

NAUTILUS, INC.
Form DEFA14A
December 05, 2007

UNITED STATES
SECURITIES EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Nautilus, Inc.

(Name of Registrant as Specified In Its Charter)

Edgar Filing: NAUTILUS, INC. - Form DEFA14A

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(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):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

Edgar Filing: NAUTILUS, INC. - Form DEFA14A

(3) Filing Party:

(4) Date Filed:

Nautilus, Inc. mailed a letter and brochure to its shareholders on December 5, 2007. The text of the letter and brochure follow:

December 5, 2007

Dear Fellow Shareholder:

The Special Meeting of Nautilus Shareholders called by Edward Bramson and his hedge fund, Sherborne, is quickly approaching. We need your support to prevent the removal of a majority of your Board's highly qualified, dedicated directors. We invite you to read the enclosed brochure which provides more information about your directors whom Mr. Bramson wants to remove.

Your vote is extremely important, no matter how many or how few shares you own. By voting **AGAINST** removal of a majority of your Board **TODAY** on the **WHITE** proxy card, you are supporting our turnaround plan, which, led by our new CEO, Bob Falcone, is well underway. Under Bob, in just a few months' time, the following significant positive changes have already been implemented:

Strengthening the Nautilus balance sheet and mitigating liquidity concerns: we are implementing a \$20 million inventory reduction plan by the end of 2007, continuing our efforts to divest non-core assets, including a possible sale of our technical apparel and footwear business, Pearl iZUMi, and restructuring our credit line.

Improving gross and operating margins: our reduction in force is expected to result in approximately \$10 million in annual savings, plus new cost control and quality initiatives already underway.

Attracting key talent: a new organizational business-unit structure is designed to cross-check every decision to assure profitable sales through heightened attention to detail across three distribution channels. Recent top-level appointments include:

Tim Joyce, head of global sales, formerly head of sales for Nike, Adidas, fogdog.com and HO Sports;

James Heidenreich, chief marketing officer, formerly in lead marketing roles at Riddell Sports, Experimental Applied Sciences, Brunswick Bicycle and Outboard Marine;

Caroline Howe, senior vice president and general manager, with brand experience at American Sporting Goods, Coca-Cola, Hallmark and Nike; and

Kenneth Fish, senior vice president and general manager, who brings more than 20 years of senior level finance and operations experience. He previously served as Vice President of Finance for Vestas Americas and Asia-Pacific Finance Director for NACCO Materials Handling Group.

Your Company needs your support to enable it to execute its strategy. Now is not the time to allow Bramson and the other Sherborne nominees to seize control of your Board.

You may have received a recent letter from Sherborne, in which it questions your Board's commitment to executing our turnaround plan and touts its own experience. Let no one question your Board's resolve. We have been proactive in implementing change and taking steps to create shareholder value. At the same time, as we told you in our letter of November 8, 2007, we welcome whatever experience Sherborne has to offer. That was why, months ago, we offered Sherborne representation on our Board in proportion to its share ownership. In addition, we offered Sherborne seats on a new Executive Committee whose purpose would be to oversee the Company's financial affairs and strategic direction with a supervisory role over the Company's business plans, capital structure and financing activities and financial budget.

Sherborne rejected our offer, choosing instead to continue its efforts to seize control of your Board. Sherborne tries to explain its decision not to accept Board and oversight representation by claiming this was because we asked it to execute a standstill agreement. What Sherborne fails to tell you is that it never asked what your Board would require. If it had asked, we would have explained that the only requirement for us to put its nominees on the Board is that Sherborne refrain from running a competing slate of directors for twelve months, so that the company, with Sherborne's participation, can focus on its turnaround plan and bring it to fruition. Our offer to Sherborne remains open, and we have offered representation to Sun Capital Securities, LLC, our second largest shareholder, in the event our nominees are elected.

Despite the fact that Sherborne appears to be stuck in fight mode, your Board and company has continued to move forward with our turnaround plan, implementing the cost reductions and evaluating the potential divestitures of non-core assets that we discuss above. We agree with Sherborne that a fresh, realistic and straightforward attitude on the board could make a major difference to the shareholder value of Nautilus we already have that attitude **and we have already taken actions to realize shareholder value.**

We also agree with Sherborne that it is not the best choice to manage Nautilus over the long term. But while Sherborne wants to begin yet another search for new management, Bob Falcone has hit the ground running. It is important to know that Bob Falcone's appointment was the result of an extensive search of more than 100 candidates brought to the independent directors through a highly regarded recruiting firm. Sherborne inaccurately refers to his severance agreement as onerous. In fact, Mr. Falcone's agreement, unlike many customary agreements provided to public company CEOs, does not trigger a severance payment upon a change of control, and no payment would be due to Bob under the agreement solely as a result of the proxy contest. Bob was the best candidate and the committee wanted to have a permanent CEO so the turnaround could start immediately, not three to six months down the road after the proxy contest came to an end and a new CEO had the opportunity to get up to speed the Company could not afford to sit idly by at the time and **we cannot afford to put our turnaround plan on hold now and start over from the beginning.**

We are committed to delivering value for ALL shareholders. We have already written to you about the losses suffered by Ampex's shareholders while it was under Mr. Bramson's watch. Those facts speak for themselves. But on this issue, we also need to inform you of another troubling fact arising out of past actions at Ampex that we believe calls into question Mr. Bramson's assertion that his interests are fully aligned with the interests of all shareholders. While at Ampex, Bramson and entities he controlled purchased shares of Ampex stock directly from Ampex with money borrowed from Ampex. While in control of Ampex, and as the value of the Ampex stock dropped, Mr. Bramson and his affiliates defaulted on the loans owed to Ampex, had a portion of their loan repayment obligations forgiven and had the terms of some loans modified so that Ampex would only be able to take back the Ampex stock (which had declined in value below the loan amounts) if Mr. Bramson and his affiliates defaulted on the loans. In all, of approximately \$5.2 million in loans, approximately \$4.98 million was forgiven or not repaid and Ampex was forced to foreclose on Ampex stock worth only \$0.44 million.

Although these loans were permitted at the time, in the years following the collapses of Enron and WorldCom (which also made loans to Messrs. Skilling and Ebbers, among others), such types of loans have been made illegal, as they are now deemed to be symptomatic of bad corporate governance. **Ask yourself whether Bramson and the other Sherborne nominees who by their own admission are not the best choice for Nautilus in the long term deserve control of your company.**

We believe that the moves already made by Bob Falcone, the management team and the Board have been significant changes that will have a large, positive influence on Nautilus and its turnaround changes that will benefit all shareholders. This work is underway and additional changes are in progress; we are confident in our market opportunity, our brands and products, our distribution strategy and the ability of our quality management team to execute on Bob's strategy.

Your Board and management team are confident that we are on the right path to a stronger future for Nautilus and increased value for all shareholders. **With your support and your vote on the enclosed WHITE proxy card we can send Bramson and Sherborne a strong message by soundly rejecting their proposals.** Please use the enclosed WHITE proxy card to vote **AGAINST** the removal of your directors **TODAY** by telephone, by Internet, or by signing, dating and returning the **WHITE** proxy card.

Thank you for your support.

THE BOARD OF DIRECTORS

Your Vote Is Important, No Matter How Many Or How Few Shares You Own.

If you have questions about how to vote your shares, or need additional assistance, please contact the firm

assisting us in the solicitation of proxies:

INNISFREE M&A INCORPORATED

Shareholders call Toll-Free: (888) 750-5834

Banks and Brokers Call Collect: (212) 750-5833

IMPORTANT

We urge you **NOT** to sign any Green proxy card sent to you by Sherborne.

You have every legal right to change your vote by using the enclosed **WHITE** proxy card to vote

TODAY by telephone, by Internet, or by signing, dating and returning the **WHITE** proxy card in the

postage-paid envelope provided.

Safe Harbor Statement:

Certain information included herein and in other company releases, reports or documents may contain forward-looking statements, including statements concerning estimated future sales and earnings, new product introduction, and operational and financial improvement. Factors that could cause Nautilus, Inc. actual results to differ materially from these forward-looking statements include availability of media time and fluctuating advertising rates, a decline in consumer spending due to unfavorable economic conditions, its ability to effectively develop, market, and sell future products, its ability to get foreign-sourced product through customs in a timely manner, its ability to effectively identify, negotiate and integrate any future strategic acquisitions, its ability to protect its intellectual property, introduction of lower-priced competing products, unpredictable events and circumstances relating to international operations including its use of foreign manufacturers, government regulatory action, and general economic conditions. Please refer to our reports and filings with the Securities and Exchange Commission, including our most recent annual report on Form 10-K and quarterly reports on Form 10-Q, for a further discussion of these risks and uncertainties. We also caution you not to place undue reliance on forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update publicly any forward-looking statements to reflect new information, events or circumstances after the date they were made or to reflect the occurrence of unanticipated events.

