5 million payment delayed by 10 months.

Work flow optimization project underway.

Will enable Nautilus to more tightly protect intellectual property and quality.

Further cost reductions expected through global sourcing of raw materials and components.

Land America
Xiamen, China

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Aggressive Moves to Deliver Shareholder Value

Board replaced former CEO after a second quarter operating loss.

Conducted extensive CEO search and Board of Directors unanimously hired Robert S. Falcone as President and Chief Executive Officer.

Within
his

first
three
months
as
CEO,
key
actions
have
been
taken:

Undertaking a comprehensive review of global strategy in three channels of business: Direct, Retail, Commercial.

Approximately \$10.0 million annual savings created by reducing workforce by 140 persons.

Improving liquidity by securing a new \$150.0 million asset-based loan with a \$50.0 million accordion.

Exploring the divestiture of non-core assets, including Pearl iZUMi.

Hiring of Timothy Joyce as Senior Vice President of Global Sales.

Increasing cash available for operations by approximately \$13.0 million annually as a result of the suspension of the Company's quarterly cash dividend.

Improving financial terms of previously announced Land America acquisition through a price concession and delayed payments.

Executing \$20 million inventory reduction plan.

Comprehensive evaluation of distribution network; bringing selected international markets in-house.

Under
the
Board's
and
Robert
Falcone's
leadership,
management
has
a
turnaround
plan,
which
it
is
in
the
process
of

implementing,
utilizing
the
Company's
competitive
advantages
to
drive
shareholder
value.

17

Nautilus
Strategic Vision

Nautilus is making significant changes to drive growth and improve the Company's financial performance.

Attracting new talent in marketing; research, design, and development; and business / product segments.

Developing business unit matrix structure for maximum accountability and performance.

Investing
more
selectively
in
product
innovation

fewer,
better
introductions.

Initiating market research to understand global product / brand priorities.

Re-evaluating distribution infrastructure to drive out costs (including transportation).

Securing and strengthening key account relationships in retail and commercial markets (including global).

Eliminating aging, low-margin products, and assorted parts.

Driving more commercial business directly from the Company.

Developing country / region specific sales / distribution plans globally.

Initiating comprehensive review of all existing facilities.

Launching new strategic platform, focusing first on costs, quality, and product segmentation.

18

Management Is Already Addressing Areas

Highlighted by Sherborne

Sherborne Identified Consideration

Action Completed / Currently Being Undertaken by Nautilus

Retail Channel

Setting minimum acceptable financial targets, including standard margin and minimum order requirements.

Focusing sales efforts on those customers and products that are best suited for channel:

Presence in 6,800 doors in North America.

Penetration of more than four SKUs per door.

Greater presence of cardio; fewer home gyms.

Making efficient use of fixed operating costs:

Reduced compensation expense by 12% through workforce reductions.

Direct to Consumer Channel

Focusing on quality leads with high probability of conversion instead of focusing on increasing the quantity of leads (ROI focus rather than growth focus).

Performing market research to ensure products brought to market in the Direct channel will be profitable.

Focusing on core print and television advertising with high conversion rates.

Reducing the number of products promoted in the Direct channel in order to focus advertising spend on key products.

Manufacturing

Land America acquisition:

Opens up opportunities for additional segments and other portions of the retail channel.

Allows for the consolidation of contract manufacturers from 12 to three to five.

Evaluating the complete manufacturing and distribution process to improve margins.

Management

Recently hired Timothy Joyce as Head of Global Sales.

Continuing to secure talent in key areas:

Marketing and creative development.

Product-focused general managers.

Research, design, and development.

Balance Sheet

Strengthening the balance sheet:

Secured the current line of credit and finalizing a new facility in order to address liquidity concerns.

Pursuing the sale of Pearl iZUMi.

Pursuing the sale of inefficient and unprofitable facilities and investments.

Liquidating aging and discontinued inventory and parts.

Other

Pursuing new volume through key accounts.

Seeking co-tenant for surplus space at headquarters.

19
Comparison of Strategic Plan with Sherborne's
Platform

Sherborne
embraces a channel strategy that has proven to be flawed.

Conditions
in

the
Direct
channel
have
since
deteriorated,
adding
further
execution
difficulty
to
a
Direct-focused model.

Sherborne
is relatively ill-equipped to execute a turnaround at Nautilus.

Consideration

Nautilus Plan

Sherborne

Platform

Channel Strategy

Focus on \$10.2 billion global opportunity through

Focus on smallest channel: \$1.0 billion Direct
multiple channels.

channel.

Smart retail expansion strategy for \$3.5 billion

Retail strategy lacks details.

market.

Uncertain commercial, international, and apparel

Clear commercial plan for \$1.1 billion market.

strategies.

Greater ROI focus in \$1.0 billion Direct market.

Management

Significant fitness industry and operational

Hire two un-named CEOs sequentially.

experience. Strategic plan is well underway.

Up to four CEOs in 12 -

18 months.

Key hires in place.

Business unit structure announced.

Staff stabilized after reduction.

Board Membership

Four directors that Sherborne

is seeking to replace

To our knowledge, four proposed directors have no

have significant retail and operational experience

Nautilus or fitness experience and limited retail

and a combined 10 years of experience with

experience.

Nautilus.

Disruption and Associated Execution Risk

Key transition largely complete.

Significant.

New management team in place.

Changes in Board and management.

Executing robust turnaround plan.

Uncertainty creates customer risk.

Limitations on Ability to Implement Changes

None.

Significant.

Washington Business Corporation Law prevents

Sherborne

from completing any further

reductions in workforce over the next 5 years

that may turn out to be in the best interests of

the Company.

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Nautilus has diversified away from its dependence on the Direct channel because:

Only about 30% of customers are willing to consider shopping direct.

The Company's revenues declined from 2002 to 2003 due to an over-reliance on the Direct channel.

Bowflex was copied in late 2002 before its patent expiration in 2004, by a competitor who sold a

product with a similar name and appearance in the retail market.

The Direct channel has become far more complex.

A significant number of competitors have entered the channel.

Cost of advertising has increased as more competition vies for media time.

Since 2004, rates on ESPN have increased 600% to 700%, Dish Custom Clusters have increased

1,000%

and

USA

rates

have

increased

50

to

75%.

(1)

Customers demand a multi-channel distribution strategy.

Customers who see products on television want to buy them in whatever channel they prefer.

Success Requires a Multi-Channel Strategy

Successful Multi-Channel Diversification

\$198.1

\$292.5

\$392.6

\$246.9

\$266.5

\$293.9

\$283.1

\$71.4

\$192.0

\$251.9

\$257.4

\$337.4

\$397.1

\$223.9

\$363.9

\$584.7

\$498.8

\$523.8

\$631.3

\$680.3

\$25.8

\$0.0

\$200.0

\$400.0

\$600.0

\$800.0

2000

2001

2002

2003

2004

2005

2006

Direct Sales

Other Sales

(\$ in millions)

(1) Source: Nautilus proprietary results reporting; ESPN rate cards.

Competitor launched extremely similar product in retail channel taking market share.

Changing Market Conditions in Direct Channel

2001 and prior

2002 -

Present

Competition

Grass Roots Entrepreneurial

Ronco

,

Bowflex, Time Life, Seal a Meal.

Sophisticated advertising market for Fortune 500 advertisers as well as entrepreneurs.

Purpose

Direct sales response

tied to ROI

.

Many purposes

direct sales response

,

driving

web traffic, driving retail traffic, initial trial, building databases, etc.

Rates

Rates paid to obtain a given response rate reasonable.

Rates paid to obtain similar response rate much higher due to heightened competition.

Marketing

Channel

Nautilus singularly focused on TV.

Diverse strategy

TV, print, online, radio,

promotional media, emerging media.

Product Approach

Nautilus focused on one aging product:

the Bowflex

Power Pro.

Advertising includes Power Rod Gyms, Revolutio

Gyms, TreadClimber

products, and SelectTech

Dumbbells.

21

Nautilus tried to work constructively with Sherborne without subjecting all shareholders to a distracting, expensive proxy contest.

From August to September 2007, representatives of Nautilus and Sherborne had three face-to-face meetings and several other separate discussions.

Nautilus Has Attempted to Work Constructively
With Sherborne
Nautilus Offer

Offered Sherborne board representation proportional to its share ownership.

Offered Sherborne representation on all of its committees, including a new executive committee which would have increased oversight over operational matters in response to Sherborne's concerns.

Nautilus was also prepared to offer another large institutional shareholder board membership.
Sherborne Response

Sherborne indicated no interest in Nautilus proposals.

Soliciting proxies to replace a majority of the Board.

Seeking control of the Board without a corresponding controlling ownership interest.

Underscored by Bramson's stated desire to serve as Chairman.
If the Sherborne proposals are defeated, Nautilus intends to increase the size of the Board and offer Sherborne and Sun Capital Securities, LLC, Nautilus next largest shareholder, Board

representation.

22

Ampex

A Cautionary Tale

Situation Overview

Ampex Stock Price Performance Under Bramson

Ampex Corporation engages in the development and licensing of visual information technology products.

A Bramson-led company purchased Ampex in 1987 for

\$479 million and took the company public in 1992.

Through numerous changes in strategy, work force reductions, and management team changes, Ampex struggled under Bramson's leadership.

Since the stock's IPO in 1992, Ampex shares have been delisted twice on two different public exchanges.

Ampex shares traded down significantly in early November 2007, after the company announced that it might be forced to file for bankruptcy.

Prior to this announcement, Bramson reduced his position in Ampex from 12.5% of shares outstanding in August 2006 to 4.99% of shares outstanding in October 2007.

\$1.00 invested in Ampex's 1992 IPO was worth less than \$0.02 on November 20, 2007.

\$0.00

\$50.00

\$100.00

\$150.00

\$200.00

\$250.00

\$300.00

\$350.00

Jul-92

Sep-94

Nov-96

Feb-99

Apr-01

Jun-03

Aug-05

Nov-07

Sources: Capital IQ, San Jose Mercury News, Financial Times (London), public filings.

Ampex Revenue Under Bramson

\$461

\$401

\$318

\$238

\$170

\$127

\$96

\$96

\$93

\$68

\$71

\$60

\$46
\$37
\$43
\$101
\$53
\$36
\$0
\$100
\$200
\$300
\$400
\$500
'89
'90
'91
'92
'93
'94
'95
'96
'97
'98
'99
'00
'01
'02
'03
'04
'05
'06

(\$ in millions)

Edward Bramson's only apparent operational role at a publicly-listed U.S. company reduced shareholder value significantly.

Sherborne turnaround strategies can present significant risk to a business.

Key Lessons Learned

Note: Adjusted for 1:20 reverse stock split, which occurred in June 2003.

Note: Revenue figures are from most recent public filing in which the respective year's figures are presented; excludes reclassification of discontinued segment's revenues in 1999 and 2000.

23

Strong Corporate Governance

Directors are elected annually.

Does not have blank check preferred stock.

Does not have a requirement for a supermajority vote to remove directors.

Directors may be removed with or without cause by a majority of the shares entitled to vote.

Limited

duration

Shareholder

Rights

Plan

compliant

with

multiple

ISS

policy guidelines (i.e., 3-year term, 20% trigger, subject to shareholder approval in the next year).

Nautilus has maintained strong corporate governance practices.

Its Board of Directors is focused on the needs of all shareholders.

Independent Audit, Compensation, Nominating and Corporate Governance Committees.

Six of the seven Nautilus Directors are independent Directors.

Nautilus has not adopted many of the measures other companies use to protect the Board and management from outside interference.

Overview of Defenses

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Nautilus Board Possesses Significant Experience
in Retail, Operations, Finance and Strategy

Board Member

Committee

Memberships

Relevant Experience

Background

Robert S. Falcone

;

Financial, Retail, Apparel,

;

Mr. Falcone has served on the Nautilus, Inc. Board of Directors since 2003. He was President and
Fitness Industry

Chief Executive Officer of GCR Custom Research from July 2005 until August 2007. From 2004 to
2006, Mr. Falcone was Chief Executive Officer of private equity firm Catalyst Acquisitions Group. Mr.
Falcone was Executive Vice President and Chief Financial Officer of BearingPoint, Inc. from 2003 to
2004. He was the former Senior Vice President and Chief Financial Officer of 800.com, an Internet
retailer of consumer electronics from 2000 to 2002, and was the Chief Financial Officer of Nike, Inc.
from 1992 to 1998. Additionally, Mr. Falcone spent 21 years with Pricewaterhouse Coopers, the last
seven as engagement partner on the Nike account.

Evelyn V. Follit*

;

Audit Committee

;

Information Technology,

;

Operates Follit Associates, a corporate technology and executive assessment practice. She

Retail, Human Resources,

previously occupied corporate leadership roles with RadioShack Corporation, ACNielsen, Dun &
Fitness Industry, Marketing

Bradstreet, ITT, and IBM. Beginning December 2007, Ms. Follit will join the board of retail
department store Bealls Inc.

Peter A. Allen*

;

Compensation Committee

;

Information Technology

;

Partner & Managing Director, Market Development, for Technology Partners International (TPI), a
and Nominating & Corporate
Strategy, Fitness Industry
global management consulting firm. TPI advises major corporations in the optimization of business
Governance Committee
operations through the best combination of in-sourcing, off-shoring, shared services and
outsourcing.

Diane Neal*

;

Compensation Committee

;

Retail, Apparel,

;

Appointed Chief Executive Officer of Bath & Body Works in June 2007, Ms. Neal had previously
and Nominating & Corporate

Fitness Industry,

served, since October 2006, as President and COO. Prior to joining Bath & Body Works, Ms.

Governance Committee

Marketing

Neal served as President of the Gap Outlet. She also was a senior leader at the Target Corporation
and held the position of President of Mervyn's Stores.

Ronald P. Badie

;

Audit Committee

;

Financial, Fitness Industry

;

Spent more than 35 years with Deutsche Bank and its predecessor, Bankers Trust Company, retiring
in 2002 as Vice Chairman of Deutsche Bank Alex Brown (now Deutsche Bank Securities), the firm's
investment banking subsidiary.

Marvin G. Siegert

;

Chairman of Audit Committee

;

Financial, Manufacturing,

;

Recently retired as President and Chief Operating Officer of The Pyle Group LLC, a private equity
Retail, Fitness Industry,

investment group. Prior to joining The Pyle Group in 1996, Mr. Siegert spent 26 years with Rayovac
Corporation, a manufacturer of batteries and lighting products.

Don Keeble*

;

Chairman of Nominating &

;

Financial, Retail,

;

Executive Vice President at Hilco Trading Company, Inc., which provides platform services including
Corporate Governance

Fitness Industry,

legal and accounting, marketing and capital. Mr. Keeble previously worked for Kmart Corporation, a

Committee and Chairman of
Marketing

large consumer retail company, for 29 years, most recently as its President of Store Operations
Compensation Committee
through 2000.

* Denotes a Board member Sherborne is seeking to remove.

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Nautilus Board: Looking Out for the Best Interests
of ALL
Shareholders

Focused on executing turnaround plan based on leveraging the Company's core competitive advantages and key market opportunities.

Targeting a large, growing market.

Increasing margins through vertical integration and other cost saving initiatives.

Nautilus
Board took decisive action in response to the Company's second quarter operating loss.

The
election
of
Sherborne's
slate
of
director-nominees
could
jeopardize
shareholders
opportunity
to
maximize value of their shares.

To our knowledge, neither Sherborne nor its nominees have any meaningful experience in the fitness industry.

Nautilus
current Board has a great deal more retail experience.

Sherborne proposals would cause significant disruption to the business at a critical juncture in its history.

Sherborne's strategy for Nautilus is misguided as it relies on an antiquated business model and ignores many valuable customers.

Sherborne
is
attempting
to
have
its
nominees
control
the
Company
without
ownership
of
a
corresponding controlling ownership interest.
Robert
Falcone's
turnaround

plan
presents
the
right
strategy
at
the
right
time
with
the
right
leadership.

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Vote the WHITE Proxy

Protect your investment
vote the WHITE proxy. The Board unanimously recommends that
shareholders vote:

1.

AGAINST

the removal of four of the current Nautilus directors.

2.

AGAINST

Sherborne's

proposal

to

amend

the

bylaws

such

that

Board

vacancies

resulting

from

the

removal

of

directors

by

Nautilus

shareholders

may

only

be

filled

by

the

shareholders.

3.

AGAINST

Sherborne's proposal to amend the bylaws such that the size of the Board is fixed at

seven

seats,
provided
that
such
number
may
be
decreased
(but
not
increased)
by
the
Board
of
Directors.

4.

FOR

the current directors of Nautilus in the event that Proposal 1 is passed.

5.

AGAINST

Sherborne's ability to adjourn the special meeting and solicit additional proxies.

Do NOT sign or return any green proxy card that may be sent to you by Sherborne.