

NAUTILUS, INC.
Form DEF 14A
April 22, 2005
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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)

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NAUTILUS, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Nautilus, Inc.:

The annual meeting of shareholders of Nautilus, Inc. (the Company) will be held on Monday, June 6, 2005, at the Embassy Suites Hotel, 7900 NE 82nd Avenue, Portland, Oregon, 97220, beginning at 10:00 a.m. Pacific Daylight Time, for the following purposes:

1. To elect a board of directors, consisting of eight (8) members, to serve until the next annual meeting of shareholders or until their successors are duly elected and qualified;
2. To ratify the selection of the Company's registered independent public accounting firm;
3. To approve and adopt the Nautilus, Inc. 2005 Long Term Incentive Plan; and
4. To consider and act upon any other matter which may properly come before the annual meeting or any adjournment thereof.

Only shareholders who held their shares at the close of business on April 11, 2005, the record date, are entitled to notice of and to vote at the annual meeting or any adjournment or postponement thereof.

All shareholders are cordially invited to attend the annual meeting at which management will present a review of the Company's operations for the year ended December 31, 2004. **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
WILLIAM D. MEADOWCROFT
Chief Financial Officer, Secretary and Treasurer

Vancouver, Washington

April 15, 2005

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2005 ANNUAL MEETING OF SHAREHOLDERS

NOTICE OF ANNUAL MEETING AND PROXY STATEMENT

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NAUTILUS, INC.

1400 NE 136th Avenue

Vancouver, Washington 98684

PROXY STATEMENT

FOR THE

ANNUAL MEETING OF SHAREHOLDERS

To Be Held On June 6, 2005

General

Our Board of Directors is furnishing this proxy statement and the accompanying Annual Report to Shareholders, notice of annual meeting and proxy card in connection with its solicitation of proxies for use at our 2005 annual meeting of shareholders or any adjournment thereof. The annual meeting will be held on Monday, June 6, 2005, beginning at 10:00 a.m., Pacific Daylight Time at the following location:

Embassy Suites Hotel

7900 NE 82nd Avenue

Portland, Oregon 97220

We are bearing all expenses associated with this solicitation. Our officers or regular employees, without additional remuneration, may follow this written proxy solicitation with personal solicitation of shareholders in person or by telephone or facsimile transmission. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. The Company has retained Georgeson Shareholder to assist with the solicitation of proxies for a fee not to exceed \$6,500, plus reimbursement for out-of-pocket expenses.

Our Board of Directors has designated the two persons named on the enclosed proxy card, Gregory C. Hammann and William D. Meadowcroft, to serve as proxies in connection with the annual meeting. These proxy materials and the accompanying Annual Report to Shareholders are being mailed on or about April 25, 2005 to our shareholders of record on April 11, 2005.

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Our principal executive offices are located at 1400 NE 136th Avenue, Vancouver, Washington 98684. Effective July 1, 2005, our principal executive offices will be 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 April 11, 2005 as the record date for determining which of our shareholders are entitled to notice of and to vote at the annual meeting. At the close of business on the record date, 33,190,288 shares of our common stock were outstanding.

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Voting; Quorum

Each share of common stock outstanding on the record date is entitled to one vote per share at the annual meeting. Shareholders 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.

Vote Required to Approve the Proposals

If a quorum is present at the annual meeting:

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

(ii) the ratification of Deloitte & Touche LLP as our registered independent 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; and

(iii) the Nautilus, Inc. 2005 Long Term Incentive Plan will be approved and adopted if the number of votes cast in favor of the proposal exceeds the number of votes cast against it, provided that the total number of votes cast represents more than 50% of all shares entitled to vote on the proposal.

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. Abstentions will also not affect the outcome of the proposal to ratify Deloitte & Touche LLP as our registered independent public accounting firm or the proposal to approve and adopt the Nautilus, Inc. 2005 Long Term Incentive Plan.

Effect of Broker Non-Votes

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

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as votes cast for purposes of meeting the New York Stock Exchange requirement that the total number of votes cast represents more than 50% of all shares entitled to vote on the proposal to approve the Nautilus, Inc. 2005 Long Term Incentive Plan. Broker non-votes may therefore prevent this proposal from passing even if the number of votes cast in favor of the proposal exceed the number of votes cast against.

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, FOR the ratification of Deloitte & Touche LLP as our registered independent public accounting firm, and FOR the approval and adoption of the Nautilus, Inc. 2005 Long Term Incentive Plan. 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.

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CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

Director Independence and Lead Independent Director

The Board of Directors has determined that the director nominees standing for election, except the Chief Executive Officer (the "CEO"), are each an independent director for purposes of the Company's Corporate Governance Guidelines and Section 303A.02 of the Listed Company Manual of the New York Stock Exchange, and that each such person is free of any relationship that would interfere with the individual exercise of independent judgment. The Board of Directors has further determined that each member of the three committees of the Board of Directors meets the independence requirements applicable to those committees prescribed by the Listed Company Manual and the Securities and Exchange Commission, including Rule 10A-3(b)(1) under the Securities Exchange Act of 1934 (the "Exchange Act") related to audit committee member independence.

In March 2004, the Board of Directors designated Peter A. Allen as the Lead Independent Director pursuant to the Company's Corporate Governance Policies. The Lead Independent Director presides at the executive sessions of the Board of Directors and reviews and consults with the Chairman and Chief Executive Officer concerning the agenda for each regular meeting of the Board. The Lead Independent Director may also periodically help schedule or conduct separate meetings of the independent directors and perform such other duties as may be determined by the Board of Directors.

Board Structure and Committee Composition

Our Board of Directors currently has three committees: an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. The full text of each committee charter and our Corporate Governance Guidelines are available on the Company's website located at www.nautilus.com.

The Audit Committee

Under the terms of its charter, the Audit Committee represents and assists the Board in fulfilling its oversight responsibility relating to the integrity of the Company's financial statements and other financial information furnished by the Company, the Company's compliance with legal and regulatory requirements, the Company's systems of internal accounting and financial controls, the registered independent public accounting firm's qualifications and independence, and the performance of the Company's internal audit function and registered independent public accounting firm. In fulfilling its duties, the Audit Committee, among other things, shall:

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

(b) review and discuss with management and the registered independent public accounting firm, prior to release to the general public and legal and regulatory agencies, the annual audited financial statements and quarterly financial statements, including disclosures contained in

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Management's Discussion and Analysis of Financial Condition and Results of Operations, and matters required to be reviewed under applicable legal, regulatory or New York Stock Exchange requirements;

(c) review and discuss the Company's major financial risk exposures and steps taken by management to monitor and mitigate such exposures;

(d) review with management and the internal audit manager the internal audit charter and plan, and the purpose, authority, activities, staffing and organizational structure of the internal audit function;

(e) review and discuss with management and the registered independent public accounting firm, the effectiveness of the Company's internal financial controls and the internal audit function, including compliance with *The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing*; and

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(f) 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 employees of the Company of concerns regarding questionable accounting, auditing matters or violations of the Company's code of ethics.

Directors Robert S. Falcone (Chairman), Paul F. Little and Donald W. Keeble serve on the Audit Committee. The Board of Directors has determined that Mr. Falcone is an audit committee financial expert as defined by the rules of the Securities and Exchange Commission. Each member of the Audit Committee is financially literate, knowledgeable and able to review and understand financial statements. In 2004, the Audit Committee met seven (7) times.

The Compensation Committee

Under the terms of its charter, the Compensation Committee has overall responsibility for evaluating and approving the officer compensation plans, policies and programs of the Company. The Compensation Committee also acts as the administrator of the Company's 1995 Stock Option Plan. In fulfilling its duties, the Compensation Committee, among other things shall:

(a) review and approve on an annual basis the corporate goals and objectives with respect to compensation for the chief executive officer, and (ii) evaluate the chief executive officer's performance in light of these established goals and objectives, and based upon these evaluations, shall set the chief executive officer's annual compensation, including salary, bonus, incentive and equity compensation;

(b) review and approve on an annual basis the evaluation process and compensation structure for the Company's senior executive officers, and (ii) evaluate the performance of the Company's senior executive officers and shall approve the annual compensation, including salary, bonus, incentive and equity compensation, for such senior executive officers;

(c) review the Company's stock option and other stock-based plans and recommend changes in such plans to the Board as needed; and

(d) prepare and publish an annual executive compensation report in the Company's proxy statement.

Directors Peter A. Allen (Chairman), Frederick T. Hull, Diane L. Neal and James M. Weber serve on the Compensation Committee. In 2004, the Compensation Committee met nine (9) times and took action by unanimous written consent two (2) times.

The Nominating and Corporate Governance Committee

Under the terms of its charter, the Nominating and Corporate Governance Committee is responsible for considering and making recommendations concerning the membership and function of the Board, and the review and development of corporate governance guidelines. In fulfilling its duties, the Nominating and Corporate Governance Committee, among other things, shall:

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- (a) identify individuals qualified to become members of the Board and to select director nominees to be presented for shareholder approval at the annual meeting;
- (b) review the Board's committee structure and recommend to the Board for its approval directors to serve as members of each committee;
- (c) develop and recommend to the Board for its approval a set of corporate governance guidelines;
- (d) develop and recommend to the Board for its approval an annual self-evaluation process of the Board and its committees; and
- (e) review on an annual basis director compensation and benefits.

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The Nominating and Corporate Governance Committee will consider recommendations for directorships submitted by shareholders. Shareholders 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., 1400 NE 136th Avenue, Vancouver, WA 98684. After July 1, 2005, recommendations should be submitted to 16400 SE Nautilus Drive, Vancouver, Washington 98683. Recommendations by shareholders that are made in accordance with these procedures will receive the same consideration given to nominees of the Nominating and Corporate Governance Committee.

Nominees may be suggested by directors, members of management, shareholders 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 the 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 shareholders. 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 Nominating and Corporate Governance Committee is composed of Peter A. Allen (Chairman), Frederick T. Hull, Diane L. Neal and James M. Weber. In 2004, The Nominating and Corporate Governance Committee met five (5) times.

Meeting Attendance

In 2004, the Company's Board of Directors held six (6) meetings. During 2004, no director attended fewer than 75% of the meetings of the Board of Directors or any committees of which the director was a member.

All Board members are expected to prepare for, attend and participate in meetings of the Board and of committees on which they serve. The Board of Directors does not currently have a specific policy with regard to attendance of Board members at our annual meeting of shareholders; however, we attempt to hold a regularly scheduled Board meeting in conjunction with our annual meeting of shareholders.

Code of Business Conduct and Ethics

We have adopted the Nautilus, Inc. Code of Business Conduct and Ethics (the Code of Ethics), which is a code of conduct and ethics that applies to all of our directors, officers and employees, including our principal executive officer and our principal financial officer. The Code of Ethics provides that only the Board of Directors may make a waiver of the Code of Ethics for officers and directors.

You can view the Code of Ethics on our website at www.nautilus.com. A copy of the Code of Ethics will be provided in print without charge to any shareholder who submits a request in writing to Corporate Communications, Nautilus, Inc., 1400 NE 136th Avenue, Vancouver, Washington 98684. Effective July 1, 2005 all requests should be sent to 16400 SE Nautilus Drive, Vancouver, Washington 98683.

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The following table provides information on the Company's compensation and reimbursement practices for non-employee directors. Director compensation increased to the amounts shown below on June 7, 2004. Prior to June 7, 2004 outside directors received an annual retainer of \$25,000, Board and committee meeting fees of \$1,000 per day, plus travel expenses, and annual stock option grants exercisable for 5,000 shares of common stock.

Non-Employee Director Compensation Table for 2004

Annual Retainer (payable monthly)	\$ 35,000
Board Meeting Fee (for meetings with a duration in excess of one hour)	\$ 2,000
Committee Meeting Fee (for meetings with a duration in excess of one hour)	\$ 2,000
Annual Audit Committee Chairman Fee (payable monthly)	\$ 10,000
Annual Compensation Committee Chairman Fee (payable monthly)	\$ 5,000
Annual Nominating & Corporate Governance Committee Chairman Fee (payable monthly)	\$ 5,000
Annual Stock Option Grants (on date of election or re-election to the Board)	10,000 shares

On June 7, 2004, our Board of Directors granted to each non-employee director an option to purchase 10,000 shares of our common stock at an exercise price equal to the market price of our common stock at close of trading on the New York Stock Exchange on the date prior to the grant date (\$15.66 per share). The options vest fully after one year. Directors who are Company employees receive no additional or special remuneration for serving as directors.

Shareholder Communications with Directors

Shareholders may send correspondence to our Board of Directors or to any individual director at the following address: Nautilus, Inc., 1400 NE 136th Avenue, Vancouver, Washington 98684. Effective July 1, 2005 all correspondence should be sent to 16400 SE Nautilus Drive, Vancouver, Washington 98683.

Your communications should indicate that you are a shareholder 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.

PROPOSAL NO.1**ELECTION OF DIRECTORS**

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In accordance with our amended and restated bylaws, our Board of Directors shall be comprised of no less than five and no more than fifteen directors, with the specific number to be determined by our Board of Directors. At the time of this proxy statement, the Board has eight directors.

Nominees

At the annual meeting, our shareholders will elect a Board of eight directors to serve until the 2006 annual meeting or until their respective successors are elected and qualified. Our Board of Directors has nominated the individuals listed below to serve on our Board. All of the nominees currently are members of our Board of Directors. If any nominee is unable or unwilling to serve as a director at the time of the annual meeting, our Board of Directors may provide for a lesser number of directors or designate a substitute. If our Board of Directors designates a substitute, the proxy holders will have the discretionary authority to vote for the substitute. Proxies may not be voted for more than eight nominees.

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Name	Age	Has Been a Director Since
Peter A. Allen	44	2002
Robert S. Falcone	58	2003
Greggory C. Hammann	42	2003
Frederick T. Hull	67	2001
Donald W. Keeble	55	2004
Paul F. Little	61	1999
Diane L. Neal	48	2004
James M. Weber	45	2001

Peter A. Allen has served on our Board of Directors since 2002. Mr. Allen is a Partner and Managing Director at Technology Partners International, a global consulting services firm. Technology Partners International advises major corporations in the evaluation, negotiation, implementation and management of outsourcing services agreements. Mr. Allen has maintained this position since July 2001. From December 1998 to June 2001, Mr. Allen served as Chairman, President and Chief Executive Officer of Data Dimensions, Inc., an IT consulting firm. Prior to that, Mr. Allen served as Vice President with Computer Sciences Corporation from 1990 to 1998. Computer Sciences Corporation is a leading global technology services firm specializing in systems integration, consulting and outsourcing. Mr. Allen received a B.S. in Computer Science from the University of Maryland.

Robert S. Falcone has served on our Board of Directors since 2003. Mr. Falcone, who has over 33 years of management and board experience, is President and Chief Executive Officer of Catalyst Acquisition Group. Mr. Falcone has maintained this position since January 2005. From 2003 to 2004, Mr. Falcone was Executive Vice President and Chief Financial Officer of BearingPoint, Inc., one of the world's largest business consulting firms. Mr. Falcone is the former Senior Vice President and Chief Financial Officer of 800.com, an Internet retailer of consumer electronics, and was the Chief Financial Officer of Nike, Inc. from 1992 to 1998. He also spent over 21 years with Price Waterhouse LLP, the last 8 years as a partner. Mr. Falcone is a board member of RadioShack Corporation and International Microcomputer Software, Inc. and received his B.S. in Business Administration, Accounting from Villanova University.

Greggory C. Hammann has served on our Board of Directors and as President and Chief Executive Officer since joining Nautilus in July 2003. Mr. Hammann was appointed Chairman of the Board in March 2004. From 2001 to 2003, he served in a variety of executive positions with Levi Strauss and Company, a global leader in the apparel industry. From 1996 to 2000, Mr. Hammann held a variety of executive marketing and strategic planning positions with The Coca-Cola Company. Prior to Coca-Cola, he held various positions in sales, marketing and general management with companies including McLeodUSA, Rayovac, Famous Footwear, and Procter and Gamble. Mr. Hammann received a B.B.A. from the University of Iowa and a M.B.A. from the University of Wisconsin.

Frederick T. Hull has served on our Board of Directors since 2001. Mr. Hull, a veteran of 35 years with the Nestlé/Carnation Company, is the past President of Nestlé Brands Foodservice Company, the foodservice division of Nestlé USA. Currently, Mr. Hull serves on the advisory board of the Hotel and Restaurant School of California State Polytechnic University, Pomona, the advisory board of the School of Business at the University of Colorado, and is a board advisor to Anawah, Inc. Mr. Hull received a B.S. in Business Administration from the University of Colorado.

Donald W. Keeble joined the Board in July 2004. Mr. Keeble was with Kmart Corporation, a large consumer retail company, for 29 years, most recently as its President of Store Operations. Mr. Keeble is a managing partner of Harvard Group International, an executive search firm. He also serves as President of AKK Consulting, which provides management and organizational consulting to a broad range of businesses. Mr. Keeble has completed executive programs in business management and retailing with Harvard Business School, University of Michigan and Babson College, and has an undergraduate degree in Business Administration from Columbus State University.

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Paul F. Little has served on our Board of Directors since 1999. Mr. Little is President of Westover Investments Inc., an investment company. From 1986 to 1999 he was a principal of a Toronto-based merchant bank, Gornitzki, Thompson & Little and President of GTL Securities Inc., a related securities dealer. From 1980 to 1985, Mr. Little was Vice President and Chief Financial Officer of Union Gas Ltd., a Canadian natural gas utility. Mr. Little currently serves on the boards of seven Canadian public companies including Barcode Holdings, Inc., Calfrac Well Services Ltd., Cutwater Capital Corporation, Denison Mines, Inc. (Chair), MCL Capital, Inc., Medisystem Technologies, Inc., and World Point Terminals, Inc. He is Chairman of privately-held Echelon General Insurance Company and has served on the Board of Visitors of the Graziadio School of Business at Pepperdine University since 2002. Mr. Little is a Canadian Chartered Accountant. He holds a M.B.A. from the University of British Columbia and a B.A. in Economics from the University of Toronto.

Diane L. Neal joined the Board in October 2004. Ms. Neal has over 24 years of consumer retail experience and most recently joined Gap, Inc, a global leader in retail apparel, as Senior Vice President Merchandising for Gap Outlet. Ms. Neal has held this position since November 2004. From 1999 to 2004 Ms. Neal held a variety of positions at Target Corporation, a large general merchandise retailer, including President of the Mervyn's subsidiary. Ms. Neal has a degree in business from Michigan State University.

James M. Weber has served on our Board of Directors since 2001. Mr. Weber became the President and Chief Executive Officer of Brooks Sports, Inc., a designer and marketer of athletic footwear, apparel and accessories, in April 2001. Prior to that, Mr. Weber served as Managing Director of U.S. Bancorp Piper Jaffray in its Seattle Investment Banking office from May 1999 to April 2001. Commencing in 1996, Mr. Weber was Chairman and Chief Executive Officer of Sims Sports, Inc., a leading action sports company. From 1990 to 1996, Mr. Weber was active in a variety of executive positions for The Coleman Company, Inc., including Vice President of Corporate Development, and President of O'Brien International, Inc. Mr. Weber received a M.B.A. from the Tuck School at Dartmouth College and a B.S. from the University of Minnesota.

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 the Company.

Board Recommendation

Our Board of Directors unanimously recommends a vote **FOR** each of the nominees named in this proxy statement.

PROPOSAL NO. 2

RATIFICATION OF SELECTION OF REGISTERED INDEPENDENT PUBLIC

ACCOUNTING FIRM

The Audit Committee has appointed Deloitte & Touche LLP (Deloitte & Touche) as our registered independent public accounting firm to audit our consolidated financial statements for 2005. Although we are not required to seek shareholder approval of this appointment, the Board has determined it to be sound corporate governance to do so. If the appointment is not ratified by shareholders, the Audit Committee will investigate the possible bases for the negative vote and will reconsider the appointment in light of the results of its investigation.

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We employed Deloitte & Touche as our registered independent public accounting firm during 2004 and 2003. There have been no disagreements with Deloitte & Touche on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Deloitte & Touche, would have caused Deloitte & Touche to make reference to the matter in their report. A representative of Deloitte & Touche is expected to be present at the annual meeting. The representative will be given the opportunity to make a statement on behalf of Deloitte & Touche if the representative so desires, and the representative will be available to respond to appropriate shareholder questions.

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In addition to retaining Deloitte & Touche to audit our consolidated financial statements for 2003, we retained Deloitte & Touche, as well as other accounting and consulting firms to provide advisory, auditing, and consulting services in 2003. We understand the need for Deloitte & Touche to maintain objectivity and independence in its audit of our financial statements. To minimize relationships that could appear to impair the objectivity of Deloitte & Touche, our Audit Committee has restricted the non-audit services that Deloitte & Touche may provide. These determinations are among the key practices adopted by the Audit Committee in its Policies and Procedures for the Approval of Audit and Non-audit Services Provided by the Independent Auditor, effective April 2003.

Under these policies, with Audit Committee pre-approval, the Company may use Deloitte & Touche for the following categories of non-audit services: merger and acquisition due diligence and audit services; tax services; internal control reviews; employee benefit plan audits; and reviews and procedures that the Company requests Deloitte & Touche to undertake to provide assurances on matters not required by laws or regulations.

The aggregate fees billed for professional services by Deloitte & Touche in 2004 and 2003 for these various services were approximately:

Type of Fees	2004	2003
Audit Fees	\$ 829,000	\$ 378,000
Audit-Related Fees	64,000	81,000
Tax Fees	123,000	127,000
All Other Fees		1,038,000
Total	\$ 1,016,000	\$ 1,624,000

Audit fees are fees we paid Deloitte & Touche for professional services for the audit of our consolidated financial statements included in Form 10-K and review of financial statements included in Form 10-Qs, or for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements including the audit required by Section 404 of the Sarbanes-Oxley Act of 2002. Audit-related fees are fees billed by Deloitte & Touche for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements. Tax fees are fees for tax compliance, tax advice, and tax planning. All other fees are fees billed by Deloitte & Touche to us for any services not included in the first three categories. None of the services disclosed above under Audit Related Fees, Tax Fees, or All Other Fees was approved by the Audit Committee pursuant to the waiver of pre-approval provisions set forth in applicable rules of the SEC.

The aggregate fees billed by Deloitte & Touche for other professional services in 2003 predominantly consisted of services rendered in connection with the design and implementation of our new information systems. Deloitte & Touche fees associated with these new information systems for 2003 totaled approximately \$1,038,000. The Audit Committee acknowledged that the regulations adopted by the SEC include certain transitional provisions that would permit Deloitte & Touche to continue providing otherwise prohibited services until May 6, 2004, so long as the services were provided pursuant to a contract entered into prior to May 6, 2003. The Audit Committee was notified that certain services continued to be provided by Deloitte & Touche, and subject to these transitional provisions, those services were approved. All Deloitte & Touche services subject to these transitional provisions were completed prior to December 31, 2003.

The Audit Committee believes that the foregoing expenditures are compatible with maintaining the independence of the Company's registered independent public accounting firm.

Board Recommendation

Our Board of Directors unanimously recommends a vote **FOR** the ratification of the Audit Committee's appointment of Deloitte & Touche as our registered independent public accounting firm.

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PROPOSAL NO. 3

APPROVAL OF THE NAUTILUS, INC. 2005 LONG TERM INCENTIVE PLAN

Broad-based equity compensation is an essential and long-standing element of the Company's culture and success. It continues to be a critical element to attract and retain the most talented employees, officers and directors available to execute the Company's long-term growth plan. Historically, the Company has used stock option awards as equity incentives and in 2004 granted options at market prices to employees at various levels throughout the organization. Equity-based compensation provides an opportunity for employees, officers and directors to acquire an interest in the Company, and thus provides rewards for exceptional performance and long-term incentives for their future contributions to the Company's success and ultimately shareholder value.

The Company currently awards stock options to Company executives, employees and non-employee directors through the 1995 Company Stock Option Plan, as amended (the "Current Plan") which expires in June 2005.

On March 30, 2005, the Board of Directors adopted, subject to shareholder approval, the Nautilus, Inc. 2005 Long Term Incentive Plan (the "2005 Plan"). The 2005 Plan reserves 4,000,000 shares of common stock for issuance under the plan. The 2005 Plan allows for increased flexibility in the types of equity awards that can be granted in the future, whereas the Current Plan only allows for stock options grants. The greater flexibility of the 2005 Plan, in types and specific terms of awards, will allow future awards to be based on then-current objectives for aligning compensation with increasing long-term shareholder value. Shareholder approval of the 2005 Plan will permit the Company to award long-term equity incentive compensation that achieves these goals.

As of December 31, 2004 the Company had 219,384 shares of common stock remaining for future awards under the Current Plan. Upon shareholder approval of the 2005 Plan, any remaining shares available for future awards under the Current Plan will become available for issuance in connection with awards made under the 2005 Plan. Additionally the Company is requesting 4,000,000 new shares of common stock be approved for future awards under the 2005 Plan.

The following is a summary of the material terms of the 2005 Plan and is qualified in its entirety by reference to the 2005 Plan. A copy of the 2005 Plan is attached to this proxy statement as Appendix A.

SUMMARY OF THE NAUTILUS, INC. 2005 LONG TERM INCENTIVE PLAN

General

The purpose of the 2005 Plan is to advance the interests of the Company by enhancing the Company's ability to attract and retain highly qualified personnel and directors and aligning the long-term interests of participants with those of shareholders. The 2005 Plan permits the grant of the following types of awards:

stock options;

stock appreciation rights;

restricted stock;

performance units; and

stock units.

Administration

The Compensation Committee of the Board of Directors (the Committee) will generally administer the 2005 Plan. The Committee is wholly comprised of directors who are deemed independent for purposes of applicable of the New York Stock Exchange and the Securities and Exchange Commission.

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The Committee will have full power and authority to determine when and to whom awards will be granted, including the type, amount, form of payment and other terms and conditions of each award, consistent with the provisions of the 2005 Plan. In addition, the Committee has the authority to interpret the 2005 Plan and the awards granted under the plan, and establish rules and regulations for the administration of the plan.

The Committee may delegate certain administrative duties associated with the 2005 Plan to the Company's officers, including the maintenance of records of the awards and the interpretation of the terms of the awards. The Committee may also delegate the authority to grant awards to a subcommittee comprised of one or more Board members, or to executive officers of the Company, provided that such subcommittee or executive officers cannot be authorized to grant awards to executive officers.

Participants

Awards under the 2005 Plan may be granted to any person who is (i) an employee of the Company, (ii) a non-employee member of the Board of Directors or the board of directors of any Company subsidiary, or (iii) a consultant who provides services to the Company; provided that stock appreciation rights and non-qualified stock options shall be granted only to persons as to which Nautilus is the service recipient, as such term is defined in Section 409A of the Internal Revenue Code.

Effective Date and Expiration of the 2005 Plan

The 2005 Plan will become effective on June 6, 2005, subject to shareholder approval at the 2005 annual meeting of shareholders. The 2005 Plan will terminate on June 5, 2015, unless all shares available for issuance have been issued, the plan is earlier terminated by the Board or the Committee, or the plan is extended by an amendment approved by the Company's shareholders. No awards may be made after the termination date. However, unless otherwise expressly provided in an applicable award agreement, any award granted under the 2005 Plan prior to the termination date may extend beyond the end of such period through the award's normal expiration date.

Shares Subject to the 2005 Plan

The aggregate number of shares of the common stock authorized for issuance as awards under the 2005 Plan is 4,000,000, plus any shares reserved under the Current Plan that are not subject to grant on June 6, 2005 or as to which the option award is forfeited on or after June 6, 2005. The maximum aggregate number of shares of common stock subject to stock options or stock appreciation rights which may be granted to any one participant in any one year under the 2005 Plan is 1,000,000. The maximum aggregate number of shares of common stock subject to restricted stock or stock unit awards which may be granted to any one participant in any one year under the 2005 Plan is 1,000,000.

The aggregate number of shares available for issuance under the 2005 Plan shall be reduced by two (2) shares for each share delivered in settlement of any stock appreciation rights, restricted stock, stock unit or performance unit award, and one (1) share for each share delivered in settlement of a stock option award.

Plan Awards

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Under the 2005 Plan, the Committee can grant stock options, stock appreciation rights, restricted stock, stock units and performance units. Awards may be granted alone, in addition to, or in combination with any other award granted under the 2005 Plan. Subject to the limitations set forth in the 2005 Plan, the terms and conditions of each award shall generally be governed by the particular document or agreement granting the award. The terms and conditions set forth in an award agreement may include, as appropriate:

deemed issuance date;

expiration date;

number of shares covered by the award;

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acceptable means of payment;

price per share payable upon exercise;

applicable vesting schedule;

individual performance criteria;

Company or group performance criteria;

continued employment requirement;

transfer restrictions; or

any other terms or conditions deemed appropriate by the Committee, in each case not inconsistent with the 2005 Plan.

Stock Options and Stock Appreciation Rights. The holder of an option will be entitled to purchase a number of shares of common stock at an exercise price not less than 100% of the fair market value of a share on the date of grant during a specified time period, as determined by the Committee. The option exercise price shall be paid in cash or in such other form if and to the extent permitted by the Committee, including without limitation by delivery of already owned shares. Other than in connection with a change in the capitalization of the Company, the exercise price of an option may not be reduced without shareholder approval.

The holder of a stock appreciation right will be entitled to receive, in cash or stock (as determined by the Committee), value with respect to a specific number of shares equal to or otherwise based on the excess of the market value of a share at the time of exercise over the exercise price of the right.

Restricted Stock and Stock Units. The holder of restricted stock will own shares of common stock subject to restrictions imposed by the Committee and subject to forfeiture to the Company if the holder does not satisfy certain requirements (including, for example, continued employment with the Company) for a specified period of time. The holder of restricted stock units will have the right, subject to any restrictions imposed by the Committee, to receive shares of common stock, or a cash payment equal to the fair market value of those shares, at some future date determined by the Committee, provided that the holder has satisfied certain requirements (including, for example, continued employment with the Company until such future date).

Performance Units. The holder of performance units will have the right, subject to any restrictions imposed by the Committee to receive shares or cash upon achievement of certain goals relating to performance.

Transferability of Awards

Unless otherwise provided by the Committee, awards under the 2005 Plan may only be transferred by will or the laws of descent and distribution. The Committee may permit further transferability pursuant to conditions and limitations that it may impose, except that no transfers for consideration will be permitted.

Anti-dilution and Corporate Events

In the event of any stock dividend, stock split, combination of shares, extraordinary dividend of cash and/or assets, recapitalization, reorganization or any similar event, the Committee is entitled to appropriately and equitably adjust the number and kind of shares or other securities which are subject to the 2005 Plan or subject to any award under the plan.

Subject to any restrictive terms which may be set forth in award agreements, in the event the Company is a party to a merger or other reorganization, outstanding awards shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the assumption of outstanding awards by the surviving corporation or its parent, for their continuation by the Company (if the Company is a surviving corporation) for accelerated vesting and accelerated expiration, or for settlement in cash.

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Termination or Amendment of the 2005 Plan

The Board may generally amend or terminate the 2005 Plan as determined to be advisable. Shareholder approval may also be required for certain amendments pursuant to the Internal Revenue Code, the rules of the New York Stock Exchange, or rules of the Securities and Exchange Commission. No amendment or alteration of the 2005 Plan may be made which would impair the rights of any participant under any outstanding award, without such participant's consent, provided that no consent is required with respect to any amendment or alteration if the Committee determines that such amendment or alteration is either:

required or advisable in order for the Company, the 2005 Plan or the award to satisfy any law or regulation or to meet the requirements of any accounting standard, or

not reasonably likely to significantly diminish the benefits provided under such award, or that any such diminishment has been adequately compensated.

Board Recommendation

Our Board of Directors unanimously recommends a vote **FOR** the approval and adoption of the 2005 Plan.

SECURITY OWNERSHIP OF CERTAIN

BENEFICIAL OWNERS AND MANAGEMENT

BENEFICIAL OWNERSHIP TABLE

The following table summarizes certain information regarding the beneficial ownership of our outstanding common stock as of April 10, 2005 by: (1) each director and director nominee; (2) each executive officer whose name appears in the summary compensation table; (3) all persons that we know are beneficial owners of more than 5% of our common stock; and (4) all directors and executive officers as a group. Except as otherwise indicated below and subject to applicable community property laws, each owner has sole voting and sole investment powers with respect to the common stock listed.

Directors, Executive Officers and 5% Shareholders

**Shares
Beneficially Owned**
