

NAUTILUS, INC.  
Form DEF 14A  
April 18, 2011  
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**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 under Rule 14a-12

**NAUTILUS, INC.**

(Name of Registrant as Specified in Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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# NAUTILUS, INC.

## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders of Nautilus, Inc.:

The annual meeting of stockholders of Nautilus, Inc. (the Company) will be held on Thursday, May 19, 2011, at the Company's World Headquarters, 16400 SE Nautilus Drive, Vancouver, Washington 98683, beginning at 11:00 a.m. Pacific Daylight Time, for the following purposes:

1. To elect a Board of Directors, consisting of six (6) members, to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified;
2. To ratify the Audit Committee's appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the year ending December 31, 2011; and
3. To consider and act upon any other matter which may properly come before the annual meeting or any adjournment thereof.

Only stockholders who held their shares at the close of business on March 24, 2011, the record date, are entitled to notice of and to vote at the annual meeting or any adjournment or postponement thereof.

All stockholders are cordially invited to attend the annual meeting. **Whether or not you plan to attend the annual meeting, please sign and promptly return the enclosed proxy card, which you may revoke at any time prior to its use.** A prepaid, self-addressed envelope is enclosed for your convenience. Your shares will be voted at the annual meeting in accordance with your proxy.

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By Order of the Board of Directors

WAYNE M. BOLIO

*Senior Vice President Law, General Counsel and Secretary*

*Vancouver, Washington*

*April 11, 2011*

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held On May 19, 2011:

Pursuant to rules promulgated by the Securities and Exchange Commission (the "SEC"), we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a notice of annual meeting, and 2010 Annual Report to Stockholders, and by notifying you of the availability of our proxy materials on the Internet. The notice of annual meeting, proxy statement, and 2010 Annual Report to Stockholders are available at <http://www.nautilus.com/proxy>. In accordance with the SEC rules, the materials on the website are searchable, readable and printable, and the website does not have "cookies" or other tracking devices which identify visitors. Directions to the Company's World Headquarters are available at <http://www.nautilus.com>.

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**2011 ANNUAL MEETING OF STOCKHOLDERS**

**NOTICE OF ANNUAL MEETING AND PROXY STATEMENT**

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**NAUTILUS, INC.**

**16400 SE Nautilus Drive**

**Vancouver, Washington 98683**

**PROXY STATEMENT**

**General Information**

Our Board of Directors is furnishing this proxy statement and the accompanying Annual Report to Stockholders, notice of annual meeting and proxy card in connection with its solicitation of proxies for use at our 2011 annual meeting of stockholders or any adjournment thereof. The annual meeting will be held on Thursday, May 19, 2011, beginning at 11:00 a.m., Pacific Daylight Time at the following location:

Nautilus World Headquarters

16400 SE Nautilus Drive

Vancouver, Washington 98683

Our Board of Directors has designated the two persons named on the enclosed proxy card, Edward J. Bramson and Wayne M. Bolio, to serve as proxies in connection with the annual meeting. These proxy materials and the accompanying Annual Report to Stockholders are being mailed on or about April 18, 2011 to our stockholders of record as of March 24, 2011.

Our principal executive offices are located at 16400 SE Nautilus Drive, Vancouver, Washington 98683. As used in this proxy statement, the terms we, our, us, Nautilus, and Company refer to Nautilus, Inc. and its subsidiaries.

**Revocability of Proxies**

You may revoke any proxy you execute at any time prior to its use at the annual meeting by:

delivering written notice of revocation to our Secretary;

delivering an executed proxy bearing a later date to our Secretary; or

attending the annual meeting and voting in person.

**Record Date**

Our Board of Directors has fixed the close of business on March 24, 2011 as the record date for determining which of our stockholders are entitled to notice of and to vote at the annual meeting. At the close of business on the record date, 30,744,336 shares of our common stock were outstanding.

**Voting; Quorum**

Each share of common stock outstanding on the record date is entitled to one vote per share at the annual meeting. Stockholders are not entitled to cumulate their votes. The presence, in person or by proxy, of the holders of a majority of our outstanding shares of common stock is necessary to constitute a quorum at the annual meeting.

**Votes Required to Approve each Proposal**

If a quorum is present at the annual meeting:

(i) the six nominees for the election of directors who receive the greatest number of votes cast by the shares present and voting in person or by proxy will be elected as directors; and



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(ii) the ratification of Deloitte & Touche LLP as our independent registered public accounting firm will be approved if the number of votes cast in favor of the proposal exceeds the number of votes cast against it.

## **Effect of Abstentions**

If you abstain from voting, your shares will be deemed present at the annual meeting for purposes of determining whether a quorum is present. Directors are elected by a plurality of the votes cast, and only votes cast in favor of a nominee will have an effect on the outcome. Therefore, abstention from voting will not affect the outcome of the election of directors. Abstentions will also not affect the outcome of the proposal to ratify Deloitte & Touche LLP as our independent registered public accounting firm.

## **Effect of Broker Non-Votes**

If you hold your shares in street name through a broker or other nominee, your broker or nominee will not be permitted to exercise voting discretion with respect to the proposal for election of directors but will be permitted to exercise voting discretion with respect to the proposal for ratification of Deloitte & Touche, LLP as our registered independent public accounting firm. Thus, if you do not give your broker or nominee specific voting instructions, your shares will not be voted on the proposal for election of directors. Such broker non-votes will be counted for determining whether there is a quorum, but will not have any effect on the proposal for election of directors.

## **Proxy Procedure**

When a proxy card is properly dated, executed and returned, the shares it represents will be voted at the annual meeting in accordance with the instructions specified in the proxy. If no specific instructions are given, the shares will be voted FOR the election of the director nominees described below, and FOR the ratification of Deloitte & Touche LLP as our registered independent public accounting firm. If other matters come before the annual meeting, the persons named in the accompanying proxy will vote in accordance with their best judgment with respect to such matters.

## **Cost of Proxy Solicitation**

We do not plan to hire a proxy solicitor in connection with the annual meeting, but to the extent we choose to use proxy solicitor services, Nautilus will pay the related fees and expenses.

## **Procedures for Stockholder Proposals and Nominations**

Under our amended and restated bylaws ( Bylaws ), nominations for Directors at an annual meeting may be made only by (1) the Board of Directors or a committee of the Board, or (2) a stockholder entitled to vote who has delivered notice to the Company within 90 to 120 days

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before the first anniversary of the date of the mailing of the notice for the preceding year's annual meeting.

Our Bylaws also provide that business may not be brought before an annual meeting unless it is (1) specified in the notice of meeting (which includes stockholder proposals that we are required to include in our proxy statement under SEC Rule 14a-8), (2) brought before the meeting by or at the direction of the Board, or (3) brought by a stockholder entitled to vote who has delivered notice to the Company (containing certain information specified in the Bylaws) within 90 to 120 days before the first anniversary of the date of the mailing of the notice for the preceding year's annual meeting. In addition, you must comply with SEC Rule 14a-8 to have your proposal included in our proxy statement.

A copy of the full text of our Bylaws may be obtained upon written request to the Company Secretary at the address provided on page 1 of this proxy statement.

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### Where You Can Find More Information

We file our proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended ( Exchange Act ). You can inspect and obtain a copy of our proxy statement and other information filed with the SEC at the offices of the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The SEC maintains an Internet site at <http://www.sec.gov/> where you can obtain most of our SEC filings. We also make available, free of charge, on our website at [www.nautilus.com](http://www.nautilus.com), our proxy statements filed with the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed electronically with the SEC.

### PROPOSAL 1:

#### ELECTION OF DIRECTORS

According to our Bylaws, our Board of Directors ( Board ) shall be comprised of seven (7) directors, provided, however that the number may be decreased by resolution of our Board. One of our directors, Michael A. Stein, has elected to retire from our Board effective upon the convening of our 2011 annual meeting and will not stand for re-election. Accordingly, the Board has passed a resolution reducing the authorized number of our directors to six (6) effective at the time our annual meeting is convened.

At our annual meeting, our stockholders will elect a board consisting of six (6) directors to serve until our 2012 annual meeting or until their respective successors are elected and qualified. Our Board has nominated the individuals listed below to serve on our Board. All of the nominees currently are members of our Board. If any nominee is unable or unwilling to serve as a director at the time of the annual meeting, our Board may provide for a lesser number of directors or designate a substitute. If our Board designates a substitute, the proxy holders will have the discretionary authority to vote for the substitute. Proxies may not be voted for more than six nominees.

**Our Board unanimously recommends that you vote FOR each of the following nominees for election as director:**

**Edward J. Bramson**, 60, Chairman, was elected to our Board in December 2007 and became our Chief Executive Officer ( CEO ) in March 2008. In addition to his duties as our Chairman and CEO, since May of 2006, Mr. Bramson has served as the managing member of Sherborne Investors GP, LLC and Sherborne Investors Management GP, LLC (collectively, Sherborne Investors ) and, as such, manages the investment activities of funds controlled by Sherborne Investors. Since February 2011 Mr. Bramson has served as chairman of F&C Asset Management plc, an asset management firm listed on the London Stock Exchange ( LSE ). From December 2006 to March 2010, Mr. Bramson served as chairman of Spirent Communications plc, a global communications technology company listed on the LSE, during which time he served as executive chairman from March 2007 to November 2008. Previously, Mr. Bramson served as chairman and a director of (i) Elementis plc, a global specialty chemicals company listed on the LSE, from June 2005 to April 2007; (ii) Ampex Corporation, a manufacturer of specialized data recording devices and a licensor of proprietary digital video technologies listed on the NASDAQ Stock Market from 1992 until February 2007, which filed for Chapter 11 bankruptcy protection in May 2008 and from which it emerged in September 2008, and (iii) 4imprint Group plc, a promotional products company listed on the LSE, from October 2003 to April 2005. Our Board determined that Mr. Bramson has the requisite experience and expertise to be a director of Nautilus based on his extensive experience as an executive and the ability to provide valuable insight to our Board regarding day-to-day operations of the Company. As a representative of Sherborne Investors, our largest stockholder, Mr. Bramson is positioned to inform our Board on governance issues from a stockholder perspective.

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**Ronald P. Badie**, 68, joined our Board in August 2005. Mr. Badie is a member of the Compensation Committee and the Nominating and Governance Committee. Mr. Badie spent over 35 years with Deutsche Bank

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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. Mr. Badie currently serves as a director and audit committee member of Obagi Medical Products, Inc. and Amphenol Corporation. In addition, Mr. Badie is the chairman of the compensation committee for Obagi Medical Products. Mr. Badie is a graduate of Bucknell University and received an MBA from New York University's Stern School of Business. Our Board determined that Mr. Badie has the requisite experience and expertise to be a director of Nautilus based on his broad experience while serving as a director of several publicly-traded and privately-held companies. In addition, Mr. Badie spent many years as an investment banker and has extensive experience in structured finance and capital markets transactions.

**Richard A. Horn**, 63, was elected to our Board in December 2007. Mr. Horn is Chairman of the Nominating and Governance Committee and is also a member of the Audit Committee and the Compensation Committee. Mr. Horn has been a private investor since February 2002. Mr. Horn was general manager of the PetsHotel Division of PETsMART, Inc., a publicly-traded company, from April 2001 through February 2002. From January 1999 through March 2001, he was senior vice-president and general merchandise manager of PETsMART.com, Inc. and from July 1994 until December 1998, he was vice-president and general merchandise manager of PETsMART, Inc. From 1992 to 1994, Mr. Horn was chief financial officer of Weisheimer Companies, Inc. Mr. Horn was as partner at Coopers & Lybrand (now PricewaterhouseCoopers) from 1980 to 1992. Mr. Horn currently serves on the board of directors of Lucky Litter L.L.C., a privately-financed manufacturer and marketer of pet products, and as the chairman of the board of trustees of The Saint Joseph's Hospital Foundation and trustee and treasurer of Scottsdale Artists School. Our Board determined that Mr. Horn has the requisite experience and expertise to be a director of Nautilus. As a former retail merchandising and direct-marketing manager, former chief financial officer and a former partner at Coopers & Lybrand, Mr. Horn brings particular expertise to our Board in the areas of direct marketing sales, consumer product merchandising, and service industries, investor relations, financial reporting, accounting and auditing for complex multinational operations.

**M. Carl Johnson, III**, 62, was elected to our Board on July 1, 2010. Mr. Johnson is a member of the Compensation Committee. From 2001 until his retirement on April 1, 2011, Mr. Johnson served as senior vice president and chief strategy officer of the Campbell Soup Company, where he had direct responsibility for corporate strategy, research & development, quality, corporate marketing services, licensing, and e-business. Mr. Johnson joined Campbell from Kraft Foods, where he ran three successively larger business divisions. He joined Kraft in 1992 as vice president, Strategy, for Kraft Foods, USA. In 1993, he became executive vice president, Kraft USA and general manager of Kraft's Specialty Products Division. In 1995, he was made executive vice president of Kraft Foods, N.A. and general manager of the Meals Division. In 1997, Mr. Johnson was named president of the \$2.5 billion New Meals Division when the former Meals and Enhancers Divisions were consolidated and a member of the Kraft Foods N.A. operating committee. Mr. Johnson earned his B.A. degree in government and economics from Wesleyan University, and his M.B.A. degree from the University of Chicago. Mr. Johnson serves as an advisory board member of the Agricultural Sustainability Institute, University of California, Davis. He also serves as a member of the board of directors of Avedro, Inc., a privately held pioneer in vision correction technology. Mr. Johnson is a trustee of the Adelpic Educational Fund, Wesleyan University, which grants scholarships and supports educational, literary and artistic programs. He is also a member of the steering committee of the Kilts Center for Marketing at the University of Chicago Graduate School of Business, which provides scholarships to top marketing students and helps the school steer its marketing curriculum. He also serves on the dean's advisory board of the LeBow College of Business at Drexel University. Our Board has determined that Mr. Johnson has the requisite experience and expertise to be a director of Nautilus based on his consumer marketing expertise and strong background in corporate expansion strategy.

**Craig L. McKibben**, 60, was appointed to our Board on December 18, 2009, effective December 31, 2009. Mr. McKibben has, since 1989, been a managing director, partner and the chief financial officer of Sherborne Investors LP, Sherborne Investors Management LP and certain of their affiliates ( Sherborne ). Mr. McKibben served as chief financial officer of Ampex Corporation from 1992 until September 2008. Mr. McKibben also

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served on the board of directors of Ampex from 1992 until September 2008. Ampex formerly was a publicly-traded company. Ampex filed for Chapter 11 bankruptcy protection in May 2008, from which it emerged in September 2008, at which time Mr. McKibben resigned from his positions with the company. Our Board determined that Mr. McKibben has the requisite experience and expertise to be a director of Nautilus. As acting managing director, partner and chief financial officer of Sherborne and a former chief financial officer of a publicly-traded company, Mr. McKibben brings particular expertise to our Board in the areas of corporate finance and investor relations and is able to provide a stockholder perspective as a representative of Sherborne.

**Marvin G. Siegert**, 62, joined our Board in August 2005. Mr. Siegert is Chairman of the Audit Committee. Currently a private investor, Mr. Siegert was president and chief operating officer of The Pyle Group LLC, a private equity investment group, from 1996 until July 2007. Prior to The Pyle Group, Mr. Siegert spent 26 years with Rayovac Corporation, a manufacturer of batteries and lighting products, where he held various positions, with his most recent position as senior vice president and chief financial officer. Currently, Mr. Siegert serves as audit committee chairman on the board of directors of Great Lakes Educational Loan Services, Inc., a privately-held student loan servicing company, and is a member of the board of directors of Hy Cite Corporation, a privately-held direct sales marketing company. Mr. Siegert graduated from the University of Wisconsin, Whitewater with a degree in accounting and holds a master's degree in management from the University of Wisconsin, Madison. Our Board determined that Mr. Siegert has the requisite experience and expertise to be a director of Nautilus. As a former president and chief operating officer of a private equity investment group and former chief financial officer of a privately-held global consumer products company, Mr. Siegert brings a particular expertise to our Board in the areas of consumer products, investor relations and financial strategies.

No family relationship exists among any of the directors or executive officers. No arrangement or understanding exists between any director or executive officer and any other person pursuant to which any director was selected as a director or executive officer of Nautilus.

## **INFORMATION CONCERNING THE BOARD OF DIRECTORS**

Our Board oversees our overall performance on behalf of our stockholders. Members of our Board stay informed of our business through discussions with our Chief Executive Officer and other members of our executive team, by reviewing materials provided to them, and by participating in regularly scheduled Board and committee meetings.

### **Corporate Governance**

Our Board is elected by our stockholders to govern our business and affairs. Our Board selects our senior management team, which is charged with conducting our business. Having selected our senior management team, our Board acts as an advisor to senior management and monitors their performance. Our Board reviews our strategies, financial objectives and operating plans. It also plans for management succession of our Chief Executive Officer, as well as other senior management positions, and oversees our compliance efforts.

Our Board has determined that each of Ronald P. Badie, Richard A. Horn, M. Carl Johnson, III, Marvin G. Siegert and Michael A. Stein qualify as an independent director under our Corporate Governance Guidelines (available on our website at [www.nautilusinc.com](http://www.nautilusinc.com)), Section 303A.02 of the Listed Company Manual of the New York Stock Exchange, and applicable rules of the SEC, and that each such person is free of any relationship that would interfere with the individual exercise of independent judgment. Our Board has further determined that each member of the three committees of our Board meets the independence requirements applicable to those committees prescribed by the Listed Company Manual and the SEC, including Rule 10A-3(b)(1) under the Exchange Act related to audit committee member independence. Our Board considered Mr. Siegert's independence in light of his position as an independent member of the board of directors of Hy Cite Corporation,



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and concluded that his qualification as an independent director of Nautilus is not compromised by such position. Hy Cite provides third-party consumer credit financing to certain Nautilus customers whose credit applications have been declined our primary third-party consumer credit financing provider.

Our Board met eight times in 2010 and all of our directors attended at least 75% of the meetings of our Board and of the meetings held by the committee(s) on which they served. Currently, we do not have a policy requiring our board members attendance at the annual meetings of our stockholders. One board member attended our 2010 annual stockholders meeting.

## **Transactions with Related Persons**

Our Board recognizes that transactions with a related person (as such terms are defined in Item 404 of Regulation S-K) present a heightened risk of conflict of interest and/or improper valuation (or the perception thereof) and, therefore, has adopted a policy which shall be followed in connection with all related person transactions. Specifically, this policy addresses our procedures for the review, approval and ratification of all related person transactions.

Our Board has determined that its Audit Committee is best suited to review and approve related person transactions. Accordingly, any related person transactions recommended by management shall be presented to the Audit Committee for approval at a regularly scheduled meeting of the Audit Committee. Any related person transaction shall be consummated or shall continue only if the Audit Committee approves the transaction, the disinterested members of our Board approve the transaction, or the transaction involves compensation approved by the Compensation Committee of the Board.

Our largest stockholder, Sherborne Investors LP and certain of its affiliates (collectively, Sherborne ) undertook a successful action to replace four of our Board members with Sherborne nominees in a December 2007 special meeting of stockholders. In May 2008 stockholders approved the reimbursement of up to \$0.6 million of expenses incurred by Sherborne in connection with the stockholder action. Payment requires the approval of the disinterested members of our Board and is not anticipated until some time after we return to profitability. Sherborne is controlled by Edward J. Bramson, our Chairman and Chief Executive Officer, and Craig L. McKibben, a member of our Board.

In February 2009 the disinterested members of our Board approved a separate agreement with Sherborne Investors Management ( Sherborne Investors ) under which we are obligated to reimburse Sherborne Investors \$20,000 per month for the use of Sherborne s New York office space and administrative, information technology and communications services to support our Chief Executive Officer.

On September 3, 2010, the disinterested members of our Board approved a Note Purchase Agreement (the Purchase Agreement ) by and among the Company and certain entities affiliated with Sherborne (the Purchasers ).

Pursuant to the Purchase Agreement, Nautilus issued to the Purchasers \$6,096,996.21 in aggregate principal amount at maturity of its Increasing Rate Senior Discount Notes Due December 31, 2012 (the Notes ). The Notes have an original principal amount totaling \$5,000,000 and mature on December 31, 2012. The then outstanding principal amount of the Notes accretes value at rates equal to (i) 2.5% per annum from September 3, 2010 through February 28, 2011; (ii) 6.0% per annum from March 1, 2011 through August 31, 2011; (iii) 9.5% per annum from September 1, 2011 through February 29, 2012; (iv) 13.0% per annum from March 1, 2012 through August 31, 2012; and (v) 14.5% per annum thereafter. Nautilus received gross proceeds from the sale of the Notes of \$5,000,000. The proceeds will be used for working capital and general



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corporate purposes. If all the Notes are paid at maturity, the effective rate of interest is 8.7% per annum. At a meeting of the Company's Board held on September 2, 2010, we granted a waiver of a provision of our Code of Business Conduct and Ethics to the extent that Mr. Bramson's control of and interest in the Purchasers of the Notes may constitute a conflict of interest within the meaning of our Code of Business Conduct and Ethics.

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### **Committees of the Board**

Our Board currently has three standing committees: an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. Each committee is governed by a written charter that may be amended by our Board at any time. The full text of each committee charter and our Corporate Governance Guidelines are available on our website located at [www.nautilusinc.com](http://www.nautilusinc.com) or in print to any interested party who requests it. Requests should be sent to the Company Secretary at the address provided on page 1 of this proxy statement.

#### *The Audit Committee*

The Audit Committee is established in accordance with section 3(a)(58)(A) of the Exchange Act and represents and assists our Board in fulfilling its oversight responsibility relating to (i) the integrity of our financial statements and other financial information furnished by Nautilus, (ii) our compliance with legal and regulatory requirements, (iii) our system of internal accounting and financial controls, (iv) our registered independent public accounting firm's qualifications, performance, compensation and independence, (v) the performance of our internal audit function, and (vi) compliance with our code of business conduct and ethics.

In fulfilling the duties outlined in its charter, the Audit Committee, among other things, shall:

have the sole authority and responsibility to select, evaluate and, where appropriate, replace our registered independent public accounting firm;

review and discuss with management and our registered independent public accounting firm, prior to release to the general public and legal and regulatory agencies, our annual audited financial statements and quarterly financial statements, including disclosures contained in Management's Discussion and Analysis of Financial Condition and Results of Operations, and matters required to be reviewed under applicable legal, regulatory or public company exchange listing requirements;

discuss policies developed by management and our Board with respect to risk assessment and risk management and steps management has taken to monitor and control financial risk exposure, including anti-fraud programs and controls;

review the responsibilities, functions and performance of our internal audit function, including internal audit's charter, plans and budget and the scope and results of internal audits;

review management's report on internal control over financial reporting and discuss with management and the registered independent public accounting firm any significant deficiencies or material weaknesses in the design or operation of our internal controls; and

establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by our employees of concerns regarding questionable accounting, auditing matters or violations of our code of conduct.

As of the date of this proxy statement, the Audit Committee consists of three independent directors, Marvin G. Siegert (Chairman), Richard A. Horn and Michael A. Stein. Mr. Siegert has served as Chairman of the committee since May 2007. Mr. Horn and Mr. Stein were appointed to

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the Committee in December 2007. Mr. Stein has elected to retire from our Board effective upon the convening of our 2011 annual meeting and will not stand for re-election.

Each current member of the Audit Committee meets the independence, financial literacy and experience requirements contained in the corporate governance listing standards of the New York Stock Exchange (NYSE) relating to audit committees. Our Board has determined that all the members of its Audit Committee qualify as audit committee financial experts under the regulations of the SEC. Although all members of the Audit

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Committee meet the current NYSE regulatory requirements for accounting or related financial management expertise, and our Board has determined that each of them qualifies as an audit committee financial expert, members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are not technical experts in auditing or accounting. The Audit Committee met six times during 2010.

A copy of the full text of the Audit Committee Charter can be found on our website at [www.nautilusinc.com](http://www.nautilusinc.com).

## ***The Compensation Committee***

The Compensation Committee is responsible for overseeing the Company's compensation of employees, including equity-based plans, and employee benefit plans and practices, including the compensation and benefits of our executive officers. The Compensation Committee also administers our 2005 Long-Term Incentive Plan.

In fulfilling the duties outlined in its charter, the Compensation Committee, among other things, shall:

review periodically our executive compensation plans in light of the Company's goals and objectives with respect to such plans and, if the committee deems appropriate, adopt, or recommend to our Board the adoption of, new, or the amendment of existing, executive compensation plans;

evaluate annually the performance of our Chief Executive Officer ( CEO ) and, with our CEO's participation and input, that of our other executive officers in light of the goals and objectives of our executive compensation plans. Based on this evaluation, the Compensation Committee shall determine and approve the CEO's and, with the CEO's participation and input, the compensation levels of our other executive officers;

approve any equity compensation awarded to any of our executive officers, subject to the requirements of the applicable compensation plans; and

with respect to SEC reporting requirements, review and discuss with management our compensation discussion and analysis, and oversee the preparation of, and approve, the Compensation Committee's report on executive compensation to be included in our proxy statement.

The Compensation Committee may not delegate any power or authority required by any law, regulation or listing standard to be exercised by the committee. The Compensation Committee met six times during 2010.

A copy of the full text of the Compensation Committee Charter can be found on our website at [www.nautilusinc.com](http://www.nautilusinc.com).

## ***Compensation Committee Interlocks and Insider Participation***

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As of the date of this proxy statement, the Compensation Committee is comprised of four independent directors, Michael A. Stein (Chairman), Ronald P. Badie, Richard A. Horn and M. Carl Johnson, III, each of whom served on the committee during 2010. Messrs. Stein, Horn and Badie were appointed to the committee on December 31, 2007 and Mr. Stein was named the committee's Chairman on that date. Mr. Stein has elected to retire from our Board effective upon the convening of our 2011 annual meeting and will not stand for re-election.

Mr. Johnson was appointed to the Compensation Committee on July 1, 2010. None of the members of the committee have a relationship with Nautilus, other than as directors and stockholders. No member of the Compensation Committee is or was formerly an officer or an employee of Nautilus. None of our executive officers served, during the year ended December 31, 2010, as a member of the compensation committee or board of directors of any entity that has an executive officer serving as a member of the Compensation Committee or Board of Directors of Nautilus.

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*The Nominating and Corporate Governance Committee*

The Nominating and Corporate Governance Committee is responsible for considering and making recommendations concerning the membership and function of the Board, and the development and review of corporate governance guidelines.

In fulfilling the duties outlined in its charter, the Nominating and Corporate Governance Committee, among other things, shall:

identify individuals qualified to become members of our Board and to select director nominees to be presented for stockholder approval at our annual stockholders meeting;

review our Board's committee structure and recommend to the Board for its approval directors to serve as members of each committee;

develop and recommend to our Board for its approval a set of corporate governance guidelines;

develop and recommend to our Board for its approval an annual self-evaluation process of the Board and its committees; and

review on an annual basis director compensation and benefits.

The Nominating and Corporate Governance Committee will consider recommendations for directorships submitted by stockholders. Stockholders who wish the Nominating and Corporate Governance Committee to consider their recommendations for nominees for the position of director should submit their recommendations in writing to the Nominating and Corporate Governance Committee, Attention: Chairman, Nautilus, Inc., 16400 SE Nautilus Drive, Vancouver, WA 98683. Recommendations by stockholders that are made in accordance with these procedures will receive the same consideration given to nominations made by the committee.

Nominees may be suggested by directors, members of management, stockholders or, in some cases, by a third party firm. In identifying and considering candidates for nomination to the Board of Directors, the Nominating and Corporate Governance Committee considers a candidate's quality of experience, the needs of the Company and the range of talent and experience represented on its Board. In evaluating particular candidates, the committee will review the nominee's personal and professional integrity, judgment, experience, and ability to serve the long-term interest of the stockholders. The committee will also take into account the ability of a director to devote the time and effort necessary to fulfill his or her responsibilities. The committee also considers matters of diversity, including gender, race and national origin, education, professional experience and differences in viewpoints and skills. While the Nominating and Corporate Governance Committee does not have a formal policy with respect to diversity, both the Board and the committee believe that it is essential that Board members represent a diverse range of experience, expertise and viewpoints.

As of the date of this proxy statement, the Nominating and Corporate Governance Committee is comprised of three independent directors, Richard A. Horn (Chairman), Ronald P. Badie and Michael A. Stein. Messrs. Horn and Stein were appointed to the committee and Mr. Horn was named the committee's Chairman on December 31, 2007. Mr. Stein has elected to retire from our Board effective upon the convening of our 2011 annual meeting and will not stand for re-election. The Nominating and Corporate Governance Committee met three times during 2010.

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A full copy of the Nominating and Corporate Governance Committee Charter can be found on our website at [www.nautilusinc.com](http://www.nautilusinc.com).

### **Communications with Directors**

All interested parties may send correspondence to our Board of Directors or to any individual director at the following address: Nautilus, Inc., 16400 SE Nautilus Drive, Vancouver, Washington 98683.

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Your communications should indicate that you are a stockholder of Nautilus. Depending on the subject matter, we will either forward the communication to the director or directors to whom it is addressed, attempt to handle the inquiry directly, or not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic. Correspondence marked confidential will not be opened prior to forwarding to the Board or any individual director.

## **Code of Business Conduct and Ethics**

We have adopted the Nautilus, Inc. Code of Business Conduct and Ethics (the Code of Ethics ), which applies to all of our directors, officers and employees. You can view the Code of Ethics on our website at [www.nautilusinc.com](http://www.nautilusinc.com). A copy of the Code of Ethics will be provided in print without charge to all interested parties who submit a request in writing to Corporate Communications, Nautilus, Inc., 16400 SE Nautilus Drive, Vancouver, Washington 98683.

## **Board Leadership Structure**

At this time, our Board believes that combining the Chairman and CEO role is most effective for the Company's leadership and governance. Having one person as our Chairman and CEO provides unified leadership and direction and strengthens the ability of our CEO to develop and implement strategic initiatives and respond efficiently in various situations. Our Board also believes the combination of the Chairman and CEO positions is appropriate in light of the independent oversight that our Board provides. Nautilus has a Lead Independent Director, currently Mr. Badie, who: presides over executive sessions of independent directors; serves as a liaison between the Chairman and independent directors; consults with the Chairman and CEO regarding information sent to directors; reviews meeting agendas and schedules; may call meetings of independent directors; and, if asked by major stockholders, would be available for direct communication if appropriate. In addition to the Lead Independent Director, our Board has a majority of independent directors. Four out of the six director nominees are independent. The Audit, Compensation, and Nominating and Corporate Governance Committees each are composed solely of independent directors.

## **Board Role in Risk Oversight**

While risk management is primarily the responsibility of our management team, our Board is responsible for overall supervision of risk management efforts as they relate to the key business risks we face. Management identifies, assesses, and manages the risks most critical to our operations and routinely advises our Board regarding those matters. Areas of material risk may include operational, financial, legal and regulatory, human capital, information technology and security, and strategic and reputational risks. Our Board's role in risk oversight is consistent with our leadership structure, with senior management having responsibility for assessing and managing risk exposure, and our Board and its Committees providing oversight as necessary in connection with those efforts.

## **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors and executive officers, as well as persons who own more than 10% of our outstanding common stock, to file with the SEC initial reports of beneficial ownership and reports of changes in beneficial ownership of shares of our common stock. Based solely on a review of copies of such forms furnished to us and written representations from our executive officers, directors and 10% stockholders, we believe that all Section 16(a) filing requirements applicable to Nautilus were timely made with respect to the year ended December 31, 2010, with the exception of one late filing by Ryan A. Neal, Vice President, General Manager Retail, with respect to



one transaction.

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The following table summarizes certain information regarding the beneficial ownership of our outstanding common stock, as of February 28, 2011, by: 1) each director and director nominee; 2) each of the named executive officers included in the Summary Compensation Table; 3) all persons that we know are beneficial owners of more than 5% of our common stock; and 4) all directors and executive officers as a group. Except as otherwise indicated, and subject to applicable community property laws, each owner has sole voting and sole investment powers with respect to all shares beneficially owned.

Name and Address of Beneficial Owner	Total Shares Beneficially Owned	Shares Covered by Options <sup>(2)</sup>	Percentage Beneficially Owned <sup>(1)</sup>
Sherborne Investors GP, LLC	9,981,449 <sup>(3)</sup>		32.43
135 East 57th Street			
New York, NY 10022			
Dimensional Fund Advisors, LP	1,539,550 <sup>(4)</sup>		5.01
Palisades West, Building One			
6300 Bee Cave Road			
Austin, Texas 78746			
<b>Current Non-Employee Directors</b>			
Ronald P. Badie, Director	37,500	30,000	*
Richard A. Horn, Director	15,000	15,000	*
M. Carl Johnson, III, Director	5,000		*
Craig L. McKibben, Director			*
Marvin G. Siegert, Director	33,000 <sup>(5)</sup>	30,000	*
Michael A. Stein, Director <sup>(6)</sup>	15,000	15,000	*
<b>Current Employee Director</b>			
Edward J. Bramson, Chairman of the Board of Directors and Chief Executive Officer	9,981,449 <sup>(7)</sup>		32.43
<b>Current Named Executive Officers</b>			
Kenneth L. Fish, Chief Financial Officer	212,467	74,252	*
Wayne M. Bolio, Senior Vice President, Law and General Counsel	127,384	111,584	*
William B. McMahon, Senior Vice President, Consumer Business	27,806	25,546	*
Ryan A. Neal, Vice President, General Manager Retail	12,584	5,584	*
<b>Current Directors and Executive Officers as a Group (12 persons)</b>	<b>10,526,458</b>	<b>360,384</b>	