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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-31321

NAUTILUS, INC.

(Exact name of Registrant as specified in its charter)

Washington	**94-3002667**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

16400 S.E. Nautilus Drive
Vancouver, Washington 98683
(Address of principal executive offices, including zip code)

(360) 859-2900
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the last sales price ($1.13) as reported on the New York Stock Exchange as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2009) was $34,594,200.

The number of shares outstanding of the registrant's common stock as of January 31, 2010 was 30,744,336 shares.

Documents Incorporated by Reference

The registrant has incorporated by reference into Part III of this Form 10-K portions of its Proxy Statement for its 2010 Annual Meeting of Shareholders.

NAUTILUS, INC.

2009 FORM 10-K ANNUAL REPORT

PART I

Item 1. Business

OVERVIEW

Nautilus is a fitness products company headquartered in Vancouver, Washington. We are committed to providing innovative, quality solutions to help people achieve a fit and healthy lifestyle. Our principal business activities include designing, developing, sourcing and marketing high-quality cardiovascular and strength fitness products and related accessories for consumer home use, primarily in the United States and Canada. Our products are sold under some of the most-recognized brand names in the fitness industry, including Nautilus™, Bowflex™, Universal™ and Schwinn™ Fitness.

We market our products through two business segments: Direct and Retail, each representing a distinct marketing distribution channel. Our direct business offers products directly to consumers through direct advertising, catalogs and the Internet. Our retail business offers our products through a network of independent retail companies located in the United States and Canada, as well as Internet-based merchants. Our commercial business, formerly an operating segment and reported as a discontinued operation beginning in 2009, offered products to health clubs, schools, hospitals and other organizations, which typically require fitness products specifically designed for higher usage.

Founded in 1986, Nautilus developed and introduced the Bowflex™ rod-based home gym and, through the use of infomercials, became a leading direct marketer of fitness equipment. The direct marketing model of selling directly to the consumer grew quickly, allowing the Company to invest its earnings in a series of strategic acquisitions of well-recognized brands including: Nautilus® in 1999; Schwinn™ Fitness in 2001; StairMaster™ in 2002; and Universal™ in 2006. In the third quarter of 2009, the Company adopted a plan for the complete divestiture of its commercial business, including the StairMaster™ trademark and StairMaster™, Schwinn™ Fitness and Nautilus™ product lines sold in the commercial sales channel. Nautilus plans to retain, however, ownership of the Schwinn™ and Nautilus™ trademarks, and its strong presence in the consumer fitness equipment market through its direct and retail sales channels.

Our company was incorporated in the state of Washington in January 1993. Unless the context otherwise requires, “Nautilus”, “Company”, “we”, “us” and “our” refer to Nautilus, Inc. and its subsidiaries. All references to 2009 and 2008 in this report refer to our fiscal years ended on December 31, 2009 and 2008, respectively.

BUSINESS STRATEGY

We are focused on developing and marketing fitness equipment and related products to help people enjoy healthier lives. Our products are targeted to meet the needs of a broad range of consumers, including fitness enthusiasts and individuals who are seeking the benefits of regular exercise. We have diversified our business by expanding our portfolio of high-quality fitness equipment into multiple product lines, utilizing well-recognized brands. More recently, our business strategy has focused exclusively on consumer products, markets and distribution channels, which we believe will provide the greatest long-term value to our shareholders. Implementation of this strategy includes the sale of our fitness apparel business in 2008 and the divestiture of our commercial fitness products business, which we began in late 2009 and expect to complete in 2010.

Product innovation is a vital part of our business. A unique or new product can often provide a significant competitive advantage, as consumers are looking for ways to improve the effectiveness of their workouts. We continually evaluate new product concepts, generated by both internal and external resources, and seek feedback from users on how to enhance our current product offerings.

Our strategies incorporate the specific characteristics of our direct and retail business segments. Our *direct* business segment focuses on (i) the development of, or acquisition of rights to, unique products, and (ii) the

application of creative, cost-effective ways to communicate the benefits of their use. We are very attentive to direct business metrics, particularly those that provide feedback regarding the effectiveness of our media marketing programs. In our *retail* business segment, we strive to enter into business relationships with key retailers of sports or fitness equipment. The primary objectives of our retail business are (i) to offer a selection of products at key price points in order to maintain lasting relationships with our customers, and (ii) to utilize such relationships and the strength of our brands to obtain more floor space for our products.

As a result of recent economic challenges, we are in the process of restructuring certain aspects of our operations to (i) improve our cost structure and operating efficiency, and (ii) provide us with greater flexibility to respond to future market opportunities. In addition, we plan to place additional emphasis on our direct business, as the high margin and low working capital requirements of that business model make it favorable both in difficult economic times and when growth accelerates. We will continue to assess the health of the economy and, if appropriate, will re-evaluate our business strategies and prioritize our use of resources accordingly.

Our long-term strategy involves: continued investment in research and development activities aimed at creating or acquiring new technologies; enhancing our product lines by designing fitness equipment that meets or exceeds the high expectations of our customers; utilizing our strengths in product engineering to reduce product costs; and creatively marketing our equipment, both directly to consumers and through our retail partners, using our popular brand names.

RECENT DEVELOPMENTS

On September 25, 2009, our Board of Directors approved management's plan for the complete divestiture of our commercial business. On December 29, 2009, we completed the sale of certain assets of our StairMaster™ and Schwinn™ Fitness product lines. On February 19, 2010, we completed an agreement for the sale of certain assets of our Nautilus™ strength equipment product lines. The buyer also acquired rights to certain patents, technologies and other intellectual property, assumed certain outstanding warranty obligations related to our North American commercial products and entered into a short-term lease of our Independence, Virginia manufacturing and warehousing facilities with an option to purchase such facilities. For further information, see Note 2, Discontinued Operations, in our consolidated financial statements.

Management currently expects to complete the sale of the remaining assets of the commercial business in 2010. The following table shows portions of the commercial business divestiture for which asset disposals have been completed, and those portions for which asset disposals are not completed:

	Asset Disposals Completed as of December 31, 2009	Asset Disposals Completed as of March 8, 2010	Asset Disposals Not Completed
StairMaster™ Commercial Product Lines			
Finished goods and spare parts inventories	X		
Raw materials and work-in-process inventories		X	
Production equipment and other fixed assets	X		
Trademark intangible asset	X		
Schwinn™ Fitness Commercial Product Lines			
Finished goods and spare parts inventories on hand	X		
Finished goods inventories in-transit		X	
Accounts receivable	X		
Production equipment and other fixed assets	X		
Nautilus™ Commercial Product Lines			
Raw materials, work-in-process and North America spare parts inventories		X	
Finished goods inventories			X
Manufacturing equipment and related fixed assets		X	
Independence, Virginia land and buildings			X
Europe distribution operations, including finished goods and spare parts inventories			X
China finished goods and spare parts inventories			X

In December 2009, the President signed into U.S. federal law a provision allowing taxpayers to carry back applicable net operating losses for a period of up to five years. This new law allowed us to carry-back a portion of our 2008 net operating loss to prior years in which we had paid federal taxes and, as a result, we received a U.S. income tax refund of approximately $12.1 million in January 2010.

On March 8, 2010, we entered into a new loan agreement with Bank of the West (the “New Loan Agreement”), providing for a $15.0 million revolving secured credit line, available for a thirty-month term. The New Loan Agreement is available for working capital, standby letters of credit and general corporate purposes, assuming we are able to satisfy certain terms and conditions at the time the borrowings are requested.

PRODUCTS

We market quality strength and cardiovascular fitness products that cover a broad range of price points and features. Our products are designed for individuals with varying exercise needs. From the person who works out occasionally, to the professional athlete, we have the products that will help them achieve their fitness objectives.

- Our **Nautilus**™ brand includes: a complete line of cardio equipment, including specialized products and treadmills, ellipticals and exercise bikes. In early 2009, we introduced new lower priced treadmills specifically designed for the retail business. In December 2009, we introduced the Mobia™, a specialized cardio machine that utilizes dual treads and burns twice the calories of an equivalent standard treadmill.
- Our **Bowflex**™ brand represents a line of fitness equipment comprised of both strength and cardio products. Our Bowflex™ product line includes our PowerRod™ home gyms, the Revolution™ home gym, SelectTech™ dumbbells, weight benches, treadmills, and TreadClimber™ specialized cardio machines, specifically designed for home use.

- Our **Schwinn™ Fitness** brand is known for its popular line of indoor cycling equipment, exercise bikes, including the Airdyne™, and ellipticals. In 2009, we introduced treadmills specifically designed for the retail business.
- Our **Universal™** brand is one of the oldest and most recognized names in the fitness industry. In 2009, we introduced a limited product line of kettlebell weights and benches.

We differentiate the product lines offered in our direct and retail sales channels, as indicated in the table below:

	Direct Channel	Retail Channel
Bowflex™		
Rod-based home gyms	X	X
Spiroflex home gyms	X	X
Specialized cardio	X	
Treadmills		X
Selectorized dumbbells	X	X
Nautilus™		
Specialized cardio	X	
Upright and recumbent exercise bikes		X
Ellipticals		X
Treadmills		X
Schwinn™ Fitness		
Upright and recumbent exercise bikes		X
Indoor cycling bikes		X
Ellipticals		X
Treadmills		X
Universal™		
Kettlebell weights and benches		X

While our marketing efforts are focused as indicated in the chart above, we offer our full product assortment to our direct customers through our websites.

BUSINESS SEGMENTS

We conduct our business in two segments, Direct and Retail. For further information, see Note 15, Segment Information, in our consolidated financial statements.

SALES AND MARKETING

Direct

In our *direct* business, we market and sell our products, principally Bowflex™ strength and cardiovascular products, directly to end-consumers. Historically, almost all of our direct business sales were in strength-related products and accessories, including our Bowflex™ rod-based home gyms and the Revolution™ home gym. We have been, and plan to continue to be, the largest direct marketer of strength products in the United States. We have also taken measures to diversify our product mix by increasing advertising for the Bowflex™ TreadClimber™, a unique cardio fitness product, and by launching the Nautilus™ Mobia™, a specialized cardio fitness machine.

Our marketing efforts are based on an integrated combination of media and direct consumer contact. We utilize television advertising, which ranges in length from 30 seconds to as long as five minutes, in addition to extended 30-minute television infomercials; internet advertising; product websites; inquiry response mailings; catalogs and inbound/outbound call centers. Marketing and media effectiveness is measured continuously based on sales inquiries generated, cost per lead, conversion rates, return on investment and other key metrics. The majority of our direct sales activity occurs through our call center and Internet websites.

For the year ended December 31, 2009, approximately half of our U.S. customers took advantage of a financing program offered by HSBC Bank Nevada, N.A. ("HSBC") to purchase our products using the private label Bowflex™ revolving credit card, as compared to approximately two-thirds of our U.S. customers in 2008, reflecting the application of more stringent credit approval standards by HSBC. We expect that HSBC will continue to apply these more stringent credit approval standards to our customers in 2010. Accordingly, we are investigating other consumer financing options and developing marketing strategies that do not rely on access to consumer credit as a principal factor in the customer's purchase decision. Our current agreement with HSBC expires in 2013.

Retail

In our *retail* business, we market and sell a comprehensive line of consumer fitness equipment under the Nautilus™, Schwinn™ Fitness, Universal™ and Bowflex™ brands. Our products are marketed through a network of retail locations, consisting of sporting goods stores, department stores, governmental agencies and, to a lesser extent, smaller specialty retailers and independent bike dealers.

Retail business sales have historically been led by our strength products, including the Bowflex™ rod-based home gym and SelectTech™ dumbbells. However, we believe the fitness equipment market for cardio products is much larger and provides greater opportunity for growth. As a result we have focused our retail business product development efforts on the introduction of new cardio products, including a line of Schwinn™ Fitness branded indoor bikes and ellipticals. We plan to continue to invest in the development of cardio products for the retail business, anticipating that such investments will help us achieve greater market share.

We have implemented sales programs which provide discounts to our customers for ordering container sized shipments and/or placing orders early enough in the season to allow for efficient manufacturing by our Asian suppliers. These sales programs are designed to reduce our shipping and handling costs, with much of the savings being passed on to our customers. Many of our retail customers are also eligible for other types of sales incentives, including volume discounts and various forms of rebates or allowances, which primarily are intended to increase product availability, offset transportation costs and encourage marketing of our brands.

PRODUCT DESIGN AND INNOVATION

Innovation is a vital part of our business, and we continue to expand and diversify our product offerings by leveraging our research and development capabilities. We constantly search for new technologies and innovations that will help us to grow our business, either through higher sales or increased production efficiencies. To accomplish this objective, we seek out ideas and concepts both within our company and from outside inventors. We rely on financial and engineering models to assist us in assessing the potential operational and economic impacts of adopting new technologies and innovations. If we determine third-party technology or innovation concepts meet certain technical and financial criteria, we may enter into a licensing arrangement to utilize the technology or, in certain circumstances, purchase the technology for our own use. Our product design and engineering teams also invest considerable effort to improve product design and quality.

Our research and development expenses were approximately $5.2 million and $6.6 million for the years ended December 31, 2009 and 2008, respectively.

SEASONALITY

We expect our sales to vary seasonally. Sales are typically strongest in the first and fourth quarters, followed by the third quarter, and are generally weakest in the second quarter. We believe that various factors, such as the broadcast of network season finales and seasonal weather patterns, influence television viewers and cause our advertising on cable television stations to be less effective in the second quarter than in other periods. In addition, during the spring and summer months, consumers tend to be involved in outdoor activities, including exercise, which impacts sales of indoor fitness equipment. This seasonality can have a significant effect on our inventory levels, working capital needs and resource utilization.

MANUFACTURING AND DISTRIBUTION

Manufacturing

All our products are produced by third party manufacturers, substantially all of which are located in Asia. We monitor our suppliers' ability to meet our product needs and participate in quality assurance activities to reduce the risk of marketing substandard products. Other than our contract with Land America Health & Fitness Co., LTD. ("Land America"), which expires in December 2010, our third-party manufacturing contracts are terminable by either party on relatively short notice.

Distribution

Our warehousing and distribution facilities are located in Portland, Oregon and Winnipeg, Manitoba. In our direct business, we strive to maintain inventory levels which will allow us to ship our products shortly after receiving a customer's order. Because our direct business products are manufactured in Asia, we have long merchandise replenishment lead times, for which we compensate by maintaining adequate levels of safety stock.

We manage our retail inventory levels to accommodate seasonal changes in anticipated demand. We generally maintain higher inventory levels at the ends of the third and fourth quarters, to satisfy consumer demand in the fourth and first quarters of each year. Many of our retail customers place orders well in advance of peak periods of consumer demand to ensure they have an adequate supply for the anticipated selling season. If consumer demand exceeds store forecasts, many of our retail customers will place additional orders during the season, provided the product can be delivered in a short period of time. Approximately one-third of our retail inventory replenishment orders are shipped by our contract manufacturers directly to customer locations, typically in large containers. The use of these "drop ships" allows us to maintain lower levels of inventory, resulting in lower storage, handling, insurance and other carrying costs. We also distribute our products to retail customers using various commercial truck lines. We use FedEx Corp. for the delivery of substantially all of our direct business products in the U.S. and Canada.

BACKLOG

Historically, backlog has not been a significant factor in our business.

COMPETITION

The markets for all of our products are highly competitive. We believe the principal competitive factors affecting our business are quality, innovation, pricing and brand recognition. We believe we are well-positioned to compete in markets in which we can take advantage of our strong brand names. Our competitors vary by business segment, as discussed below.

Direct

In our direct business, our products compete directly with those offered by a large number of companies that market home fitness equipment. Our principal competitors in this segment are *Fitness Quest* and *ICON Health & Fitness*. Other competitors in this segment include weight-loss companies, such as Jenny Craig and NutriSystems, each of which offers alternative solutions to a fit and healthy lifestyle.

Retail

In our retail business, our products compete with those of other retail fitness equipment companies, such as *Johnson Health Tech* and *ICON Health & Fitness.*

EMPLOYEES

As of January 31, 2010, we had approximately 640 employees, substantially all of which were full-time, and approximately 280 of which were employed in connection with our commercial business discontinued operation. None of our employees are subject to collective bargaining agreements. We have not experienced a material interruption of our operations due to labor disputes.

SIGNIFICANT CUSTOMERS

No individual customer accounted for 10 percent or more of our consolidated net sales in the past two fiscal years.

INTELLECTUAL PROPERTY

Trademarks, patents and other forms of intellectual property are vital to the success of our business and an essential factor in maintaining our competitive position in the health and fitness industry.

Trademarks

We own many trademarks including Nautilus™, Bowflex™, PowerRod™, Revolution™, Mobia™, TreadClimber™, Schwinn™ Fitness, SelectTech™, Trimline™ and Universal™. The vast majority of our trademarks are either registered or protected by common law rights. We believe that having distinctive trademarks, which are readily identifiable by consumers, is an important factor in creating a market for our products, creating a strong company identity and developing brand loyalty among our customers.

Each federally registered trademark is renewable indefinitely if the trademark is still in use at the time of renewal. We are not aware of any material claims of infringement or other challenges to our trademark rights in our major markets.

Patents

We own a broad array of patents and patent rights, both issued and pending, covering our fitness equipment. These patents cover a variety of technologies, some of which are utilized in the following products: TreadClimber™; variable stride ellipticals; selectorized weights; recumbent bicycles; and the Bowflex™ Revolution™. Patent protection for these technologies extends as far as 2020, with none expiring prior to 2011. Expiration of these and other patents could trigger the introduction of similar products by our competitors. Patent protection has ended for our rod-based home gyms.

Building our intellectual property portfolio is an important factor in maintaining our competitive position in the health and fitness equipment industry. We have followed a policy of filing applications for U.S. and foreign patents on inventions, new designs and improvements that we deem valuable to our business. We protect our proprietary rights vigorously and take prompt, reasonable actions to prevent counterfeit reproductions or other infringement on our intellectual property.

ENVIRONMENTAL AND OTHER REGULATORY MATTERS

Our operations are subject to various laws and regulations both domestically and abroad. In the United States, federal, state and local regulations impose standards on our workplace and our relationship with the environment. For example, the U.S. Environmental Protection Agency (“EPA”), Occupational Safety and Health Administration (“OSHA”) and other federal agencies have the authority to promulgate regulations which may impact our operations. In particular, we are subject to legislation placing restrictions on our generation, emission, treatment, storage and disposal of materials, substances and wastes. Such legislation includes: the Toxic Substances Control Act; the Resource Conservation and Recovery Act; the Clean Air Act; the Clean Water Act; the Safe Drinking Water Act; and the Comprehensive Environmental Response and the Compensation and

Liability Act (also known as Superfund). We are also subject to the requirements of the Consumer Product Safety Commission and the Federal Trade Commission, in addition to regulations concerning employee health and safety matters.

Our operations expose us to claims related to environmental matters. Although compliance with federal, state, local and international environmental legislation has not had a material adverse effect on our financial condition or results of operations in the past, there can be no assurance that material costs or liabilities will not be incurred in connection with such environmental matters in the future.

AVAILABLE INFORMATION

Our common stock is listed on the New York Stock Exchange and trades under the symbol “NLS.” Our principal executive offices are located at 16400 SE Nautilus Drive, Vancouver, Washington 98683, and our telephone number is (360) 859-2900. The Internet address of our corporate website is http://www.nautilus.com.

We file annual reports, quarterly reports, current reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended. You can inspect and obtain a copy of our reports, proxy statements 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 access copies of most of our SEC filings.

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, available free of charge on our website. In addition, our code of business conduct and ethics, corporate governance policies, and the charters of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are also available on our corporate website. The information found on our website is not part of this Form 10-K.

Item 1A. Risk Factors

Special Note Regarding Forward-Looking Statements

This Form 10-K, including Item 1 of Part I and Item 7 of Part II, contains forward-looking statements. Forward-looking statements include any statements related to our expectations regarding future performance or conditions, including any statements regarding anticipated sales growth across markets, distribution channels, and product categories, expenses and gross margins, expense as a percentage of revenue, anticipated earnings, new product introductions, manufacturing plans and activities, future capital expenditures, our turnaround plan, financing and working capital requirements and resources. These forward-looking statements, and others we make from time to time, are subject to a number of risks and uncertainties. Many factors could cause actual results to differ materially from those projected in forward-looking statements, including the risks described herein. We do not undertake any duty to update forward-looking statements after the date they are made or to conform them to actual results or to changes in circumstances or expectations.

A continued decline in consumer spending likely would negatively affect our product revenues and earnings.

Success of each of our products depends substantially on the amount of discretionary funds available to our consumers. Global credit and financial markets have experienced extreme disruptions in the recent past, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. There can be no assurance that there will not be further deterioration in these conditions. A continued decline in general economic conditions could further depress consumer spending, especially spending for discretionary consumer products such as ours. Higher interest rates could increase monthly payments for consumer products financed through one

of our monthly payment plans or through other sources of consumer financing. These poor economic conditions could in turn lead to substantial further decreases in our net sales or have a material adverse effect on our operating results, financial condition and cash flows.

We may need to raise additional financing if our financial results do not improve.

We sustained significant operating losses during 2009 and 2008, and if we continue to experience significant operating losses, we will need to obtain additional debt or equity financing to continue operating. There is no guarantee that we will be able to raise additional funds on favorable terms, if at all, or that any amount raised will be sufficient to meet our cash requirements. If we are not able to raise additional needed capital, we would be forced to sharply curtail our operations.

Failure to successfully implement our turnaround strategies may adversely affect revenues and expenses.

To implement our business strategy, we must effectively manage our turnaround in each of our business segments. We expect to continue to change various aspects of our business, enhance our operations, and attract, retain and manage qualified personnel. Our turnaround efforts could place an increasing strain on management, financial, product design, marketing, manufacturing, distribution and other resources, and we could experience operating difficulties in association with our turnaround and restructuring plans. As a result of these and other pressures, our turnaround strategies involve many risks and uncertainties that could have a material adverse effect on our results of operations, financial condition and cash flows.

A significant decline in availability of media time or substantially higher advertising rates may hinder our ability to effectively market our products and may reduce profitability.

We depend on television advertising to market certain of our products sold directly to consumers. Consequently, a marked increase in the price we must pay for our preferred media time or a reduction in its availability may adversely impact our financial performance.

Our revenues could decline due to changes in credit markets and decisions made by credit providers.

Reductions in consumer lending and the availability of consumer credit could limit the number of customers with the financial means to purchase our products. In the past, we have partnered with financial service companies, including HSBC, to assist our customers in obtaining financing to purchase our products. Our present agreement with HSBC helps certain customers obtain financing if they qualify for HSBC's private label Bowflex revolving credit card. We cannot be assured that HSBC, or others, will continue to provide consumers with access to credit or that credit limits under such arrangements will not be reduced. Such restrictions or reductions in the availability of consumer credit could have a material adverse impact on our results of operations, financial condition and cash flows.

Failure to collect accounts receivable from our customers could adversely affect our ability to operate our business.

Our trade receivables reflect a large and diverse customer base, domestically and internationally. Our trade receivables are generally unsecured and therefore collection is affected by the economic conditions in each of our principal markets. Collection of receivables due from customers outside the U.S. may also be negatively impacted by the nature, and extent of our business presence in a particular country and any rights or protections afforded to our customers under a country's legal system. We cannot predict, with certainty, future changes in the financial stability of our customers or in the general economy. We periodically review the credit worthiness of our customers to help gauge collectability and increase our allowance for doubtful accounts when collection is at risk. However, our actual future losses from uncollectible accounts may differ from our estimates. Our ability to collect the amounts due from our customers could be impacted by various factors including: a deterioration in the financial condition of a key customer, inability of customers to obtain bank credit lines, a significant slow-down

in the economy, our efforts to pursue collections, product quality matters or other customer disputes. If our estimates of uncollectible amounts are inaccurate or change significantly or we are unable to collect amounts due from our customers, it could have a material adverse affect on our operating results, financial condition and cash flows.

If our contract manufacturers experience any delay, disruption or quality control problems in their operations, we could lose market share and revenues, and our reputation may be harmed.

We have outsourced the production of all of our products to third-party manufacturers. We rely on our contract manufacturers to procure components and provide spare parts in support of our warranty and customer service obligations. We generally commit the manufacturing of each product platform to a single contract manufacturer.

Our reliance on contract manufacturers exposes us to the following risks over which we may have limited control:

- Unexpected increases in manufacturing and repair costs;
- Interruptions in shipments if our contract manufacturer is unable to complete production;
- Inability to completely control the quality of finished products;
- Inability to completely control delivery schedules;
- Changes in our contract manufacturer's business models or operations;
- Potential increases in our negotiated product costs as a result of fluctuations in currency exchange rates;
- The impact of the global market and economic conditions on the financial stability of our contract manufacturers and their ability to operate without requesting earlier payment terms or letters of credit;
- Potential lack of adequate capacity to manufacture all or a part of the products we require; and
- Potential unauthorized reproduction of our products.

Our contract manufacturers primarily are located in Asia and may be subject to disruption by natural disasters, as well as political, social or economic instability. The temporary or permanent loss of the services of any of our primary contract manufacturers could cause a significant disruption in our product supply chain and operations and delays in product shipments. In addition, other than our contract with Land America, which expires in December 2010, our third-party manufacturing contracts are terminable by either party on relatively short notice.

There is no assurance that we will be able to maintain our current relationships with these parties or, if necessary, establish future arrangements with other third-party manufacturers on commercially reasonable terms. Further, we cannot assure that their manufacturing and quality control processes will be maintained at a level sufficient to meet our inventory needs or prevent the inadvertent sale of substandard products.

Our revenues and profitability can fluctuate from period to period and are often difficult to predict due to factors beyond our control.

Our results of continuing operations in any particular period may not be indicative of results to be expected in future periods, and have historically been, and are expected to continue to be, subject to periodic fluctuations arising from a number of factors, including:

- The introduction and market acceptance of new products;
- Variations in product selling prices and costs and the mix of products sold;
- The size and timing of customer orders, which, in turn, often depend upon the success of our customers' businesses or specific products;

- Changes in the market conditions for consumer fitness equipment;
- Changes in macroeconomic factors;
- The availability of consumer credit;
- The timing and availability of products coming from our offshore contract manufacturing partners;
- Seasonality of markets, which vary from quarter-to-quarter and are influenced by outside factors such as overall consumer confidence and the availability and cost of television advertising time;
- The effectiveness of our media and advertising programs;
- Customer consolidation in our retail segment, or the bankruptcy of any of our larger retail customers;
- Restructuring charges;
- Goodwill and other intangible asset impairment charges; and
- Legal and contract settlement charges.

These trends and factors could harm our business, operating results, financial condition and cash flows in any particular period.

Our operating expenses and portions of our costs of revenues are relatively fixed, and we may have limited ability to reduce expenses sufficiently in response to any revenue shortfalls.

Many of our operating expenses are relatively fixed. We may not be able to adjust our operating expenses or other costs sufficiently to adequately respond to any revenue shortfalls. If we are unable to reduce operating expenses or other costs quickly in response to any revenue shortfall, it would negatively impact our operating results, financial condition and cash flows.

If we are unable to anticipate consumer preferences or to effectively develop, market and sell future products, our future revenues and earnings could be adversely affected.

Our future success depends on our ability to develop, or acquire the rights to, and effectively produce, market, and sell new products that create and/or respond to new and evolving consumer demands. Accordingly, our net sales and profitability may be harmed if we are unable to develop, or acquire the rights to new or different products that satisfy consumers' preferences. In addition, any new products that we market may not generate sufficient net sales to recoup their development, acquisition, production, marketing, selling and other costs.

A delay in getting foreign sourced products through customs in a timely manner could result in cancelled orders and unanticipated inventory accumulation.

Most of our imported products are subject to duties, tariffs or quotas that affect the cost and quantity of various types of goods imported into the U.S. or our other markets. The countries in which our products are produced or sold may adjust or impose new quotas, duties, tariffs or other restrictions. Further, our business depends on our ability to source and distribute products in a timely manner. As a result, we rely on the free flow of goods through open and operational ports worldwide. Labor disputes at various ports create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes or other disruptions during our peak importing seasons. Any of these factors could have a material adverse effect on our business, potentially resulting in reduced revenues and earnings, cancelled orders by customers and/or unanticipated inventory accumulation.

Unpredictable events and circumstances relating to our international operations, including our use of foreign manufacturers, could result in cancelled orders, unanticipated inventory accumulation, and reduced revenues and earnings.

A portion of our revenue is derived from sales outside the U.S. International sales represented approximately 10% of our consolidated net sales from continuing operations in 2009. In addition, substantially all of our products are manufactured outside of the U.S. Accordingly, our future results could be materially adversely affected by a variety of factors pertaining to international trade, including: changes in a specific country's or region's political or economic conditions; trade restrictions; import and export licensing requirements; changes in regulatory requirements; additional efforts to comply with a variety of foreign laws and regulations; and longer payment cycles in certain countries, thus requiring us to finance customer purchases over a longer period than those made in the U.S. In addition, we rely on the performance of employees located in foreign countries. Our ability to control the actions of these employees may be limited by the laws and regulations in effect in each country. Changes in any of the above factors could have a material adverse effect on our business, operating results, financial condition and cash flows.

Failure or inability to protect our intellectual property could significantly harm our competitive position.

Protecting our intellectual property is an essential factor in maintaining our competitive position in the health and fitness industry. If we do not, or are unable to, adequately protect our intellectual property, our sales and profitability may be adversely affected. We currently hold approximately 200 patents and trademarks and have approximately 40 patent and trademark applications pending in the United States. However, our efforts to protect our proprietary rights may be inadequate, and applicable laws provide only limited protection.

Trademark infringement or other intellectual property claims relating to our products could increase our costs.

Our industry is susceptible to litigation regarding trademark and patent infringement and other intellectual property rights. We could become a plaintiff or defendant in trademark and patent infringement claims or claims of breach of license. The prosecution or defense of intellectual property litigation is both costly and disruptive of the time and resources of our management, even if the claim or defense against us is without merit. We could also be required to pay substantial damages or settlement costs to resolve intellectual property litigation or related matters.

Future impairments on intangible assets could negatively impact our operating results.

We had goodwill of $2.8 million and other intangible assets of $20.8 million at December 31, 2009. We recognized impairment charges of $5.9 million in 2009 for intangible assets related to continuing operations, and an impairment charge of $29.8 million in 2008 for goodwill of our continuing operations. Any future impairment charges, if significant, could materially and adversely affect our reported operating results. A decline in revenue, a change in market conditions, a change in competitive products or technologies or a change in management's intentions to utilize our intangible assets may lead to further impairment charges.

Intense competition may have a negative impact on our net sales and operating results.

Our products are sold in highly competitive markets with limited barriers to entry. As a result, introduction of lower priced or more innovative products could result in a significant decline in our net sales, operating results, financial condition and cash flows.

Inability to effectively manage our distribution facilities may harm our business and financial results.

Our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies depends on the proper operation of our existing distribution facilities and the timely

performance of services by third parties, including those involved in shipping product to and from our distribution facilities. Our distribution facilities are located in Oregon in the United States, and Manitoba in Canada.

Operations at our distribution facilities could be interrupted by disasters such as earthquakes or fires. We maintain business interruption insurance, but it may not adequately protect us from the adverse effect that could be caused by significant disruptions in our distribution network.

Our or others failure to maintain information and communication systems could result in interruptions to our business.

Our business is increasingly reliant on information and communication technology, and a substantial portion of our revenues are generated with the support of information and communication systems. The success of our direct business is heavily dependent on our ability to respond to customer sales inquiries and process sales transactions using our call center communication systems, internet websites and similar data monitoring and communication systems provided and supported by third-parties. If such systems were to fail, or experience significant or lengthy interruptions in availability or service, our revenues could be materially affected. We also rely on information systems in all stages of our production cycle, from design to distribution, and we use such systems as a method of communication between employees, as well as our customers. In addition, we use information systems to maintain our accounting records, assist in collection and customer service efforts, and to forecast operating results and cash flows. System failures or service interruptions may occur as the result of a number of factors, including: computer viruses; hacking or other unlawful activities by third parties; disasters; equipment, hardware or software failures; cable outages, extended power failures, or our inability or failure to properly protect, repair or maintain our communication and information systems. To mitigate the risk of business interruption, we have in place a disaster recovery program that targets our most critical operational systems. If our disaster recovery system is ineffective (in whole or in part), or efforts conducted by us or third-parties to prevent or respond to system interruptions in a timely manner are ineffective, our ability to conduct operations would be significantly affected. Any of the aforementioned factors could have a material adverse affect on our operating results, financial condition and cash flows.

Currency exchange rate fluctuations could result in higher costs and reduced margins.

We have significant sales outside of the United States. As a result, we conduct transactions in various currencies which increase our exposure to fluctuations in foreign currency exchange rates relative to the U.S. dollar. Our international revenues and expenses generally are derived from sales and operations in non-U.S. currencies, and these revenues and expenses could be affected by currency fluctuations. Currency exchange rate fluctuations could also result in higher costs for our products, or could disrupt the business of independent manufacturers that produce our products, by making their purchases of raw materials more expensive and more difficult to finance. Therefore, our future financial results could be significantly affected by the value of the U.S. dollar in relation to the non-U.S. currencies in which we, our customers or our suppliers conduct business.

Our business is affected by seasonality which results in fluctuations in our operating results.

We experience moderate fluctuations in aggregate sales volume during the year. Sales are typically strongest in the first and fourth quarters, followed by the third quarter, and are generally weakest in the second quarter. However, the mix of product sales may vary considerably from time to time as a result of changes in seasonal and geographic demand for particular types of fitness equipment. In addition, our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice. As a result, we may not be able to accurately predict our quarterly sales. Accordingly, our results of operations are likely to fluctuate significantly from period to period.

We may be adversely affected by the financial health of our customers.

We extend credit to our customers, generally without requiring collateral, based on our assessment of a customer's financial circumstances. To assist in the scheduling of production and the shipping of seasonal products, we offer customers financial incentives to place orders four to six months ahead of delivery. These advance orders may be cancelled, and the risk of cancellation may increase when dealing with financially challenged customers struggling with economic uncertainty. In the past, some customers have experienced financial difficulties which in turn have had an adverse effect on our business. More recently, customers have been cautious in placing orders as a result of weakness in the economy. A depressed global economy may continue to negatively affect the financial health of our customers and have an adverse effect on our results of operations, financial condition and cash flows.

Government regulatory actions could disrupt our marketing efforts and product sales.

Various international and U.S. federal, state and local governmental authorities, including the Federal Trade Commission, Environmental Protection Agency, and the Consumer Product Safety Commission, regulate our marketing efforts and the manufacturing of products. Our sales and profitability could be significantly harmed if any of these authorities commence a regulatory enforcement action that interrupts our marketing or manufacturing efforts, results in a product recall or negative publicity, or requires changes in product design.

We are subject to periodic litigation, product liability risk and other regulatory proceedings which could result in unexpected expense of time and resources.

From time to time, we may be a defendant in lawsuits and regulatory actions relating to our business. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such proceedings. An unfavorable outcome could have a material adverse impact on our business, financial condition and results of operations. In addition, any significant litigation in the future, regardless of its merits, could divert management's attention from our operations and may result in substantial legal costs.

We also may not be able to successfully acquire intellectual property rights, protect existing rights, or potentially prevent others from claiming that we have violated their proprietary rights when we launch new products. We could incur substantial costs in defending against such claims even if they are without basis, and we could become subject to judgments or settlements requiring us to pay substantial damages, royalties and/or other sums.

We are subject to warranty claims for our products which could result in unexpected expense.

Many of our products carry limited warranties for defects in quality and workmanship. We may experience significant expense as the result of product quality issues, product recalls or product liability claims which may have a material adverse effect on our business. We maintain a warranty reserve for estimated future warranty claims. However, the actual costs of servicing future warranty claims may exceed the reserve and have a material adverse effect on our results of operations, financial condition and cash flows. In addition, we remain contingently liable for product warranty obligations which have been transferred to buyers of our commercial business product lines, if the buyer is unable to fulfill such obligations.

In order to be successful, we must attract, retain and motivate key employees, and failure to do so may have an adverse impact on our business.

Our future success depends on our ability to attract and retain key executives, managers, product development engineers, sales personnel and others. We face intense competition for such individuals worldwide. Not being able to attract or retain these employees may have a significant adverse effect on our results of operations and financial condition.

Our plan to divest the remaining portions of our commercial business may not be successful and may involve substantial additional charges.

In September 2009, management committed to a plan for the complete divestiture of our commercial business. In December 2009, we completed the sale of certain assets of our StairMaster™ and Schwinn™ Fitness product lines and, in February 2010, we completed an agreement for the sale of certain assets of our Nautilus™ commercial equipment product line. We may be unable to successfully divest the remaining portions of our commercial business on favorable terms, or at all. The amount of estimated loss recorded in connection with the planned sale of the commercial business may be adjusted in future periods, depending on changes that may occur in the underlying facts and circumstances, and these adjustments may be material. Additionally, we may incur material costs, fees, expenses and charges relating to our planned divestiture of the commercial business, including employee termination severance payments and costs related to the termination of lease agreements and other contractual obligations. Our results of operations and liquidity may be negatively impacted by such charges or by a failure to successfully complete the planned divestiture within a reasonable time period. We currently expect to incur additional costs related to our planned divestiture, including employee termination severance payments of approximately $1.6 million and termination charges for leases and other commercial contract obligations of approximately $1.8 million, which are not reflected in our 2009 operating results in accordance with generally accepted accounting principles. The estimated amounts of additional costs may be adjusted in future periods, depending on changes that may occur in the underlying facts and circumstances, and the amount of adjustment may be material.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Following is a summary of our principal properties as of December 31, 2009:

Reportable Segment	Location	Primary Function(s)	Owned or Leased
Unallocated	Washington	World headquarters and call center	Leased
Unallocated	Oregon	Warehouse and distribution	Leased
Unallocated	China	Quality assurance and supplier relationships	Leased
Direct	Canada	Warehouse, distribution and showroom	Leased
*	Colorado	Testing and engineering	Leased
*	Virginia	Three properties for manufacturing, warehousing and support services	Owned
*	Oklahoma	Manufacturing	Leased
*	Switzerland	Administrative	Leased
*	Germany	Administrative, showroom and warehouse	Leased
*	United Kingdom	Administrative, showroom and warehouse	Leased

* These facilities are related to our commercial business which is classified as a discontinued operation, and are scheduled for sale or closure in 2010. In each case, we are seeking to either sell the property or terminate the underlying lease or sub-lease the property.

In general, our properties are well maintained, adequate and suitable for their purposes, and we believe these properties will meet our operational needs for the foreseeable future. If we require additional warehouse or office space, we believe we will be able to obtain such space on commercially reasonable terms.

Item 3. Legal Proceedings

We are party to various legal proceedings and claims arising from normal business activities. Based on the facts currently available, we do not believe that the disposition of matters that are pending or asserted, individually or in the aggregate, will have a material adverse effect on our future financial results. However, an adverse judgment by a court, administrative or regulatory agency, arbitrator or a settlement could adversely impact our financial position, results of operations and cash flows.

Item 4. [Reserved]

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for our Common Stock

Our common stock is listed on the New York Stock Exchange (the "NYSE") and trades under the symbol "NLS." As of January 31, 2010, there were 73 holders of record of our common stock and approximately 32,000 beneficial shareholders.

The following table sets forth the high and low sales prices and dividends paid per common share for each period presented:

	High	Low	Dividends Paid
2009:			
Quarter 1	$2.57	$0.45	—
Quarter 2	2.35	0.59	—
Quarter 3	2.96	0.96	—
Quarter 4	2.47	1.59	—
2008:			
Quarter 1	$5.50	$3.00	—
Quarter 2	6.85	3.15	—
Quarter 3	6.37	4.09	—
Quarter 4	4.55	1.66	—

Payment of any future dividends is at the discretion of our Board of Directors, which considers various factors such as our financial condition, operating results, current and anticipated cash needs and future expansion plans.

Equity Compensation Plans

The following table provides information about our equity compensation plans as of December 31, 2009:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,413,709	$ 10.50	4,608,000
Equity compensation plans not approved by security holders	—	—	—
Total	1,413,709	$ 10.50	4,608,000

For further information regarding our equity compensation plans, refer to Note 12, Stockholders' Equity, of our consolidated financial statements, in Item 8.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Our Management's Discussion and Analysis of Financial Condition and Results of Operation (the "MD&A") should be read in conjunction with our consolidated financial statements and related notes, in Item 8.

OVERVIEW

Nautilus, Inc., a fitness products company headquartered in Vancouver, Washington, is committed to providing innovative, quality solutions to help people achieve a fit and healthy lifestyle. Our principal business activities include designing, developing, sourcing and marketing high-quality cardiovascular and strength fitness products and related accessories for consumer home use, primarily in the United States and Canada. Our products are sold under some of the most-recognized brand names in the fitness industry, including Nautilus™, Bowflex™, Universal™ and Schwinn™ Fitness.

We market our products through two business segments: Direct and Retail, each representing a distinct marketing distribution channel. Our direct business offers products directly to consumers through direct advertising, catalogs and the Internet. Our retail business offers our products through a network of independent retail companies located in the United States and Canada, as well as Internet-based merchants.

Economic and market conditions have been, and continue to be, disruptive and volatile. These conditions, including reduced business and consumer confidence, disruptions in the residential housing market, materially reduced consumer credit availability for our customers and increased unemployment, all of which have contributed to reductions in consumer spending, particularly on discretionary products such as our home fitness equipment.

During 2008, we implemented cost reduction efforts to adjust for the decline in revenue, and in early 2009 we announced plans to initiate additional cost reductions aimed at further reducing operating costs and improving the overall alignment of spending and anticipated revenue. During the third quarter of 2009, in order to focus exclusively on the development of our direct and retail businesses, management committed to a plan for the complete divestiture of our commercial business. Consequently, our commercial business has been classified as a discontinued operation. Management's actions to reduce costs in our continuing and discontinued operations and focus on the development of our direct and retail businesses are summarized as follows:

During 2009:

- We restructured our workforce and reduced the number of employees in our corporate headquarters and our manufacturing and distribution functions to better match the requirements of our business;
- We conducted a thorough review of our information technology costs to better align computer systems and support services to our restructured business model, resulting in significant savings related to software purchases, maintenance agreements and licensing fees;
- We terminated our lease for our corporate headquarters facility in Vancouver, Washington, and entered into a new lease for substantially less space and substantially lower rent payments in the same building;
- We terminated a third-party warehouse distribution service agreement for our U.S. service parts inventory, which now will be distributed from our company facility; and
- We committed to a plan for the complete divestiture of our commercial business, and completed the sale of certain assets of our StairMaster™ and Schwinn™ Fitness commercial product lines. In February 2010, we completed an agreement for the sale of certain assets of our Nautilus™ commercial fitness product lines.

During 2008:

- We restructured our workforce to better match the requirements of our redefined business segment organization;

- We closed our Tulsa commercial manufacturing facility and transferred operations to third party manufacturers in Asia and our owned manufacturing facility in Independence, Virginia;
- We consolidated our U.S. distribution centers and aligned the products by segment to allow for more efficient product handling;
- We ceased direct business sales through our Australian subsidiary and closed those operations;
- We sold our apparel division, Dash America, Inc. d/b/a Pearl iZumi;
- We closed our Canadian call center and consolidated our call center operations in Vancouver, Washington to achieve better economies of scale;
- We terminated a number of marketing arrangements to better align our spending with our revised operating plans;
- We reduced our revolving line of credit to a level better suited for our anticipated borrowing; and
- We exercised our right to terminate agreements to acquire a manufacturing operation located in China.

Substantially all of our revenues are generated from product sales. Our net sales for the year ended December 31, 2009, were $189.3 million, a decrease of $94.4 million, or 33.3%, as compared to net sales of $283.7 million in the prior year. The decline in net sales primarily was due to a general decline in consumer spending on discretionary products and reduced availability of consumer financing.

Gross profit margin increased to 51.0% for the year ended December 31, 2009, compared to 47.9% in the prior year, primarily due to reduced distribution costs resulting from the consolidation of our distribution centers, a decrease in shipping costs arising from a change in our primary outbound freight carrier and a decrease in warranty costs.

Operating expenses for the year ended December 31, 2009 were $125.7 million, a decrease of $67.6 million, or 35.0%, as compared to operating expenses of $193.3 million in the prior year. The decrease in operating expenses reflects the impact of management’s efforts to better align spending with current and anticipated revenue levels through significant reductions in advertising expenses, employment costs and other expenses. For the years ended December 31, 2009 and 2008, we incurred $14.2 million and $13.9 million, respectively, in expenses associated with our restructuring initiatives. Operating expenses for the year ended December 31, 2009 include intangible asset impairment charges of $5.9 million. Operating expenses for the year ended December 31, 2008 include a goodwill impairment charge of $29.8 million.

We reported an income tax benefit from continuing operations of $10.9 million for the year ended December 31, 2009, compared to a benefit of $5.9 million in the prior year.

RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements. An accounting estimate is considered to be critical if it meets both of the following criteria: (i) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (ii) different estimates reasonably could have been used, or changes in the estimate that are reasonably likely to occur from period to period may have a material impact on the presentation of our financial condition, changes in financial condition or results of operations. Our critical accounting policies and estimates are discussed below.

Revenue Recognition

Product sales and shipping revenues, net of promotional discounts, rebates and return allowances, are recorded when products are shipped and title passes to customers. Retail sales to customers are made pursuant to a sales contract that provides for transfer of both title and risk of loss upon our delivery to the carrier.

We record taxes collected from customers and remitted to governmental authorities on a net basis, excluded from revenue. Shipping and handling fees billed to customers are recorded gross, meaning they are included in both revenue and cost of sales. Many of our direct business customers finance their purchases through a third-party credit provider, for which we pay a commission or customer financing fee to the credit provider. We record sales for these transactions based on the sales prices charged to our customers and record the commission or financing fee as a component of selling and marketing expense.

Revenue is recognized net of applicable sales incentives, such as promotional discounts, rebates and return allowances. We estimate the revenue impact of our incentive programs based on the planned duration of the program and historical experience. If the amount of our sales incentives can be reasonably estimated, we record the impact of such incentives at the later of the time we notify our customer of the sales incentive, or the time of the sale.

We estimate our liability for product returns based on historical experience and record the expected obligation as a reduction in revenue. If actual return costs differ from our estimates, the recorded amount of the liability and corresponding revenue are adjusted.

Goodwill and Intangible Asset Valuation

We evaluate our indefinite-lived intangible assets and goodwill for potential impairment annually or when events or circumstances indicate their carrying value may be impaired. Our judgments regarding potential impairment are based on a number of factors including: the timing and amount of anticipated cash flows; market conditions; relative levels of risk; the cost of capital; terminal values; royalty rates; and the allocation of revenues, expenses and assets and liabilities to business segments. Each of these factors can significantly affect the value of our goodwill and indefinite-lived intangible assets and, thereby, could have a material adverse affect on our financial position and results of operations. Events could cause us to conclude that goodwill or other intangible assets are impaired, resulting in the recognition of an impairment charge.

In 2009, we recognized $5.9 million in impairment charges related to intangible assets used in our continuing operations. In 2008 we recognized a $29.8 million impairment charge on goodwill of our retail business. Impairment charges of $1.7 million and $1.1 million related to intangible assets of discontinued operations were recognized in 2009 and 2008, respectively.

Accounts Receivable Valuation

We evaluate the collectability of our accounts receivable based on a combination of factors including: an aging of receivable balances, historical collection experience, our understanding of the current financial status of key customers and overall economic conditions. We periodically review the credit worthiness of our customers to help gauge collectability and increase our allowance for doubtful accounts when collection is at risk. We believe that by analyzing historical trends and monitoring potential collection problems, we have sufficient information to establish a reasonable estimate of the portion of our receivable balances that will not be collected. However, since we cannot predict, with certainty, future changes in the financial stability of our customers or in the general economy, our actual future losses from uncollectible accounts may differ from our estimates. Our ability to collect the amounts due from our customers could be impacted by various factors including: a deterioration in the financial condition of a key customer, inability of customers to obtain bank credit lines, a significant slow-down in the economy, our efforts to pursue collections, product quality matters or other customer disputes. Even

though portions of our accounts receivable are protected by a security interest in products held by customers, any of the factors noted above may affect our ability to collect all, or a portion of, our receivable balances and could have a material impact on our financial position, results of operations and cash flows.

Inventory Valuation

Our inventory is reported at the lower of cost or market, with cost determined based on the first-in, first-out method. We establish provisions for excess, slow moving and obsolete inventory based on inventory levels, expected product life and forecasted sales demand. In assessing the ultimate realization of inventory values, we are required to make judgments regarding the salability of our products, including an assessment of future demand compared with existing inventory levels, competitive factors, and changes in technology and product life cycles. A significant change in any of the aforementioned factors could have a material impact on our financial position, results of operation and cash flows. It is also possible that an increase in our inventory provisions may be required in the future if there is a significant decline in demand for our products and we do not adjust our purchases from manufacturers accordingly.

Product Warranty Obligations

Our products carry limited defined warranties for defects in materials or workmanship. Our product warranties generally obligate us to pay for the cost of replacement parts, cost of shipping the parts to our customers and, in certain instances, service labor costs. At the time of sale, we record a liability for the estimated costs of fulfilling future warranty claims. The estimated warranty costs are recorded as a component of cost of sales, based on historical warranty claim experience and available product quality data. If necessary, we adjust our liability for specific warranty matters when they become known and are reasonably estimable. Our estimates of warranty expenses are based on significant judgment, and the frequency and cost of warranty claims are subject to variation. Warranty expenses are affected by the performance of new products, significant manufacturing or design defects not discovered until after the product is delivered to the customer, product failure rates and variances in expected repair costs. If warranty costs differ from our previous estimates, or if circumstances change such that the assumptions inherent in our previous estimates are no longer valid, we adjust our warranty reserve amount accordingly. Changes in the aforementioned factors or other warranty-related assumptions could have a significant impact on our results of operations, financial position and cash flows.

Stock-Based Compensation

We recognize stock-based compensation on a straight-line basis over the applicable vesting period, based on the grant-date fair value of our awards. We estimate the fair value of our stock options using the Black-Scholes-Merton option valuation model and determine the fair value of our restricted stock awards based on the closing market price on the day preceding the grant.

Estimating the fair value of our stock-based awards involves inherent uncertainties and the application of management judgment. The valuation of our stock options requires us to make assumptions regarding the expected term of our options, expected future volatility in the market price of our common stock, future risk-free interest rates and future dividends, if any, expected to be approved by our Board of Directors.

We estimate future forfeitures, at the time of grant and in subsequent periods, based on historical experience, and recognize compensation expense only for those awards that are expected to vest. We reevaluate our estimate of forfeitures each quarter and, if applicable, recognize a cumulative effect adjustment in the period of the change if the revised estimate of forfeitures differs significantly from the previous estimate.

To the extent a stock-based award is subject to performance conditions, the amount of expense we record in a given period, if any, may fluctuate depending upon our assessment of the probability of achieving the performance targets.

Our stock-based compensation expense may also change over time, as we review and adjust our compensation practices.

If factors, such as those discussed above, were to change and we used different assumptions, our stock-based compensation expense in the future could be materially different from that reported in previous periods.

Litigation and Loss Contingencies

From time to time, we may be involved in claims, lawsuits and other proceedings. Such matters involve uncertainty as to the eventual outcomes and any losses we may ultimately realize when one or more future events occur or fail to occur. We record expenses for litigation and loss contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. We estimate the probability of such losses based on the advice of internal and external counsel, outcomes from similar litigation, status of the lawsuits (including settlement initiatives), legislative developments and other factors. Due to the numerous variables associated with these judgments and assumptions, both the precision and reliability of the resulting estimates of the related loss contingencies are subject to substantial uncertainties. We regularly monitor our estimated exposure to these contingencies and, as additional information becomes known, may change our estimates accordingly. A significant change in our estimates, or an outcome that differs from the assumptions incorporated in our estimates, may have a material impact on our financial position, results of operations and cash flows.

Income Tax Provisions

We account for income taxes based on the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to be in effect when the temporary differences are expected to be included, as income or expense, in the applicable tax return. The effect of a change in tax rates on our deferred tax assets and liabilities is recognized in the period of the enactment. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained based on the technical merits of the position upon examination, including resolutions of any related appeals or litigation.

Significant judgments are required in determining tax provisions, evaluating tax positions and, when necessary, establishing or making adjustments to our valuation allowance. Such judgments require us to interpret existing tax law and other published guidance as applied to our circumstances. To the extent that it is more likely than not that all or some portion of deferred tax assets will not be realized, a valuation allowance must be established for that amount. If our financial results or other relevant facts change, thereby impacting the likelihood of realizing the tax benefit of an uncertain tax position, significant judgment would be applied in determining the effect of the change on our valuation allowance.

Risks and Uncertainties

Our results of operations may vary significantly from period-to-period. Our revenues will fluctuate due to the seasonality of our industry; customer buying patterns; product innovation; the nature and level of competition for health and fitness products; our ability to manufacture or procure products to meet customer demand; the level of spending on, and effectiveness of, our media and advertising programs; and our ability to attract new customers and renew existing sales relationships. In addition, our revenues are highly susceptible to economic factors, including, among other things, the overall condition of the U.S. economy and economies of other countries where we market our products and the availability of consumer credit, both in the U.S. and abroad. Our profit margins may vary in response to the aforementioned factors and our ability to manage product costs. Profit margins may also be affected by fluctuations in the costs or availability of materials used to manufacture our products, product warranty costs, higher or lower fuel prices, and changes in costs of other distribution or manufacturing-related

services. Our operating profits or losses may also be affected by the relative success of strategies we employ to improve the efficiency and effectiveness of our organization. Historically, our operating expenses have been influenced by media costs to produce and air advertisements, facility costs, operating costs of our information and communications systems, costs to develop and maintain our Internet websites, bad debt costs and costs related to attracting and retaining key personnel. In addition, our operating expenses have been impacted by asset impairment charges, restructuring charges and other significant unusual or infrequent expenses.

As a result of the above and other factors, our period-to-period operating results may not be indicative of future performance. You should not place undue reliance on our operating results and should consider our prospects in light of the risks, expenses and difficulties typically encountered by us and other companies, both within and outside our industry. We may not be able to successfully address these risks and difficulties and, consequently, we cannot assure you of any future growth or profitability. For more information, see our discussion of Risk Factors located at Part I, Item 1A.

COMPARISON OF THE YEARS ENDED DECEMBER 31, 2009 AND 2008

The tables below set forth selected financial information derived from our consolidated financial statements. The discussion that follows should be read in conjunction with our consolidated financial statements and the related notes. All comparisons to prior year results are in reference to continuing operations only in each period, unless otherwise indicated.

(In thousands)	Year Ended December 31, 2009	2008	Change	% Change
Net sales	$ 189,260	$ 283,712	$(94,452)	-33.3%
Cost of sales	92,745	147,930	(55,185)	-37.3%
Gross profit	96,515	135,782	(39,267)	-28.9%
Operating expenses:				
Selling and marketing	75,827	107,613	(31,786)	-29.5%
General and administrative	24,616	35,353	(10,737)	-30.4%
Research and development	5,222	6,615	(1,393)	-21.1%
Restructuring	14,151	13,938	213	1.5%
Intangible asset impairments	5,904	—	5,904	n/a
Goodwill impairment	—	29,755	(29,755)	n/a
Total operating expenses	125,720	193,274	(67,554)	-35.0%
Operating loss	(29,205)	(57,492)	28,287	49.2%
Other income (expense):				
Interest income	77	229	(152)	-66.4%
Interest expense	(168)	(1,753)	1,585	90.4%
Other income (expense), net	(194)	501	(695)	-138.7%
Total other expense	(285)	(1,023)	738	72.1%
Loss before income taxes	(29,490)	(58,515)	29,025	49.6%
Income tax benefit	(10,880)	(5,918)	(4,962)	-83.8%
Loss from continuing operations	(18,610)	(52,597)	33,987	64.6%
Loss from discontinued operations, net of tax	(34,687)	(37,991)	3,304	8.7%
Net loss	$ (53,297)	$ (90,588)	$ 37,291	41.2%

(In thousands)	Year Ended December 31, 2009	2008	Change	% Change
Net sales:				
Direct business	$ 123,045	$ 185,704	$(62,659)	-33.7%
Retail business	63,597	94,498	(30,901)	-32.7%
Corporate (royalty income)	2,618	3,510	(892)	-25.4%
Total net sales	$ 189,260	$ 283,712	$(94,452)	-33.3%
Gross profit:				
Direct business	$ 75,541	$ 111,505	$(35,964)	-32.3%
Retail business	19,310	23,163	(3,853)	-16.6%
Corporate	1,664	1,114	550	49.4%
Total gross profit	$ 96,515	$ 135,782	$(39,267)	-28.9%
Gross profit margin (% of net sales):				
Direct business	61.4%	60.0%	1.4	
Retail business	30.4%	24.5%	5.9	
Total gross profit margin	51.0%	47.9%	3.1	

Direct business

Net sales of our direct business were $123.0 million in 2009, a decrease of $62.7 million, or 33.7%, as compared to 2008. The comparative decrease in net sales was primarily due to a substantial decrease in customer credit approvals in 2009 through HSBC, our third-party financing company, as well as a reduction in advertising media spending, compared to the prior year. Economic weakness was cited by HSBC as the reason for the lower approval rates. Additionally, in 2008 we had a secondary financing program available which was not available for direct customers in 2009.

Gross profit margin of our direct business was 61.4% in 2009, compared to 60.0% in 2008, an increase of 140 basis points. The comparative increase in gross profit margin primarily was attributable to a decrease in outbound freight expenses and a decrease in warranty costs, each of which represented approximately 230 basis points of gross margin improvement, partially offset by reduced supplier rebates due to lower-volume purchases in 2009, as compared to 2008, representing approximately 180 basis points.

Retail business

Net sales of our retail business were $63.6 million in 2009, a decrease of $30.9 million, or 32.7%, as compared to 2008. We believe the comparative decrease in retail net sales primarily was due to the reluctance by retailers to replenish inventories, in response to reduced consumer demand, as well as our tighter credit controls in the challenging economic environment. In addition, net sales declined in 2009 due to management's decision to reduce the number of rod-based home gym products offered in our retail business, so as not to conflict with our direct business, as well as a reduction of product placement with certain customers, partially offset by new business growth.

Gross profit margin of our retail business was 30.4% in 2009, compared to 24.5% in 2008, an increase of 590 basis points. The comparative increase in gross profit margin primarily was attributable to a decrease in warranty costs, representing approximately 280 basis points, as well as lower sales of clearance and end-of-life products in 2009, as compared to the prior year.

Operating Expenses

Operating expenses in 2009 were $125.7 million, a decrease of $67.6 million, or 35.0%, as compared to operating expenses of $193.3 million in 2008.

Selling and Marketing

Selling and marketing expenses were $75.8 million in 2009, a decrease of $31.8 million, or 29.5%, as compared to the prior year. In response to the tighter credit approval environment, we reduced our advertising expenditures to better align with our expected revenue levels. Advertising expenses of our direct business in 2009 decreased by approximately $18.7 million, or 27.9%, as compared to the prior year. Our selling and marketing expenses reflect our improved advertising efficiencies, including better alignment of our expenditures with anticipated revenue, optimized advertising placement and improved creative content. In addition, third-party financing commission fees decreased by approximately $5.8 million, primarily due to lower credit approval rates and reduced use of financing promotions. Other selling and marketing expenses declined by approximately $7.7 million, compared to the prior year, primarily due to the impact of cost savings initiatives.

General and Administrative

General and administrative expenses were $24.6 million in 2009, a decrease of $10.7 million, or 30.4%, as compared to the prior year. The decrease in general and administrative expenses primarily was due to a reduction in employment costs, facilities costs, legal expenses and various other expenses in connection with our cost-savings initiatives. General and administrative expenses in 2009 also decreased due to the resolution of legal

matters, which were settled for $1.0 million less than the amount previously estimated and accrued in 2008. In addition, general and administrative expenses in 2008 included $2.0 million for legal and contract settlement costs; $1.1 million for the writeoff of deferred financing costs from amending our loan agreement; and $0.6 million for reimbursement obligations related to a shareholder action.

Research and Development

Research and development expenses were $5.2 million in 2009, a decrease of $1.4 million, or 21.1%, as compared to the prior year, primarily due to lower employee costs and reduced third-party intellectual property costs.

Restructuring

Our restructuring expenses primarily relate to the reorganization or termination of business activities and initiatives and include: contract termination fees, costs associated with abandoned purchase agreements, and severance.

Restructuring expenses in 2009 were $14.2 million, and included: $8.0 million in impairment charges for abandoned leasehold improvements in space we are no longer using at our Vancouver, Washington headquarters facility; $2.8 million in lease termination costs and accrued lease obligations associated with the reduction of leased space at our headquarters facility; $1.8 million in charges due to our abandonment of information technology software; a $0.9 million fee to terminate a third-party service agreement for distribution of repair and replacement parts in the U.S.; and employee termination severance costs of $0.6 million.

Restructuring expenses in 2008 were $13.9 million, and included: $8.0 million in charges related to the termination of an agreement to acquire a manufacturing operation in China; $4.8 million in employee termination benefits and other employee costs; $0.6 million in other contract termination costs; and $0.5 million for the disposal of unused creative media assets related to a change in our marketing strategies.

Intangible asset impairments

In 2009, in light of changes in long-term product strategies, we recognized impairment charges of $5.9 million for intangible assets of our retail business segment.

Goodwill Impairment

In 2008, in connection with our annual impairment review, we determined that goodwill was impaired and recognized a $29.8 million non-cash impairment charge.

Interest Income

Interest income was $0.1 million in 2009, compared to $0.2 million in 2008, a decrease of $0.1 million, primarily due to a reduction in interest earned on income tax refunds.

Interest Expense

Interest expense was $0.2 million in 2009, compared to $1.8 million in 2008, a decrease of $1.6 million, primarily due to lower average short-term borrowings in 2009.

Other Income (Expense)

Other expense was $0.2 million in 2009, compared to income of $0.5 million in 2008, primarily due to fluctuations in currency exchange rates.

Income Tax Benefit

The provision for income tax benefit from continuing operations was $10.9 million in 2009, compared to a tax benefit from continuing operations of $5.9 million in 2008. Our effective tax benefit rate in 2009 was 36.9%, compared to a benefit rate of 10.1% in the prior year. The change in our effective tax rate primarily reflects the impact of 2009 legislation allowing us to carry back net operating losses for a period of five years. As a result, in January 2010 we received an income tax refund of $12.1 million in connection with a net operating loss carryback. In 2008, we provided a valuation reserve against deferred income tax assets as we determined it was more likely than not that such assets would not be realized.

Discontinued Operations

On September 25, 2009 management committed to a plan for the complete divestiture of our commercial business. The results of our commercial business have been classified as discontinued operations in all periods presented. Loss from our commercial business discontinued operation, net of income taxes, was $34.3 million in 2009, including an estimated after-tax disposal loss of $9.0 million. Loss from our commercial business discontinued operation, net of income taxes, was $40.4 million in 2008.

We currently expect to incur additional costs related to our planned divestiture, including employee termination severance payments of approximately $1.8 million and termination charges for leases and other commercial contract obligations of approximately $2.2 million, which charges will be included in results of discontinued operations in the respective periods when such liabilities are incurred. The estimated amounts of additional costs may be adjusted in future periods, depending on changes that may occur in the underlying facts and circumstances, and the amount of adjustment may be material.

Our former fitness apparel business (“Pearl iZumi”) was sold in 2008 and reported as a discontinued operation. We reported an after-tax loss related to Pearl iZumi of $0.4 million in 2009, compared to after-tax income of $2.4 million in 2008.

LIQUIDITY AND CAPITAL RESOURCES

In November 2009, the President signed into U.S. federal law a provision allowing taxpayers to carry back an applicable net operating loss for a period of up to five years. We elected to carry-back our 2008 net operating loss and, as a result, we received a U.S. income tax refund of approximately $12.1 million in January 2010. On March 8, 2010 we entered into a new bank borrowing agreement, providing for a $15.0 million revolving secured credit line. Based on the amount of cash currently on hand and expected future cash flows from operations, management believes that sufficient funds will be available to meet our expected cash needs for at least the next twelve months.

Operating activities provided cash of $14.8 million in 2009, compared to $5.6 million in the prior year. Cash from operating activities in 2009 was primarily provided by the collection of accounts receivable, reductions in inventory levels and the receipt of a $10.7 million U.S. federal income tax refund. Cash provided by operating activities in 2008 was primarily related to the collection of accounts receivable.

Net cash provided by investing activities was $4.7 million in 2009, compared to $62.4 million in the prior year. Cash provided by investing activities in 2009 included $7.4 million from the sale of assets of our discontinued operations, $4.0 million from the release of Pearl iZumi escrow funds and $0.2 million in proceeds from the sale of equipment. Cash used in investing activities in 2009 included $4.9 million for restricted cash accounts, as collateral for our outstanding letters of credit, and $2.0 million for capital expenditures. We do not expect capital expenditures to increase substantially in 2010. Cash provided by investing activities in 2008 included $58.4 million in proceeds from the sale of Pearl iZumi, a $5.0 million refund of an escrow deposit, $2.4 million in payments on a note receivable and $1.4 million in proceeds from the sale of equipment. Capital expenditures in 2008 were $4.8 million.

Net cash used in financing activities was $18.0 million in 2009, compared to $69.1 million in the prior year. Cash used in financing activities included $17.9 million to repay all of our bank borrowings in 2009, compared to a $61.2 million reduction in bank borrowings in 2008. The 2008 reduction in bank borrowings primarily was funded with proceeds received from the sale of our former fitness apparel business. In 2008, we paid $5.3 million for the repurchase of Nautilus common stock and paid approximately $2.0 million in debt issuance costs associated with a former financing agreement.

Financing Arrangement

During 2009 and 2008, we had a Loan and Security Agreement (the "Loan Agreement") with Bank of America N.A., which provided a revolving secured credit line to fund our letters of credit and for working capital needs and other general business purposes. On December 29, 2009, pursuant to the sale of certain assets of our Stairmaster™ and Schwinn™ Fitness commercial product lines, we satisfied all outstanding obligations under the Loan Agreement and it was terminated.

On December 29, 2009, we entered into a Credit Agreement (the "Letter of Credit Agreement") with Bank of America, N.A, ("BofA"). The Letter of Credit Agreement provides us with up to $6.0 million in standby letters of credit, and expires on December 31, 2010 (Expiration Date). During this period, BofA will issue standby letters of credit with a maximum maturity not to exceed more than 365 days beyond the Expiration Date. Letters of credit are secured by a cash collateral account held by BofA in an amount not less than 105% of the amount of the outstanding letters of credit, plus $0.3 million.

As of December 31, 2009, we had $4.3 million in standby letters of credit. The balance in our cash collateral account, reported as restricted cash in our consolidated balance sheet, was $4.9 million as of December 31, 2009.

On March 8, 2010, we entered into the New Loan Agreement with Bank of the West, providing for a $15.0 million revolving secured credit line. The New Loan Agreement is available for working capital, standby letters of credit and general corporate purposes through September 2012, assuming we satisfy certain terms and conditions at the time borrowings are requested.

The interest rate on any future borrowings under the New Loan Agreement will be based on the bank's prime rate or LIBOR, based on our financial condition at the time we elect to borrow. The New Loan Agreement includes a fee for the unused portion of the credit facility, which fee will vary depending on our borrowing base availability.

Borrowings under the New Loan Agreement are collateralized by a lien on substantially all of our assets. The New Loan Agreement contains customary covenants, including, but not limited to, covenants relating to minimum current ratio, minimum liquidity, minimum EBITDA and limitations on capital expenditures, mergers and acquisitions, indebtedness, liens, dispositions, dividends, and investments. The New Loan Agreement also contains customary events of default.

Non-Cancelable Contractual Obligations

Our operating cash flows include the effect of certain non-cancelable, contractual obligations. A summary of such obligations as of December 31, 2009, including those related to our discontinued operations, is as follows:

	Payments due by period				
(In thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations	$20,298	$ 4,828	$ 7,788	$ 5,610	$ 2,072
Purchase obligations (1)	18,029	18,029	—	—	—
Minimum royalty obligations	296	296	—	—	—
Total	$38,623	$ 23,153	$ 7,788	$ 5,610	$ 2,072

(1) Our purchase obligations are comprised of inventory purchase commitments. Because our inventory primarily is sourced from Asia, we have long lead times and therefore need to secure factory capacity from our vendors in advance.

Due to uncertainty with respect to the timing of future cash flows associated with our unrecognized tax benefits at December 31, 2009, we are unable to make reasonably reliable estimates of the timing of any cash settlements with the respective taxing authorities. Therefore, approximately $4.1 million of unrecognized tax benefits, including interest and penalties, have been excluded from the contractual table above. For further information, see Note 11, Income Taxes, in Notes to Consolidated Financial Statements.

Issues Arising from China Sales Operation

In 2008, we recognized a $3.8 million charge, included in discontinued operations, due to uncertainties regarding access to, and future recovery of, certain assets of our China sales operation. In 2009, we recovered a portion of these assets and, as a result of this and other changes in circumstances, we reduced the previously accrued loss amount by $2.3 million. At December 31, 2009 we have an allowance of $1.5 million due to uncertainties regarding the future recovery of our China trade receivables.

Off-Balance Sheet Arrangements

At times, we become involved in third-party lease and financing arrangements which assist our customers in obtaining funds to purchase our products. While most of these financings are without recourse, in certain cases we may offer a guarantee or other recourse provisions. Our financing partner reviews consumer credit information in evaluating the risk of default prior to extending credit to our customers. We rely on the quality of our partner's review and our own risk assessment in determining whether to proceed with a recourse transaction. At December 31, 2009 and 2008, the maximum contingent liability under all recourse provisions was approximately $1.4 million and $1.6 million, respectively. Refer to Note 1 of our consolidated financial statements for further discussion of this arrangement.

In the ordinary course of business, we enter into agreements that require us to indemnify counterparties against third-party claims. These may include: agreements with vendors and suppliers, under which we may indemnify them against claims arising from our use of their products or services; agreements with customers, under which we may indemnify them against claims arising from their use or sale of our products; real estate and equipment leases, under which we may indemnify lessors against third party claims relating to the use of their property; agreements with licensees or licensors, under which we may indemnify the licensee or licensor against claims arising from their use of our intellectual property or our use of their intellectual property; and agreements with parties to debt arrangements, under which we may indemnify them against claims relating to their participation in the transactions.

The nature and terms of these indemnifications vary from contract to contract, and generally a maximum obligation is not stated. We hold insurance policies that mitigate potential losses arising from certain types of

indemnifications. Because we are unable to estimate our potential obligation, and because management does not expect these obligations to have a material adverse effect on our consolidated financial position, results of operations or cash flows, no liabilities are recorded at December 31, 2009.

Seasonality

We expect our sales from fitness equipment products to vary seasonally. Sales are typically strongest in the first and fourth quarters, and are generally weakest in the second quarter. We believe the broadcast of national network season finales and seasonal weather patterns influence television viewership and cause our television commercials on national cable television to be less effective in the second quarter than in other periods of the year. In addition, during the spring and summer months, consumers tend to be involved in outdoor activities, including exercise, which impacts sales of fitness equipment used indoors. This seasonality can have a significant affect on our operating results, inventory levels and working capital needs.

NEW ACCOUNTING PRONOUNCEMENTS

No new accounting pronouncements had, or are reasonably likely to have, a material impact on our consolidated financial position, results of operations or cash flows.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Nautilus, Inc.
Vancouver, Washington

We have audited the accompanying consolidated balance sheets of Nautilus, Inc. and subsidiaries (the “Company”) as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders’ equity and comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Nautilus Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Portland, Oregon
March 8, 2010

NAUTILUS, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,289	$ 5,547
Trade receivables, net of allowances of $4,160 in 2009 and $6,602 in 2008	27,799	53,770
Inventories	13,119	43,802
Prepaids and other current assets	5,043	11,362
Income taxes receivable	13,178	11,954
Assets of discontinued operation held-for-sale	10,781	—
Deferred income tax assets	54	266
Total current assets	77,263	126,701
Restricted cash	4,933	—
Property, plant and equipment, net	8,042	32,883
Goodwill	2,794	2,398
Other intangible assets, net	20,838	34,403
Other assets	1,302	1,134
Total assets	$ 115,172	$ 197,519
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	$ 37,107	$ 38,198
Accrued liabilities	10,744	15,128
Accrued warranty obligations	7,129	15,344
Short-term borrowings	—	17,944
Deferred income tax liabilities	1,220	919
Total current liabilities	56,200	87,533
Other long-term liabilities	2,869	3,203
Long-term deferred income tax liabilities	754	1,037
Income taxes payable	2,866	2,061
Total liabilities	62,689	93,834
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Common stock – no par value, 75,000 shares authorized, 30,744 and 30,614 shares issued and outstanding at December 31, 2009 and 2008, respectively	4,414	3,207
Retained earnings	41,136	94,433
Accumulated other comprehensive income	6,933	6,045
Total stockholders' equity	52,483	103,685
Total liabilities and stockholders' equity	$ 115,172	$ 197,519

See accompanying notes to consolidated financial statements.

NAUTILUS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	2009	2008
Net sales	$189,260	$283,712
Cost of sales	92,745	147,930
Gross profit	96,515	135,782
Operating expenses:		
Selling and marketing	75,827	107,613
General and administrative	24,616	35,353
Research and development	5,222	6,615
Restructuring	14,151	13,938
Intangible asset impairments	5,904	—
Goodwill impairment	—	29,755
Total operating expenses	125,720	193,274
Operating loss	(29,205)	(57,492)
Other income (expense):		
Interest income	77	229
Interest expense	(168)	(1,753)
Other income (expense), net	(194)	501
Total other expense, net	(285)	(1,023)
Loss from continuing operations before income taxes	(29,490)	(58,515)
Income tax benefit	(10,880)	(5,918)
Loss from continuing operations	(18,610)	(52,597)
Discontinued operations:		
Loss from discontinued operations, including estimated disposal loss of $9,491 in 2009	(34,777)	(27,178)
Income tax expense (benefit) from discontinued operations	(90)	10,813
Loss from discontinued operations, net of tax	(34,687)	(37,991)
Net loss	$ (53,297)	$ (90,588)
Loss per share from continuing operations:		
Basic and diluted	$ (0.61)	$ (1.69)
Loss per share from discontinued operations:		
Basic and diluted	$ (1.13)	$ (1.22)
Loss per share:		
Basic and diluted	$ (1.74)	$ (2.91)
Weighted average shares outstanding:		
Basic and diluted	30,664	31,117

See accompanying notes to consolidated financial statements.

NAUTILUS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS
(In thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (1)	Total Stockholders' Equity
	Shares	Amount			
Balances at January 1, 2008	31,557	$ 4,346	$185,021	$ 7,087	$ 196,454
Net loss	—	—	(90,588)	—	(90,588)
Foreign currency translation adjustment	—	—	—	(1,042)	(1,042)
Comprehensive loss					(91,630)
Stock-based compensation expense	—	4,792	—	—	4,792
Stock options exercised	90	563	—	—	563
Stock repurchased	(1,033)	(5,320)	—	—	(5,320)
Stock option income tax deficiencies		(1,174)	—	—	(1,174)
Balances at December 31, 2008	30,614	3,207	94,433	6,045	103,685
Net loss	—	—	(53,297)	—	(53,297)
Foreign currency translation adjustment, net of income taxes of $43	—	—	—	888	888
Comprehensive loss					(52,409)
Stock-based compensation expense	—	1,207	—	—	1,207
Shares issued for vested stock awards	130	—	—	—	—
Balances at December 31, 2009	30,744	$ 4,414	$ 41,136	$ 6,933	$ 52,483

(1) Foreign currency translation adjustments are the sole component of Accumulated Other Comprehensive Income.

See accompanying notes to consolidated financial statements.

NAUTILUS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	2009	2008
Cash flows from operating activities:		
Loss from continuing operations	$(18,610)	$(52,597)
Loss from discontinued operations	(34,687)	(37,991)
Net loss	(53,297)	(90,588)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,739	16,832
Allowance for doubtful accounts	1,315	4,761
Inventory lower-of-cost-or-market adjustments	1,562	5,952
Stock-based compensation expense	1,207	4,792
Loss on asset disposals	10,250	755
Asset impairments	9,067	30,855
Writeoff of abandoned leasehold improvements and other assets	9,922	—
Deferred income taxes, net of valuation allowances	1,025	14,106
Other	—	816
Changes in operating assets and liabilities:		
Trade receivables	23,458	22,475
Inventories	11,003	10,917
Prepaids and other current assets	2,299	4,971
Income taxes	(1,018)	(2,137)
Trade payables	(1,252)	(10,277)
Accrued liabilities, including warranty obligations	(11,498)	(8,660)
Net cash provided by operating activities	14,782	5,570
Cash flows from investing activities:		
Proceeds from sale of discontinued operations	7,397	58,435
Proceeds from other asset sales	211	1,379
Refunds of escrow deposits	4,024	5,000
Purchases of equipment and intangible assets	(2,000)	(4,824)
Net increase in restricted cash	(4,933)	—
Payments received on note receivable	—	2,364
Net cash provided by investing activities	4,699	62,354
Cash flows from financing activities:		
Decrease in short-term borrowings	(17,944)	(61,230)
Debt issuance costs	(75)	(1,954)
Stock repurchases	—	(5,320)
Proceeds from exercises of stock options	—	563
Other	—	(1,174)
Net cash used in financing activities	(18,019)	(69,115)
Net effect of currency exchange rate changes	280	(1,173)
Net increase (decrease) in cash and cash equivalents	1,742	(2,364)
Cash and cash equivalents, beginning of year	5,547	7,911
Cash and cash equivalents, end of year	$ 7,289	$ 5,547
Supplemental disclosure of cash flow information:		
Cash refunded for income taxes	$ 11,105	$ 9,025
Cash paid for interest	$ 227	$ 2,677

See accompanying notes to consolidated financial statements.

NAUTILUS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SIGNIFICANT ACCOUNTING POLICIES

Organization and Business – Nautilus is a leading designer, developer and marketer of fitness products sold under such well-known brand names as Nautilus™, Bowflex™, Schwinn™ Fitness and Universal™. As used herein, the term "Nautilus" or "Company" refers to Nautilus, Inc. and subsidiaries, unless the context indicates otherwise. The Company's goal is to develop and market fitness equipment and related products to help people enjoy healthier lives. Nautilus was founded in 1986 and incorporated in the state of Washington in 1993. The Company's headquarters are located in Vancouver, Washington.

We market our products through two business segments: Direct and Retail, each representing a distinct marketing distribution channel. Our direct business offers products directly to consumers through direct advertising, catalogs and the Internet. Our retail business offers our products through a network of independent retail companies located in the United States and Canada, as well as Internet-based merchants. Our commercial business, formerly an operating segment and reported as a discontinued operation beginning in 2009, offered products to health clubs, schools, hospitals and other organizations.

On April 18, 2008, the Company completed the sale of its former fitness apparel business, DashAmerica, Inc. d/b/a Pearl Izumi ("Pearl Izumi"). Accordingly, results of operations associated with the fitness apparel business have been presented in the consolidated financial statements as discontinued operations for all periods presented.

On September 25, 2009 the Company committed to a plan for the complete divestiture of its commercial business. Accordingly, results of operations and certain assets associated with the commercial business have been presented in the consolidated financial statements as discontinued operations for all periods presented.

Basis of presentation – The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and relate to Nautilus, Inc. and its subsidiaries, all of which are wholly-owned, directly or indirectly. Intercompany transactions and balances have been eliminated in consolidation.

Year-end – The Company's fiscal year ends on December 31.

Reclassifications – The Company has reclassified certain 2008 amounts related to the cash flows of its fitness apparel division discontinued operation, as permitted by accounting guidance, which previously were reported separately, to conform to the current period presentation. Net cash flows were not impacted by this reclassification.

The results of the commercial business, including related costs previously included in restructuring expense, have been reclassified as discontinued operations in the Company's financial statements for all periods presented.

Accrued warranty obligations, previously included in accrued liabilities, have been reclassified as a separate component of current liabilities in the Company's consolidated balance sheets.

Use of estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from those estimates.

Concentrations of risk – Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash held in bank accounts that exceed federally insured limits and trade receivables.

Trade receivables are generally unsecured and therefore collection is affected by the economic conditions in each of our principal markets. Collection of receivables due from customers outside the U.S. may also be negatively impacted by the nature and extent of our business presence in a particular country and any rights or protections afforded to our customers under a country's legal system.

Nautilus relies on third-party contract manufacturers in Asia for substantially all of its products and for certain product engineering support. Business operations could be disrupted by natural disasters, difficulties in transporting our products from foreign suppliers, as well as political, social or economic instability in the countries where our contract manufacturers or their vendors and customers conduct business. While any of the Company's manufacturing arrangements could be replaced over time, the temporary loss of the services of any primary contract manufacturer could cause a significant disruption in operations and delay product shipments.

Cash, cash equivalents and restricted cash – All highly liquid investments with remaining maturities of three months or less at purchase are considered to be cash equivalents. Restricted cash consists of bank accounts pledged as collateral for outstanding letters of credit, which are long-term.

Inventories – Inventories are stated at the lower of cost or market, with cost determined based on the first-in, first-out method. Any abnormal amounts of freight, handling costs and spoilage are recognized as current period charges. The Company establishes inventory allowances for excess, slow-moving and obsolete inventory based on inventory levels, expected product life cycles and forecasted sales demand. Inventories are written down to market value, based on historical demand, competitive factors, changes in technology and product lifecycles.

Property, plant and equipment – Property, plant and equipment is stated at cost, net of accumulated depreciation. Improvements or betterments which add new functionality or significantly extend the life of an asset are capitalized. Expenditures for maintenance and repairs are expensed as incurred. The cost of assets retired, or otherwise disposed of, and the related accumulated depreciation, are removed from the accounts in the year of disposal. Gains and losses resulting from asset sales and dispositions are recognized in our consolidated statement of operations in the period in which assets are disposed.

Depreciation is recognized, using the straight-line method, over the lesser of the estimated useful lives of the assets or, in the case of leasehold improvements, the lease term including renewal periods if the Company expects to exercise its renewal options. Depreciation on furniture, equipment and information systems is determined based on estimated useful lives, which generally range from three to five years.

Goodwill and intangible assets – Goodwill consists of the excess of acquisition costs over the fair values of net assets acquired in business combinations. Indefinite-life intangible assets consist of acquired trademarks. Goodwill and other indefinite-life intangible assets are stated at cost and are not amortized; instead, they are tested for impairment at least annually.

Nautilus reviews goodwill and other indefinite-life intangible assets for impairment in the fourth quarter of each year, or more frequently when events or changes in circumstances indicate that the assets may be impaired. With respect to goodwill, the Company compares the carrying value of the related reporting unit to an estimate of the reporting unit's fair value. If the carrying value of the reporting unit exceeds its estimated fair value, the estimated fair values of all of the reporting unit's assets and liabilities are determined to establish the amount of the impairment, if any. For further information regarding goodwill, refer to Note 7, Goodwill. For further information regarding other intangible assets, refer to Note 8, Other Intangible Assets.

In 2009, in connection with its annual impairment review, Nautilus determined that an indefinite-life trademark was impaired and recognized an impairment charge of $2.3 million. In 2008, in connection with its annual impairment review, Nautilus determined that goodwill of its retail segment was impaired and recognized an impairment charge of $29.8 million.

Finite-lived intangible assets, primarily acquired patents and patent rights, are stated at cost, net of accumulated amortization. The Company recognizes amortization expense for its finite-lived intangible assets on a straight-line basis over the estimated useful lives, which generally range from one to 16 years.

Impairment of long-lived assets – Long-lived assets, including property, plant and equipment, and finite-lived intangible assets, including patents and patent rights, are evaluated for impairment when events or circumstances indicate the carrying value may be impaired. When such an event or condition occurs, Nautilus estimates the future undiscounted cash flows to be derived from the use and eventual disposition of the asset to determine whether a potential impairment exists. If the carrying value exceeds estimated future undiscounted cash flows, the Company records impairment expense to reduce the carrying value of the asset to its estimated fair value.

In connection with changes in long-term product development plans resulting from strategic decisions made by management in the fourth quarter, Nautilus recognized an impairment charge of $3.6 million in 2009 related to certain patent rights which the Company previously expected to be utilized in its retail products.

Revenue recognition – Product sales and shipping revenues, net of promotional discounts, rebates and return allowances, are recorded when products are shipped and title passes to customers. Retail sales to customers are made pursuant to a sales contract that provides for transfer of both title and risk of loss upon our delivery to the carrier.

Taxes collected from customers and remitted to governmental authorities are recorded on a net basis, and excluded from revenue. Shipping and handling fees billed to customers are recorded gross and included in both revenue and cost of sales. Many direct business customers finance their purchases through a third-party credit provider, for which Nautilus pays a commission or financing fee to the credit provider. Revenue for these transactions is recognized based on the sales prices charged to the customer and the commission or financing fee is included in selling and marketing expense.

Revenue is recognized net of applicable sales incentives, such as promotional discounts, rebates and return allowances. Nautilus estimates the revenue impact of incentive programs, based on the planned duration of the program and historical experience. If the amount of sales incentives is reasonably estimable, the impact of such incentives is recorded at the later of the time the customer is notified of the sales incentive or the time of the sale.

Nautilus estimates liability for product returns based on historical experience and records the expected obligation as a reduction in revenue. If actual return costs differ from previous estimates, the amount of the liability and corresponding revenue are adjusted in the period such costs occur.

Cost of sales – Cost of sales is primarily comprised of: inventory purchase costs; royalties; salaries, wages and other employee-related costs; occupancy charges, including depreciation of warehouse and distribution facility improvements and equipment; transportation expenses; costs of product warranties and related services; distribution information systems costs; and allocated expenses for shared administrative functions.

Product warranty obligations – The Company’s products carry limited defined warranties for defects in materials or workmanship, which require Nautilus to pay for replacement parts, costs for shipping the parts to customers and, in certain instances, service labor costs. Nautilus records a liability, at the time of sale, for the estimated costs of responding to future warranty claims. Estimated warranty costs are recorded as a component of cost of sales, based on historical warranty claim experience and available product quality data. If necessary, Nautilus adjusts its liability for specific warranty matters when they become known and are reasonably estimable. Warranty expenses are affected by the performance of new products, significant manufacturing or design defects not discovered until after the product is delivered to the customer, product failure rates, and higher or lower than expected repair costs. If warranty costs differ from previous estimates, or if circumstances change such that the assumptions inherent in our previous estimates are no longer valid, the amount of warranty reserve is adjusted accordingly.

The following reflects the activity related to our reserves for warranty obligations for the two-year period ended December 31, 2009:

(In thousands)	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions*	Balance at End of Year
Warranty reserves:				
2009	$ 17,837	$ 3,073	$ (12,531)	$ 8,379
2008	25,185	9,122	(16,470)	17,837

* Deductions represent warranty claims paid out in the form of service costs and/or product replacements.

Warranty reserves at December 31, 2009 and 2008 include $1.3 million and $2.5 million, respectively, in estimated long-term obligations.

Litigation and Loss Contingencies – From time to time, the Company may be involved in various claims, lawsuits and other proceedings. Such litigation involves uncertainty as to the eventual outcomes and losses which may be realized when one or more future events occur or fail to occur. Nautilus records expenses for litigation and loss contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company estimates the probability of such losses based on the advice of internal and external counsel, the outcomes from similar litigation, the status of the lawsuits (including settlement initiatives), legislative developments and other factors. Due to the numerous variables associated with these judgments and assumptions, both the precision and reliability of the resulting estimates of the related loss contingencies are subject to substantial uncertainties. The Company regularly monitors its estimated exposure to these contingencies and, as additional information becomes known, may change its estimates accordingly.

Advertising and promotion – Nautilus expenses its advertising and promotion costs as incurred. Production costs of television advertising commercials are recorded as prepaid expenses until the initial broadcast, at which time such costs are expensed. Advertising and promotion costs are included in selling and marketing expenses.

Total advertising and promotion expenses were $48.3 million and $67.0 million for the years ended December 31, 2009 and 2008, respectively. Prepaid advertising and promotion costs totaled $0.9 million at December 31, 2009 and December 31, 2008.

Research and development – Internal research and development costs, which primarily consist of salaries and wages, employee benefits, expenditures for materials, and fees to use licensed technologies, are expensed as incurred. Third party research and development costs for products under development or being researched, if any, are expensed as the contracted work is performed.

Income taxes – Nautilus accounts for income taxes based on the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when the temporary differences are expected to be included, as income or expense, in the applicable tax return. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period of the enactment. Valuation allowances are provided against deferred income tax assets if we determine it is more likely than not that such assets will not be realized.

The Company recognizes a tax benefit from an uncertain tax position when it is more likely than not that the position will be sustained based on the technical merits of the position upon examination, including resolutions of any related appeals or litigation.

Foreign currency translation – Nautilus translates the accounts of its foreign subsidiaries into U.S. dollars, using the current rate method, whereby: revenues, expenses, gains and losses are translated at weighted-average exchange rates during the year; and assets and liabilities are translated at the exchange rate on the balance sheet date. Translation gains and losses are reported in the Company's consolidated balance sheets as a component of accumulated other comprehensive income (loss) in stockholders' equity.

Gains and losses arising from foreign currency transactions, including transactions between the Company and its foreign subsidiaries, are recorded as a component of other income (expense) in our consolidated statements of operations.

Fair value of financial instruments – Financial instruments include cash, cash equivalents, restricted cash, trade receivables, short-term borrowings, accounts payable, letters of credit and guarantees entered into in the ordinary course of our business. The carrying amounts reflected in our consolidated balance sheets approximate fair value due to their market rates of interest and/or short-term maturities.

Stock-based compensation – Nautilus recognizes stock-based compensation, on a straight-line basis, over the applicable vesting period, based on the grant-date fair value of the award. To the extent a stock-based award is subject to performance conditions, the amount of expense recorded in a given period, if any, reflects our assessment of the probability of achieving the performance targets.

Fair value of stock options is estimated using the Black-Scholes-Merton option valuation model; fair value of restricted stock awards is based on the closing market price on the day preceding the grant. Assumptions used in calculating the fair value of stock-option grants are as follows:

	2009	2008
Dividend yield	0.0%	0.0%
Risk-free interest rate	2.5%	3.2%
Expected life (years)	4.75	4.59
Expected volatility	88%	52%

Expected dividend yield is based on our current expectation that no dividend payments will be made in future periods.

Risk-free interest rate is based on the implied yield available on U.S. Treasury zero coupon issues with a remaining term approximating the expected life of the options.

Expected life is calculated using the "simplified" method, equal to the sum of the vesting term and the original contractual term, divided by two.

Expected volatility is determined based on the daily historical volatility of the Company's common stock over a period commensurate with the expected life of the stock option.

The Company estimates future forfeitures, at the time of grant and in subsequent periods, based on historical turnover rates, previous forfeiture experience and changes in the business or key personnel that would suggest future forfeitures may differ from historical data. The Company recognizes compensation expense for only those stock options and stock-based awards that are expected to vest. The Company reevaluates estimated forfeitures each quarter and, if applicable, recognizes a cumulative effect adjustment in the period of the change if the revised estimate of the impact of forfeitures differs significantly from the previous estimate.

Related party transactions – The Company's largest shareholder, Sherborne Investors LP ("Sherborne") undertook a successful action to replace four of the Company's directors with Sherborne nominees in a December 2007 special meeting of shareholders. In May 2008, shareholders approved the reimbursement of up to $0.6 million of expenses incurred by Sherborne in connection with the shareholder action. Payment requires the

approval of the disinterested members of the Company's Board and is not anticipated until some time after the Company returns to profitability. The obligation to reimburse Sherborne's expenses is included as a long-term liability in the Company's consolidated balance sheets at December 31, 2009 and 2008.

In February 2009, the disinterested members of the Company's Board of Directors approved a separate agreement with Sherborne Investors Management ("Sherborne Investors") under which the Company is 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 the Company's Chief Executive Officer. In 2009, Nautilus paid Sherborne Investors $220,000 in reimbursements under this agreement.

New accounting pronouncements – No new accounting pronouncements had, or are reasonably likely to have, a material impact on the Company's consolidated financial position, results of operations or cash flows.

(2) DISCONTINUED OPERATIONS

Discontinued operations consist of the Company's commercial business and its former fitness apparel business.

Commercial Business

In light of continuing operating losses in its commercial business and in order to focus exclusively on management of its direct and retail consumer businesses, on September 25, 2009 the Company committed to a plan for the complete divestiture of its commercial business segment. As a result of this action, the Company reported its commercial business as a discontinued operation, which qualified for held-for-sale accounting treatment, in the third quarter of 2009. The results of the commercial business have been reclassified as discontinued operations in the Company's financial statements for all periods presented.

In 2009, in light of continuing declines in commercial real property values and changes in management's expectations regarding revenue, the Company tested the long-lived assets of its commercial business segment for impairment. As a result, the Company recognized pre-tax impairment charges in the third quarter of 2009 related to real property and other intangible assets of $1.4 million and $1.6 million, respectively. In addition, the Company recognized an estimated pre-tax disposal loss of $18.3 million in the third quarter of 2009 in connection with its planned sale of the commercial business.

Subsequently, in the fourth quarter of 2009, management determined that the Company might realize greater value by selling its commercial business in multiple asset groups involving several buyers, rather than as a single disposal group as originally was planned. In the quarter ended December 31, 2009 the Company completed the sale of its StairMaster™ and Schwinn™ Fitness commercial product lines and recorded an $8.8 million adjustment to reduce the estimated pre-tax disposal loss related to the commercial business.

Following is the adjustment to previously reported amount of estimated pre-tax disposal loss, reflecting management's decision in the fourth quarter of 2009 to dispose of the business in multiple asset groups involving several buyers, rather than as a single disposal group as originally was planned:

(In thousands, before income taxes)	2009
Estimated loss on sale of commercial discontinued operation, as of September 30, 2009	$(18,331)
Adjustment to expected proceeds	8,840
Estimated loss on sale of commercial discontinued operation, as of December 31, 2009	$ (9,491)

The amount of estimated loss recognized by the Company in connection with the disposal of commercial business assets reflects the carrying values of the assets expected to be sold in excess of the estimated amount of

anticipated cash proceeds, net of sale transaction costs. The estimated loss amount may be adjusted in future periods, depending on changes that may occur in the underlying facts and circumstances and finalization of the related sale transactions, and the amount of the adjustment may be material.

Operating results of the commercial business discontinued operation are as follows:

(In thousands)	Year ended December 31, 2009	2008
Revenue	$ 74,644	$127,466
Loss before income taxes	$(24,909)	$ (30,194)
Estimated loss on sale of commercial discontinued operation	(9,491)	—
Income tax expense (benefit)	(90)	10,208
Loss from discontinued operation – commercial business	$(34,310)	$ (40,402)

The income tax expense in 2008 results from valuation allowances provided against certain deferred income tax assets related to the commercial business discontinued operation. Commercial business discontinued operation assets held-for-sale and related disposal loss impairments as of December 31, 2009 are as follows:

(In thousands)	Inventories	Property, Plant & Equipment	Totals
Assets of discontinued operation held-for-sale, before impairment adjustments	$ 14,164	$ 6,883	$ 21,047
Impairment adjustments included in loss from discontinued operations:			
Estimated loss on remaining commercial business assets held-for-sale at December 31, 2009	(3,897)	(6,369)	(10,266)
Assets of discontinued operation held-for-sale, as adjusted	$ 10,267	$ 514	$ 10,781

Currently, the Company expects to incur additional cash charges related to its planned divestiture, including estimated employee termination severance payments of approximately $1.6 million and estimated termination charges for leases and other commercial contract obligations of approximately $1.8 million, which are not reflected in 2009 operating results because such liabilities were not incurred as of year-end. The estimated amounts of additional costs may be adjusted in future periods, depending on changes that may occur in the underlying facts and circumstances, and the amount of adjustment may be material.

Cash flows of the commercial business after completion of the sale transactions may include settlements of then outstanding accounts receivable, trade payables and contractual obligations, settlements of sales agreement contingencies and receipts of passive royalties, all of which, according to accounting guidance, are not considered to be direct cash flows of the disposed segment.

In 2008, the Company recognized a $3.8 million charge, included in discontinued operations, due to uncertainties regarding access to, and future recovery of, certain assets of its China sales operation. In 2009, the Company recovered a portion of these assets and, as a result of this and other changes in circumstances, reduced the previously accrued loss amount by $2.3 million. At December 31, 2009 the Company had an allowance of $1.5 million due to uncertainties regarding the future recovery of China trade receivables.

Fitness Apparel Business

On April 18, 2008 the Company completed the sale of its fitness apparel business, Pearl iZumi. Operating results for Pearl iZumi, included in loss from discontinued operations, are as follows:

(In thousands)	2009	2008
Revenue	—	$27,616
Income (loss) before income taxes	$(377)	$ 3,016
Income tax expense	—	605
Income (loss) from discontinued operation – fitness apparel	$(377)	$ 2,411

The Company had an escrow deposit of $4.4 million related to the sale of Pearl iZumi, of which $2.0 million was released in August, 2009. In the third quarter of 2009, the Company recorded a $0.4 million adjustment to the previously reported disposal of Pearl iZumi for additional amounts due to the buyer under terms of the purchase agreement. The remaining escrow deposit balance of $2.0 million was released to the Company in October 2009.

(3) RESTRUCTURING

During 2008, Nautilus implemented a number of initiatives to reduce operating costs and reorganize its operations, including measures to restructure its workforce and terminate an agreement pursuant to which it was to acquire a manufacturing operation in China. In 2009, the Company announced additional plans aimed at further reducing operating costs and improving the overall alignment of spending with anticipated revenue. The 2009 plan impacted all functions through reductions in personnel and other initiatives, including the abandonment of certain information technology software, the termination of certain leases and warehouse distribution services and the downsizing of the Company's leased corporate headquarters. Initiatives related to continuing operations are summarized below.

In 2009, the Company:

- Restructured its workforce and reduced the number of employees to better match business requirements;
- Conducted a thorough review of its information technology costs to better align computer systems and support services to our restructured business model, resulting in significant savings related to software purchases, maintenance agreements and licensing fees;
- Terminated the lease for its corporate headquarters facility in Vancouver, Washington, and entered into a new lease for substantially less space in the same building; and
- Terminated a warehouse distribution service agreement for U.S. service parts inventory, which will now be distributed from existing Company locations;

In 2008, the Company:

- Restructured its workforce to better match the business requirements;
- Reviewed its product lines, eliminating low volume or low profit products;
- Consolidated its U.S. distribution centers and aligned products by business segment to allow for more efficient product handling;
- Transferred Canadian call center activities to its Vancouver, Washington call center; and
- Terminated an agreement pursuant to which it was to acquire a manufacturing operation in China.

Following is a summary of expenses associated with the aforementioned restructuring activities, included in “Restructuring”in the Company’s Consolidated Statements of Operations:

(In thousands)	2009	2008
Employee termination severance costs	$ 563	$ 4,813
Facility lease termination costs	2,101	240
Abandoned leasehold improvements	8,028	—
Abandoned information technology software and related service agreements	1,799	—
Abandoned creative media assets	—	470
Termination of agreement to acquire manufacturing operation in China	—	8,000
Contract termination costs	939	350
Other	721	65
	$ 14,151	$ 13,938

The following table summarizes liabilities for exit costs related to restructuring activities, included in “Accrued liabilities” and “Other long-term liabilities” in our consolidated balance sheets:

(In thousands)	Severance and Benefits	Facilities and other Leases	Total Liabilities
Balance as of January 1, 2008	$ —	$ —	$ —
Accruals	4,662	697	5,359
Payments	(2,978)	(697)	(3,675)
Balance as of December 31, 2008	1,684	—	1,684
Accruals	563	5,230	5,793
Payments	(1,884)	(3,530)	(5,414)
Balance as of December 31, 2009	$ 363	$ 1,700	$ 2,063

(4) TRADE RECEIVABLES

Activity related to our allowance for doubtful trade receivables is as follows:

(In thousands)	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions*	Balance at End of Year
Allowance for doubtful accounts:				
2009	$ 6,602	$ 1,315	$ (3,757)	$ 4,160
2008	4,490	4,761	(2,649)	6,602

* Deductions consist of amounts written off against the allowance, net of recoveries.

(5) INVENTORIES

	December 31,	
(In thousands)	2009	2008
Finished goods	$11,850	$29,541
Work-in-process	—	1,147
Parts and components	1,269	5,834
Raw materials	—	7,280
	$13,119	$43,802

At December 31, 2009 and 2008, the Company recorded inventory valuation allowances of $0.7 million and $6.7 million, respectively, related to excess parts and finished goods inventories. The reduction in inventory valuation allowances primarily results from the reclassification of certain inventories to assets held-for-sale at December 31, 2009.

(6) PROPERTY, PLANT AND EQUIPMENT

(In thousands)	Estimated Useful Life (in years)	December 31, 2009	December 31, 2008
Land	N/A	$ —	$ 324
Buildings	5 to 20	—	7,017
Leasehold improvements	5 to 20	2,767	13,704
Computer equipment	2 to 5	41,225	42,623
Machinery and equipment	3 to 5	8,393	26,621
Furniture and fixtures	5	2,573	3,566
Construction in process	N/A	554	1,530
Total cost		55,512	95,385
Accumulated depreciation		(47,470)	(62,502)
		$ 8,042	$ 32,883

Depreciation expense was $7.1 million and $9.8 million in 2009 and 2008, respectively.

On June 30, 2009, the Company terminated the lease for its world headquarters facility located in Vancouver, Washington and entered into a new lease agreement to occupy substantially less space in the same building. As a result of the downsizing, the Company abandoned certain leasehold improvements and recorded a related charge of $8.0 million in 2009, included as a component of restructuring expense (see Note 3 – Restructuring).

(7) GOODWILL

Nautilus applies a fair value-based impairment test to evaluate the carrying value of goodwill annually, at October 31, and more frequently if certain events or circumstances indicate that an impairment loss may have been incurred. The analysis of potential impairment of goodwill is a two-step process. The first step requires us to calculate an estimate of the fair value of the applicable reporting units. Reporting units are defined as operating segments or one level below an operating segment when that component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. The Company has determined the reporting units relating to continuing operations are its direct and retail business segments.

Our estimates of reporting unit fair values are generally based on an analysis of discounted cash flows for the reporting unit and, when appropriate, an analysis of comparable market data. If under step one, the estimated fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit’s carrying amount is greater than the estimated fair value, then a second step must be completed to measure the amount of impairment, if any.

The second step, if necessary, involves the allocation of the estimated fair value of the reporting unit to all of the identifiable assets and liabilities of the unit (including any unrecorded intangible assets). Any remaining, or unallocated, amounts reflect the implied fair value of the reporting unit’s goodwill. To the extent the estimated implied fair value of the goodwill is less than its carrying value, an impairment loss is recognized for the difference.

The Company tested goodwill for impairment during both the third and fourth quarters of 2009, and no impairment was indicated. In determining the estimated future cash flows, current and future levels of income were considered as well as business trends and market conditions. In 2008, the Company recognized a $29.8 million impairment charge related to goodwill of its retail reporting unit. No goodwill impairment charges were recognized prior to 2008.

Activity related to goodwill for the years ended December 31, 2009 and 2008 was as follows (in thousands):

	Direct	Retail	Total
Balance as of January 1, 2008	$2,988	$ 29,755	$ 32,743
Impairment loss	—	(29,755)	(29,755)
Currency exchange rate adjustment	(590)	—	(590)
Balance as of December 31, 2008	2,398	—	2,398
Currency exchange rate adjustment	396	—	396
Balance as of December 31, 2009	$2,794	$ —	$ 2,794

(8) OTHER INTANGIBLE ASSETS

(In thousands)	Estimated Useful Life (in years)	December 31, 2009	December 31, 2008
Other intangible assets:			
Indefinite life trademarks	N/A	$ 9,052	$16,419
Patents	1 to 16	18,154	23,209
Total cost		27,206	39,628
Accumulated amortization:			
Patents		(6,368)	(5,225)
Total accumulated amortization		(6,368)	(5,225)
		$20,838	$34,403

In 2009, in light of various changes in long-term product strategies, the Company tested other intangible assets for impairment and recognized impairment charges of $5.9 million for intangible assets of its retail business segment.

Amortization expense for intangible assets for the years ended December 31, 2009 and 2008 was $2.5 million and $2.7 million, respectively. Amortization expense for intangible assets is expected to be approximately $2.1 million in each year from 2010 through 2013 and $2.0 million in 2014, with the remaining $1.5 million amortized over the six year period from 2015 through 2020.

(9) ACCRUED LIABILITIES

(In thousands)	December 31, 2009	December 31, 2008
Restructuring costs	$ 1,005	$ 1,535
Payroll and benefits	3,903	3,593
Royalties	970	1,957
Legal and professional fees	1,265	2,970
Other	3,601	5,073
	$ 10,744	$ 15,128

(10) BORROWINGS

During 2009 and 2008, the Company partly relied on its Loan and Security Agreement (the "Loan Agreement") with Bank of America N.A. ("BofA") to meet its ongoing cash needs, particularly during seasonal periods of reduced cash flow. The Loan Agreement provided the Company with a revolving secured credit line to fund the Company's letters of credit, working capital needs and other business purposes. On December 29, 2009, pursuant to the sale of certain assets of its Stairmaster™ and Schwinn™ Fitness product lines, the Company satisfied all outstanding obligations under the Loan Agreement and it was terminated.

On December 29, 2009, the Company entered into a Letter of Credit Agreement (the "Letter of Credit Agreement") with BofA. The Letter of Credit Agreement provides up to $6.0 million in standby letters of credit, and expires on December 31, 2010 ("Expiration Date"). During this agreement period, BofA will issue standby letters of credit, with a maximum maturity not to exceed 365 days beyond the Expiration Date. Letters of credit are secured by a cash collateral account held by BofA in an amount not less than 105% of the amount of the outstanding letters of credit, plus $0.3 million.

At December 31, 2009 the Company had $4.4 million in standby letters of credit, collateralized by $4.9 million in restricted cash, which is reported as such in the Company's consolidated balance sheet. There was no restricted cash requirement under the Loan Agreement in 2008. At December 31, 2008, the Company had $17.9 million in outstanding borrowings and $6.7 million in standby letters of credit. The weighted-average interest rate on the Company's outstanding borrowings at December 31, 2008 was 4.0%.

On March 8, 2010 the Company entered into a new loan agreement (the "New Loan Agreement") with Bank of the West, providing for a $15.0 million revolving secured credit line. The New Loan Agreement is available for working capital, standby letters of credit and general corporate purposes through September 2012, assuming Nautilus satisfies certain terms and conditions at the time borrowings are requested.

The interest rate on any future borrowings under the New Loan Agreement will be based on the bank's prime rate or LIBOR, based on our financial condition at the time Nautilus elects to borrow. The New Loan Agreement includes a fee for the unused portion of the credit facility, which fee will vary depending on the Company's borrowing base availability.

Borrowings under the New Loan Agreement are collateralized by substantially all of the Company's assets. The New Loan Agreement contains customary covenants, including, but not limited to, covenants relating to minimum current ratio, minimum liquidity, minimum EBITDA and limitations on capital expenditures, mergers and acquisitions, indebtedness, liens, dispositions, dividends, and investments. The New Loan Agreement also contains customary events of default.

(11) INCOME TAXES

Components of the Company's loss from continuing operations before income taxes were as follows:

(In thousands)	2009	2008
United States	$(31,164)	$(59,518)
Non-U.S.	1,674	1,003
	$(29,490)	$(58,515)

Income tax (benefit) provision from continuing operations consisted of the following:

(In thousands)	2009	2008
Current:		
U.S. federal	$(12,153)	$(10,694)
U.S. state	(123)	(392)
Non-U.S.	341	373
Total current	(11,935)	(10,713)
Deferred:		
U.S. federal	397	3,429
U.S. state	403	1,410
Non-U.S	255	(44)
Total deferred	1,055	4,795
	$(10,880)	$ (5,918)

The tax effect of deferred tax assets and liabilities arising from temporary differences and carry-forwards are as follows:

	December 31,	
(In thousands)	2009	2008
Deferred tax assets:		
Accrued liabilities	$ 4,762	$ 8,409
Allowance for doubtful accounts	119	1,424
Inventory valuation	893	1,717
Uniform capitalization	249	354
Share-based compensation expense	929	1,373
Net operating loss carryforward	24,216	15,178
Basis difference on subsidiary held for sale	1,951	5,163
Capital loss carryforward	4,319	—
Basis difference on long lived assets	13,262	1,971
Undistributed earnings of subsidiaries	—	1,872
Other	4,149	3,102
	54,849	40,563
Less: Valuation Allowance	(53,712)	(40,536)
Total deferred tax assets	1,137	27
Deferred income tax liabilities:		
Prepaid advertising	(270)	(501)
Other prepaids	(368)	(787)
Basis difference on long-lived assets	(1,860)	
Undistributed earnings of foreign subsidiaries	(113)	—
Total deferred tax liabilities	(2,611)	(1,288)
Net deferred tax liability	$ (1,474)	$ (1,261)

The Company's net deferred tax liabilities as presented in its consolidated balance sheets are as follows:

(In thousands)	December 31, 2009	2008
Current deferred tax assets	$ 54	$ 266
Current deferred tax liability	(1,220)	(919)
Non-current deferred tax assets, included in "Other assets"	446	429
Non-current deferred tax liabilities	(754)	(1,037)
Net deferred tax liability	$(1,474)	$(1,261)

A reconciliation of the U.S. statutory federal income tax rate with the Company's effective income tax benefit rate from continuing operations is as follows:

(In percents)	2009	2008
U.S. statutory income tax rate	35.0%	35.0%
State tax, net of U.S. federal tax benefit	3.4	2.5
Nondeductible incentive stock option expense	(0.1)	(0.5)
Non-U.S. Taxes	(0.6)	2.4
Nondeductible operating expenses	(0.1)	(0.1)
Research and development credit	0.3	0.1
Change in deferred tax measurement rate	(0.2)	0.1
Change in tax contingency reserve	(0.6)	0.8
Valuation allowance	(42.5)	(28.8)
Release of valuation allowance	42.4	—
Other	(0.1)	(1.4)
Effective tax benefit rate	36.9%	10.1%

The comparative increase in our effective income tax benefit rate primarily is due to the partial release of valuation allowance, resulting from the enactment of a new law in the fourth quarter of 2009. The effective tax benefit rate for discontinued operations of 0.3% in 2009 differs from the statutory rate due to the recognition of a valuation allowance against deferred tax assets. Nautilus must periodically evaluate the potential realization of its deferred income tax assets and, if necessary, record a valuation allowance to reduce the net carrying value of such assets to the amount expected to be realized. In 2008, Nautilus concluded that cumulative taxable losses in recent years indicated a full valuation allowance against its deferred income tax assets was required. If and when a review of objective evidence indicates that some or all of the Company's valuation allowance is no longer appropriate, release of the valuation allowance would be recognized as an income tax benefit to continuing operations in the period in which such assessment is made. The amount of valuation allowance offsetting the Company's deferred income tax assets was $53.7 million and $40.5 million as of December 31, 2009 and 2008, respectively.

In November 2009, the President signed into U.S. federal law a provision to allow taxpayers to carry back an applicable net operating loss for up to five years. Nautilus elected to carry back a portion of its 2008 net operating loss and a portion of the Company's valuation allowance was released. A corresponding income tax benefit of $12.5 million was included in results of continuing operations in the fourth quarter of 2009 and Nautilus received a $12.1 million refund of U.S. federal income taxes in the first quarter of 2010.

Nautilus has net operating loss and tax credit carryforwards in U.S. federal, state and non-U.S. jurisdictions. At December 31, 2009, U.S. federal net operating loss carryforwards were $45.1 million, which were fully offset by a valuation allowance and are available to offset future taxable income, if any, through 2030. The Company's net operating loss carryforwards in state jurisdictions are fully offset by a valuation allowance, and will expire between 2013 and 2030, if not utilized. In addition, Nautilus has $11.3 million of U.S. federal capital loss carryforwards, which were fully offset by a valuation allowance and expire in 2013, if not utilized.

At December 31, 2009, Nautilus has $23.0 million of net operating loss carryforwards in non-U.S. jurisdictions, including $10.2 million, $6.4 million, $3.6 million and $2.8 million related to its subsidiaries in Germany, Switzerland, China and Italy, respectively. As of December 31, 2009, the Company's non-U.S. net operating loss carryforwards were fully offset by a valuation allowance. The net operating losses for Switzerland, China and Italy expire between 2013 and 2017. Net operating loss carryforwards for Germany may be used indefinitely.

The timing and manner in which the Company is permitted to utilize its net operating loss carryforwards may be limited by Internal Revenue Code Section 382, *Limitation on Net Operating Loss Carry-forwards and Certain Built-in-Losses Following Ownership Change*. At December 31, 2009, the Company had approximately $45.1 million in U.S. federal net operating loss carryforwards, and an undetermined amount of income tax credits and state net operating loss carry forwards, which are potentially subject to the Section 382 limitation.

Under accounting guidance, an uncertain tax position represents the Company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits from uncertain tax positions (excluding the impact of penalties and interest) is as follows:

(In thousands)	2009	2008
Balance, beginning of year	$2,165	$2,166
Increases due to tax positions taken in previous periods	522	28
Decreases due to tax positions taken in previous periods	(22)	(4)
Increases due to tax positions taken in the current period	884	729
Decreases due to settlements with taxing authorities	—	(63)
Decreases due to lapse of statute of limitations	(300)	(691)
Balance, end of year	$3,249	$2,165

Unrecognized tax benefits, if recognized, would affect the Company's effective tax rate.

The Company recognizes tax-related interest and penalties as a component of income tax expense. As of December 31, 2009, the Company recognized a cumulative liability for interest and penalties of $0.9 million. As of December 31, 2008, the Company recognized a cumulative liability for interests and penalties of $0.6 million.

The Company's U.S. federal income tax returns for 2003 through 2009 are open to review by the U.S. Internal Revenue Service. The Company's state income tax returns for 2003 through 2009 are open to review, depending on the respective statute of limitation in each state. In addition, the Company files income tax returns in numerous non-U.S. jurisdictions with varying statutes of limitation.

As of December 31, 2009, the Company believes it is reasonably likely that, within the next 12 months, $0.2 million of previously unrecognized tax benefits will be recognized, primarily as reductions in income tax expense, as statutes of limitation expire.

(12) STOCKHOLDERS' EQUITY

Common Stock

As of December 31, 2009, the Company had 75.0 million authorized shares of common stock, no par value, of which 30.7 million shares were issued and outstanding and 1.4 million shares were reserved for future issuance upon exercise of stock options.

In May 2008, the Company's Board of Directors authorized the repurchase of up to $10.0 million of the Company's common stock. The repurchase program does not obligate the Company to acquire any specific number of shares or acquire shares over any specified period of time. The Company repurchased 1.0 million

shares for $5.3 million during the year ended December 31, 2008. The Company does not intend to repurchase any additional shares at this time.

2005 Long-Term Incentive Plan

In 2005, Nautilus shareholders approved the 2005 Long-Term Incentive Plan (the "2005 Plan") to enhance the Company's ability to attract and retain highly qualified personnel and align the long-term interests of participants with those of the shareholders. The 2005 Plan, which is administered by the Company's Compensation Committee of the Board of Directors ("Compensation Committee"), authorizes the Company to grant various types of stock-based awards including: stock options, stock appreciation rights, restricted stock, stock units and performance stock grants. Stock options granted under the 2005 Plan shall not have an exercise price less than the fair market value of the Company's common shares on the date of the grant. The exercise price of an option or stock appreciation right may not be reduced without shareholder approval. Stock options generally vest over four years of continuous service, commencing on the date of grant. Stock options granted after the adoption of the 2005 Plan have a seven year contractual term. Stock options granted under the preceding plan expire after ten years.

Upon its adoption, there were approximately 4.0 million shares available for issuance under the 2005 Plan. The number of shares available for issuance is increased by any shares of common stock which were previously reserved for issuance under the Company's preceding stock option plan, and were not subject to grant on June 6, 2005, or as to which the stock based compensation award is forfeited on or after June 6, 2005. The number of shares available for issuance is reduced by (i) two shares for each share delivered in settlement of any stock appreciation rights, for each share of restricted stock, and for each stock unit or performance unit award, and (ii) one share for each share delivered in settlement of a stock option award. In no event shall more than 1.0 million aggregate shares of common stock subject to stock options, stock appreciation rights, restricted stock or performance unit awards be granted to any one participant in any one year under the 2005 Plan. At December 31, 2009, 4.6 million shares remained available for future grant under the 2005 Plan.

Stock Options

A summary of the Company's stock option activity is as follows:

(In thousands, except exercise price)	Total Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value ($000s)
Outstanding at January 1, 2008	2,804	$ 13.54		
Granted	1,116	4.15		
Forfeited, cancelled or expired	(1,819)	11.27		
Exercised	(90)	6.26		
Outstanding at December 31, 2008	2,011	10.70	5.06	$ —
Vested and expected to vest at December 31, 2008	1,616	11.61	4.90	—
Outstanding at December 31, 2008	2,011	10.70		
Granted	65	1.63		
Forfeited, cancelled or expired	(662)	10.24		
Exercised	—	—		
Outstanding at December 31, 2009	1,414	10.50	4.24	26
Vested and expected to vest at December 31, 2009.	1,266	11.18	4.10	16

Aggregate intrinsic value in the above table represents the aggregate amount, for all options, by which closing share prices exceed the exercise price of the stock options. This value will fluctuate in the future based on the fair market value of our common stock.

Stock option expense was $0.9 million and $4.6 million in 2009 and 2008, respectively, included in general and administrative expense. During 2008, the Company was contractually obligated to accelerate vesting of certain stock options upon the termination of former Company officers and recognized $1.0 million in related expense. These options subsequently expired unexercised.

The weighted average grant-date fair values of stock options granted during 2009 and 2008 were $1.03 and $1.91, respectively. As of December 31, 2009, the unamortized compensation expense for unvested stock options totaled approximately $1.5 million, which is expected to be recognized over a weighted average period of 2.0 years.

Following is a summary of stock options outstanding at December 31, 2009:

(In thousands, except life and exercise price)	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Exercise Price
$0.95 – $3.40	163	6.06	$ 2.12	5	$ 2.69
$4.15 – $4.15	397	4.78	4.15	149	4.15
$4.41 – $15.12	283	3.23	8.84	213	9.24
$15.15 – $16.10	350	3.65	15.66	256	15.61
$16.17 – $27.72	221	4.20	22.00	206	22.35
$0.95 – $27.72	1,414	4.24	10.50	829	13.50

Restricted Stock Awards

In 2007, the Company granted 297,000 shares of restricted stock, which vested over two years, to members of its management team as a means to retain key employees while the Company moved forward with its restructuring activities. A summary of the Company's restricted stock award activity is as follows:

(In thousands, except fair value amounts)	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding at January 1, 2008	266	$ 9.23
Forfeited	(122)	9.23
Outstanding at December 31, 2008	144	9.23
Vested	(130)	9.23
Forfeited	(14)	9.23
Outstanding at December 31, 2009	—	—

Restricted stock compensation expense for the years ended December 31, 2009 and 2008 was $0.3 million and $0.2 million, respectively.

Performance Stock Units

In December 2005, the Company granted 125,000 performance unit awards to key members of its executive team. The performance unit awards were to vest if the Company met earnings targets set by the Compensation Committee of the Board of Directors. The fair value of the performance units was based on the closing market

price of the Company's common stock on the date preceding the grant and was to be recognized over the estimated requisite service period based on the number of performance unit awards ultimately expected to vest. Compensation expense was not recognized for the performance units during 2009 and 2008 as management concluded it was unlikely the performance targets that trigger vesting would be met.

A summary of the Company's performance stock unit activity is as follows:

(In thousands, except fair value amounts)	Performance Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2008	48	$ 15.68
Granted	—	—
Forfeited or expired	(15)	15.86
Outstanding at December 31, 2008	33	15.60
Granted	—	—
Forfeited or expired	(33)	15.60
Outstanding at December 31, 2009	—	—

The Company receives income tax deductions as a result of the exercise of certain stock options and the vesting of restricted stock and performance stock units.

(13) LOSS PER SHARE

Loss per share is presented on both a basic and diluted basis. Basic loss per share is based on the weighted average number of common shares outstanding. Diluted loss per share reflects the potential dilution that could occur if outstanding obligations to issue common stock were exercised or converted into common stock. For the calculations of diluted loss per share, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted stock awards determined using the treasury stock method.

The following table sets forth the computation of basic and diluted loss per share as reported in the Company's statements of operations:

(In thousands, except per share amounts)	2009	2008
Numerator:		
Loss from continuing operations	$(18,610)	$(52,597)
Loss from discontinued operations, net of tax	(34,687)	(37,991)
Net loss	$(53,297)	$(90,588)
Denominator:		
Basic shares outstanding	30,664	31,117
Dilutive effect of stock options and restricted stock	—	—
Diluted shares outstanding	30,664	31,117
Calculations:		
Loss per share from continuing operations:		
Basic and diluted	$ (0.61)	$ (1.69)
Loss per share from discontinued operations:		
Basic and diluted	$ (1.13)	$ (1.22)
Loss per share:		
Basic and diluted	$ (1.74)	$ (2.91)

In 2009 and 2008, there were 1.4 million and 2.2 million shares, respectively, issuable upon exercise of stock options, restricted stock and performance units that were not included in the calculation of diluted earnings per share because the effect would have been anti-dilutive.

(14) EMPLOYEE BENEFIT PLAN

The Company adopted a 401(k) plan, the Nautilus, Inc. 401(k) Savings Plan ("401(k) Plan"), in 1999 covering substantially all regular employees over the age of 18. Each participant may contribute up to 75% of eligible compensation during any calendar year, subject to certain limitations. Subject to the approval of the Company's Board of Directors, the 401(k) Plan provides for Company matching contributions of 100% of the first 1% of eligible earnings contributed by the employee, and an additional 50% match for earnings contributed over 1% and up to 6%. Matching contributions vest at 25% after the first year of service, and are fully vested after the second year. On April 19, 2009, the Company suspended matching contributions. On April 18, 2009, all participating employees and all participating employees terminated between July 24, 2008 and April 18, 2009 became fully vested in their matching company contributions. Company's contributions to the 401(k) Plan were $0.3 million and $1.2 million in 2009 and 2008, respectively.

(15) SEGMENT INFORMATION

The Company has two reportable segments – Direct and Retail. The Company's commercial business discontinued operation is not a reportable segment. Contribution is the measure of profit or loss used by the Company's chief operating decision maker, and is defined as net sales, less product costs and direct expenses. Direct expenses include employment costs, selling and marketing costs, general and administrative expenses and research and development costs directly related to segment operations. Segment assets are those directly assigned to an operating segment's operations, primarily accounts receivable, inventories and intangible assets. Unallocated assets primarily include shared information technology infrastructure, distribution centers, corporate headquarters, prepaids, deferred taxes and other assets. Capital expenditures directly attributable to the Direct and Retail segments were not significant in 2009 or 2008.

(In thousands)	2009	2008
Net sales:		
Direct	$123,045	$185,704
Retail	63,597	94,498
Unallocated (royalty income)	2,618	3,510
Consolidated net sales	$189,260	$283,712
Contribution:		
Direct	$ (716)	$ 2,953
Retail	10,801	11,027
Unallocated	1,664	1,114
Consolidated contribution	$ 11,749	$ 15,094
Reconciliation of consolidated contribution to loss from continuing operations:		
Consolidated contribution	$ 11,749	$ 15,094
Less:		
Selling and marketing expenses	(804)	(1,806)
General and administrative expenses	(18,505)	(24,326)
Research and development expenses	(1,590)	(2,761)
Restructuring costs	(14,151)	(13,938)
Intangible asset impairment charges	(5,904)	—
Goodwill impairment charges	—	(29,755)
Interest expense, net	(168)	(1,753)
Other income (expense), net	(117)	730
Income tax benefit	10,880	5,918
Loss from continuing operations	$ (18,610)	$ (52,597)
Assets:		
Direct	$ 21,402	$ 35,012
Retail	31,672	42,459
Unallocated	62,098	120,048
Total assets	$115,172	$197,519
Depreciation and amortization expense:		
Direct	$ 5,347	$ 6,276
Retail	1,428	1,703
Unallocated	3,075	5,900
Total depreciation and amortization expense	$ 9,850	$ 13,879

Net sales outside of the United States, primarily in Canada, represented approximately 10% and 9% of consolidated net sales in 2009 and 2008, respectively.

(16) COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases property and equipment under non-cancellable operating leases which, in the aggregate, extend through 2016. Many of these leases contain renewal options and provide for rent escalations and payment of real estate taxes, maintenance, insurance and certain other operating expenses of the properties. Rent expense under all operating leases was $4.5 million and $5.9 million in 2009 and 2008, respectively.

At December 31, 2009, future minimum lease payments under non-cancellable operating leases are as follows:

(In thousands)	
2010	$ 4,828
2011	4,440
2012	3,348
2013	3,059
2014	2,551
Thereafter	2,072
Minimum lease payments	$20,298

Guarantees, Commitments and Off-Balance Sheet Arrangements

At December 31, 2009 and 2008, the Company had approximately $4.3 million and $6.7 million, respectively, in standby letters of credit with vendors. The standby letters of credit have expiration dates through September 2011.

The Company has long lead times for inventory purchases and, therefore, must secure factory capacity from its vendors in advance. At December 31, 2009, the Company had approximately $18.0 million in non-cancellable market-based purchase obligations, all of which were for inventory purchases expected to be received in 2010.

At times, the Company becomes involved in third-party lease and financing arrangements which assist its customers in obtaining funds to purchase its products. While most of these financings are without recourse, in certain cases the Company may offer a guarantee or other recourse provisions. The Company's third-party financing company reviews consumer credit information in evaluating the risk of default prior to extending credit to customers. The Company relies on the quality of its third-party financing company's review and its own risk assessment in determining whether to proceed with a recourse transaction. At December 31, 2009 and 2008, the maximum contingent liability under all recourse provisions was approximately $1.4 million and $1.6 million, respectively.

In the ordinary course of business, the Company enters into agreements that require it to indemnify counterparties against third-party claims. These may include: agreements with vendors and suppliers, under which the Company may indemnify them against claims arising from use of their products or services; agreements with customers, under which the Company may indemnify them against claims arising from their use or sale of the Company's products; real estate and equipment leases, under which the Company may indemnify lessors against third-party claims relating to the use of their property; agreements with licensees or licensors, under which the Company may indemnify the licensee or licensor against claims arising from their use of the Company's intellectual property or the Company's use of their intellectual property; and agreements with parties to debt arrangements, under which the Company may indemnify them against claims relating to their participation in the transactions.

The nature and terms of these indemnifications vary from contract to contract, and generally a maximum obligation is not stated. The Company holds insurance policies that mitigate potential losses arising from certain

types of indemnifications. Management does not deem these obligations to be significant to our consolidated financial position, results of operations or cash flows, and no related liabilities are recorded at December 31, 2009.

Issues Arising from China Sales Operation

In 2008, the Company recognized a $3.8 million charge, included in discontinued operations, due to uncertainties regarding access to, and future recovery of, certain assets of its China sales operation. In 2009, the Company recovered a portion of these assets and, as a result of this and other changes in circumstances, reduced the previously accrued loss amount by $2.3 million. At December 31, 2009 the Company had an allowance of $1.5 million due to uncertainties regarding the future recovery of China trade receivables.

Legal Matters

The Company is party to various legal proceedings arising from normal business activities. In addition, the Company's tax filings are subject to audit by authorities in the jurisdictions where it conducts business, which may result in assessments of additional taxes. Management believes it has adequately provided for obligations that would result from these legal and tax proceedings where it is probable it will pay some amounts and the amounts can be reasonably estimated. In some cases, however, it is too early to predict a final outcome. Management believes that the ultimate resolution of these matters will not have a material effect on the Company's financial position, results of operations or cash flows.

(17) SUBSEQUENT EVENTS

In November 2009, the President signed into U.S. federal law a provision allowing taxpayers to carry back applicable net operating losses for a period of up to five years. This new law allowed Nautilus to carry-back a portion of its 2008 net operating loss to prior years in which the Company had paid federal taxes and, as a result, we received a U.S. income tax refund of approximately $12.1 million in January 2010.

On February 19, 2010, the Company completed an agreement for the sale of certain assets of its Nautilus™ strength equipment product lines. The buyer also acquired rights to certain patents, technologies and other intellectual property, assumed certain outstanding warranty obligations related to the Company's North American commercial products and entered into a short-term lease of its Independence, Virginia manufacturing and warehousing facilities with an option to purchase such facilities.

On March 8, 2010, the Company entered into the New Loan Agreement with Bank of the West, providing for a $15.0 million revolving secured credit line. The New Loan Agreement is available for working capital, standby letters of credit and general corporate purposes through September 2012, assuming Nautilus satisfies certain terms and conditions at the time borrowings are requested.

(18) SUPPLEMENTARY INFORMATION—QUARTERLY RESULTS OF OPERATIONS (unaudited)

The following table summarizes the Company's unaudited quarterly financial data for 2009 and 2008:

	QUARTER ENDED				
(In thousands, except per share amounts)	March 31	June 30	September 30	December 31	Total
2009:					
Net sales	$ 54,055	$ 40,102	$ 41,431	$ 53,672	$189,260
Gross profit	30,304	19,809	20,281	26,121	96,515
Operating loss	(3,715)	(14,922)	(2,822)	(7,746)	(29,205)
Income (loss) from continuing operations	(5,424)	(14,678)	(1,523)	3,015	(18,610)
Income (loss) from discontinued operations, net of tax	(8,395)	(6,093)	(22,895)	2,696	(34,687)
Net income (loss)	(13,819)	(20,771)	(24,418)	5,711	(53,297)
Income (loss) per share, basic and diluted	$ (0.45)	$ (0.68)	$ (0.80)	$ 0.19	$ (1.74)
2008:					
Net sales	$ 95,917	$ 61,236	$ 62,656	$ 63,903	$283,712
Gross profit	50,014	27,970	29,130	28,668	135,782
Operating loss	(5,744)	(10,574)	(5,672)	(35,502)	(57,492)
Loss from continuing operations	(4,578)	(6,665)	(22,221)	(19,133)	(52,597)
Loss from discontinued operations, net of tax	(1,782)	(2,211)	(11,897)	(22,101)	(37,991)
Net loss	(6,360)	(8,876)	(34,118)	(41,234)	(90,588)
Loss per share:					
Basic and diluted	$ (0.20)	$ (0.28)	$ (1.11)	$ (1.35)	$ (2.91)

The following table summarizes the impact of certain items included in the Company's quarterly results of continuing operations:

	Quarter Ended				
(In thousands)	March 31	June 30	September 30	December 31	Total
2009					
Operating Loss					
Restructuring charges	$ 2,049	$11,796	$ 201	$ 105	$14,151
Intangible asset impairment charges	—	—	2,101	3,803	5,904
Writeoff of deferred financing costs	—	223	—	406	629
Legal and contract settlement costs	(750)	—	(200)	200	(750)
	$ 1,299	$12,019	$ 2,102	$ 4,514	$19,934
2008					
Operating Loss					
Restructuring charges	$10,634	$ 2,436	$ 300	$ 568	$13,938
Goodwill impairment charge	—	—	—	29,755	29,755
Writeoff of deferred financing costs	—	—	1,055	—	1,055
Legal and contract settlement costs	—	1,125	106	1,300	2,531
Shareholder action costs	—	565	—	—	565
	$10,634	$ 4,126	$ 1,461	$ 31,623	$47,844

In 2009, restructuring charges were $14.2 million, and included: $8.0 million in impairment charges of abandoned leasehold improvements related to the reorganization and consolidation of our Vancouver, Washington headquarters facility; $2.8 million in lease termination costs and accrued lease obligations associated with the reduction of leased space at our headquarters facility; $1.8 million in charges due to our abandonment of information technology software which was no longer necessary to support the business needs; $0.9 million fee to terminate a warehouse distribution service agreement as part of our distribution consolidation activities; and severance costs of $0.6 million. In addition to restructuring charges, we recognized $5.9 million in asset impairment charges related to intangible assets of our retail segment, $0.4 million in deferred financing costs related to the termination of our bank agreement and $0.2 million in legal and contract settlement costs, partially offset by a benefit for legal matters which were settled in 2009 for $1.0 million less than the Company previously had estimated in 2008.

In 2008, restructuring charges were $14.0 million, and included: $8.0 million in charges related to the termination of an agreement to acquire a manufacturing operation in China; $4.8 million in employee termination benefits and other employee costs; $0.6 million in contract termination costs; and $0.5 million for the disposal of unused creative advertising resulting from a change in our product strategies. In addition to restructuring charges, we recognized a $29.8 million asset impairment charge related to goodwill of the retail segment, $1.1 million for writing off deferred financing costs associated with a former bank agreement; $2.5 million of legal and contract settlement costs; and $0.6 million in expenses related to the reimbursement of shareholder action costs.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

As of December 31, 2009, we conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended ("Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of December 31, 2009 that our disclosure controls and procedures were effective.

Management's Report On Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Exchange Act. This rule defines internal control over financial reporting as a process designed by, or under the supervision of, the company's chief executive officer and chief financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's Assessment

Nautilus' management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting based on the criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2009.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes In Internal Control Over Financial Reporting

There were no material changes in our internal control over financial reporting during the fourth quarter of 2009.

Item 9B. Other Information

Given the timing of the event, the following information is included in this Form 10-K pursuant to Item 1.01 of Form 8-K "Entry into a Material Definitive Agreement" in lieu of filing a Form 8-K.

On March 8, 2010 we entered into a new loan agreement (the "New Loan Agreement") with Bank of the West, providing for a $15.0 million revolving secured credit line. The New Loan Agreement is available for working capital, standby letters of credit and general corporate purposes through September 2012, assuming we satisfy certain terms and conditions at the time borrowings are requested.

The interest rate on any future borrowings under the New Loan Agreement will be based on the bank's prime rate or LIBOR, based on our financial condition at the time we elect to borrow. The New Loan Agreement includes a fee for the unused portion of the credit facility, which fee will vary depending on our borrowing base availability. Borrowings under the New Loan Agreement are collateralized by substantially all of our assets pursuant to the terms of a Security Agreement and certain other agreements related to security in our intellectual property assets. The New Loan Agreement contains customary covenants, including, but not limited to, covenants relating to minimum current ratio, minimum liquidity, minimum EBITDA and limitations on capital expenditures, mergers and acquisitions, indebtedness, liens, dispositions, dividends, and investments. The New Loan Agreement includes customary events of default.

The above is only a summary of the New Loan Agreement and is qualified in its entirety by reference to the full text of the New Loan Agreement included filed as Exhibit 10.30 to this Form 10-K and to the Security Agreement filed as Exhibit 10.31 to this Form 10-K.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is included under the captions *Election of Directors*, *Section 16(a) Beneficial Ownership Reporting Compliance*, *Executive Officers* and *Information Concerning the Board of Directors* in our Proxy Statement for our 2010 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 11. Executive Compensation

The information required by this item is included under the caption *Executive Compensation* in our Proxy Statement for our 2010 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is included under the caption *Stock Ownership* in our Proxy Statement for our 2010 Annual Meeting of Stockholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is included under the caption *Information Concerning the Board of Directors* in our Proxy Statement for our 2010 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this item is included under the caption *Appointment of Registered Independent Public Accounting Firm* for 2010 in our Proxy Statement for our 2010 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

See the Consolidated Financial Statements in Item 8.

(a)(2) Financial Statement Schedule

There are no financial statement schedules filed as part of this annual report, since the required information is included in the consolidated financial statements, including the notes thereto, or the circumstances requiring inclusion of such schedules are not present.

(a)(3) Exhibit Index

See the Exhibit Index beginning on page 66 for a description of the documents that are filed as Exhibits to this Annual Report on Form 10-K or incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NAUTILUS, INC.

Date: March 8, 2010

By: /S/ EDWARD J. BRAMSON
Edward J. Bramson
Chairman and Chief Executive Officer
(Principal Executive Officer)

POWER OF ATTORNEY

Each person whose individual signature appears below hereby authorizes and appoints Edward J. Bramson and Kenneth L. Fish, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his true and lawful attorney-in-fact and agent to act in his name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file any and all amendments to this report, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 8, 2010.

Signature	Title
* **Edward J. Bramson**	Chairman and Chief Executive Officer (Principal Executive Officer)
/S/ KENNETH L. FISH **Kenneth L. Fish**	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
* **Ronald P. Badie**	Director
* **Richard A. Horn**	Director
* **Craig L. McKibben**	Director
* **Marvin G. Siegert**	Director
* **Michael A. Stein**	Director

*By: /S/ WAYNE M. BOLIO — March 8, 2010
Wayne M. Bolio
Attorney-In-Fact

EXHIBIT INDEX

Exhibit No.	Description
2.1	Stock Purchase Agreement dated as of February 15, 2008 by and among the Company, DashAmerica, Inc. d/b/a/ Pearl Izumi USA, Inc. and Shimano American Corporation – Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, as filed with the Commission on February 22, 2008.
2.2	First Amendment to Stock Purchase Agreement dated as of April 18, 2008 by and among Nautilus, Inc., Shimano American Corporation and DashAmerica, Inc. D/B/A Pearl Izumi USA, Inc. – Incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K, as filed with the Commission on April 24, 2008.
3.1	Amended and Restated Articles of Incorporation – Incorporated by reference to Exhibit A to the Company's Schedule 14A, as filed with the Commission on April 22, 2008.
3.5	Amended and Restated Bylaws – Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K, as filed with the Commission on April 5, 2005.
3.6	Amendment to Amended and Restated Bylaws of the Company – Incorporated by reference to Exhibit 3.1 the Company's Current Report on Form 8-K, as filed with the Commission on January 31, 2007.
10.1*	Company Stock Option Plan, as amended – Incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1, as filed with the Commission on March 3, 1999.
10.2*	Amendment to Company Stock Option Plan – Incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2000, as filed with the Commission on August 10, 2000.
10.3*	Company 2005 Long-Term Incentive Plan – Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, as filed with the Commission on June 10, 2005.
10.4*	First Amendment to the Company 2005 Long-Term Incentive Plan – Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2006, as filed with the Commission on November 9, 2006.
10.5*	Form of Employee Incentive Stock Option Agreement under the Company Stock Option Plan – Incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 16, 2005.
10.6*	Form of Nonstatutory Stock Option Agreement under the Company Stock Option Plan – Incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 16, 2005.
10.7*	Form of Nonstatutory Stock Option Agreement – Incorporated by reference to Exhibit 10 of the Company's Current Report on Form 8-K, as filed with the Commission on July 29, 2005.
10.8*	Form of Non-Employee Director Nonstatutory Stock Option Agreement – Incorporated by reference to Exhibit 10 of the Company's Current Report on Form 8-K, as filed with the Commission on August 19, 2005.
10.9*	Executive Employment Agreement, dated January 14, 2004, by and between the Company and Darryl Thomas – Incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Commission on March 16, 2005.
10.10*	Executive Employment Agreement, dated March 31, 2005, by and between the Company and William D. Meadowcroft – Incorporated by reference to Exhibit 99.2 to the Company's amended Current Report on Form 8-K/A, as filed with the Commission on April 6, 2005.

Exhibit No.	Description
10.11*	Employment Agreement dated May 6, 2008 between Nautilus, Inc. and Sebastien Goulet – Incorporated by reference to Exhibit 10.6 of the Company's Form 10-Q for the three months ended March 31, 2008 as filed with the Commission on May 12, 2008.
10.12*	Executive Employment Agreement, dated October 17, 2007, by and between the Company and Robert S. Falcone. Incorporated by reference to the Company's Current Report of Form 8-K, as filed with the Commission on October 23, 2007.
10.14*	Form of Performance Unit Agreement – Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2006, as filed with the Commission on August 9, 2006.
10.15*	Summary of Performance Unit Award – Incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2006, as filed with the Commission on November 9, 2006.
10.16	Trademark License Agreement, dated September 20, 2001, by and between Pacific Direct, LLC and the Company – Incorporated by reference to Exhibit 2.1 of the Company's Quarterly Report on Form 10-Q for the three months ended September 30, 2001, as filed with the Commission on November 14, 2001.
10.17	License Agreement, dated April 26, 1999, as amended, between the Company and Gary D. Piaget – Incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003, as filed with the Commission on March 15, 2004.
10.18	Office Lease Agreement, dated June 30, 2009, between Columbia Tech Center LLC and the Company – Incorporated by reference to Exhibit 10.1 of the Company's Form 8-K, as filed with the Commission on July 7, 2009.
10.19	Credit Agreement, dated December 22, 2009, between Bank of America N.A and the Company – Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, as filed with the Commission on January 5, 2010.
10.20	Fourth Amended and Restated Merchant Agreement dated as of October 27, 2008 by and between Nautilus, Inc. and HSBC Bank Nevada, N.A. (Confidential treatment has been requested with respect to a portion of this agreement.) – Incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the three months ended October 31, 2008 as filed with the Commission on November 10, 2008.
10.21	Supply Agreement dated as of May 2, 2008 by and among Nautilus, Inc., Land America Health and Fitness Co., Ltd. and Treuriver Investments Co. Limited – Incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q for the three months ended March 31, 2008 as filed with the Commission on May 12, 2008. [Confidential treatment has been granted with respect to a portion of this Exhibit]
10.22	Settlement Agreement dated as of May 5, 2008 by and among Nautilus, Inc. Land America Health and Fitness Co., Ltd., Treuriver Investments Co. Limited, Michael C. Bruno and Yang Lin Qing – Incorporated by reference to Exhibit 10.5 of the Company's Form 10-Q for the three months ended March 31, 2008 as filed with the Commission on May 12, 2008.
10.23	Schwinn Asset Purchase Agreement dated as of December 5, 2009 between Nautilus, Inc. and Fit Dragon International, Inc.
10.24	License Agreement dated as of December 29, 2009 between Nautilus, Inc. and Fit Dragon International, Inc.
10.25	Stairmaster Asset Purchase Agreement dated as of December 5, 2009 between Nautilus, Inc. and Fit Dragon International, Inc.

Exhibit No.	Description
10.26	Technology Transfer and License Agreement dated as of December 29, 2009 between Nautilus, Inc. and Fit Dragon International, Inc.
10.27	Asset Purchase Agreement dated as of February 18, 2010 between Nautilus, Inc. and Med-Fit Systems, Inc.
10.28	Commercial License Agreement dated as of February 18, 2010 between Nautilus, Inc. and Med-Fit Systems, Inc.
10.29	Lease Agreement dated as of February 19, 2010 between Nautilus, Inc. and Med-Fit Systems, Inc.
10.30	Credit Agreement dated as of March 8, 2010 between Nautilus, Inc. and Bank of the West.
10.31	Security Agreement dated as of March 8, 2010 between Nautilus, Inc. and Bank of the West.
21	Subsidiaries of the Company.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates management contract, compensatory agreement or arrangement, in which the Company's directors or executive officers may participate.

Exhibit 10.23

SCHWINN ASSET PURCHASE AGREEMENT

BETWEEN

FIT DRAGON INTERNATIONAL, LTD.
(Buyer)

AND

NAUTILUS, INC.
(Seller)

December 5, 2009.

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SCHWINN ASSET PURCHASE AGREEMENT

This Schwinn Asset Purchase Agreement (this "**Agreement**") is entered into as of December 5, 2009 by and between Fit Dragon International, Ltd., a British Virgin Islands corporation ("**Buyer**"), and Nautilus, Inc., a Washington corporation (**"Nautilus**"). Buyer and Nautilus are referred to collectively herein as the "**Parties**."

This Agreement contemplates a transaction in which Buyer will purchase certain assets (and assume certain liabilities) of Nautilus in return for cash.

Now, therefore, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows.

ARTICLE 1 - DEFINITIONS

"**Accountants**" has the meaning set forth in Section 2.4(a) below.

"**Acquired Assets**" means all right, title, and interest in and to the following assets of Nautilus: (a) the Schwinn Commercial Indoor Cycle inventory, consisting of Schwinn Commercial Indoor Cycle finished goods and parts, as set forth on Section 3.7 of the Disclosure Schedules; (b) all owned production and tooling equipment used exclusively in the manufacture of Schwinn Commercial Indoor Cycle products; and (c) all customer purchase orders for Schwinn Commercial Indoor Cycle products that are open as of the Closing Date.

"**Adverse Consequences**" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, reasonable amounts paid in settlement, liabilities, obligations, taxes, liens, losses, expenses, and fees, including court costs and reasonable attorneys' fees and expenses.

"**Affiliate**" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act.

"**Assumed Contracts**" means all contracts set forth on Section 3.8 of the Disclosure Schedules, including without limitation all customer purchase orders for Schwinn Commercial Indoor Cycle products that are open as of the Closing Date.

"**Assumed Liabilities**" means the following liabilities and obligations of Nautilus (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due): (a) all warranty liability for Schwinn Commercial Indoor Cycle products; (b) the liabilities and obligations set forth on Schedule 2.2 hereto; (c) the liabilities and obligations under the Assumed Contracts; and (d) all liabilities and obligations arising or related to ownership or use of the Acquired Assets.

"**Buyer**" has the meaning set forth in the preface above.

"**Closing Financial Statements**" has the meaning set forth in Section 2.4(a) below.

"**Commercial Indoor Cycle**" means commercial grade indoor cycling bikes sold through the commercial sales channel.

"**Closing**" has the meaning set forth in Section 2.5 below.

"**Closing Date**" has the meaning set forth in Section 2.5 below.

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Confidential Information**" means any information concerning the business and affairs of Nautilus that is not already generally available to the public.

"**Disclosure Schedule**" has the meaning set forth in Article 3 below.

"**Estimated Purchase Price**" has the meaning set forth in Section 2.3 below.

"**Financial Information**" has the meaning set forth in Section 3.6 below.

"**GAAP**" means United States generally accepted accounting principles as in effect from time to time, consistently applied.

"**Hart-Scott-Rodino Act**" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"**Indemnified Party**" has the meaning set forth in Section 8.4 below.

"**Indemnifying Party**" has the meaning set forth in Section 8.4 below.

"**Knowledge**" means, with respect to Nautilus, actual knowledge of the following individuals: Kenneth Fish, Wayne Bolio and Tim Peters.

"**License Agreement**" means the License Agreement providing for the license by Nautilus to Buyer of certain intellectual property in the form attached hereto as Exhibit F.

"**Lien**" means any mortgage, pledge, lien, encumbrance, charge, or other security interest other than (a) liens for Taxes not yet due and payable, (b) purchase money liens and liens securing rental payments under capital lease arrangements, and (c) other liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money.

"**Ordinary Course of Business**" means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

"**Party**" has the meaning set forth in the preface above.

"**Person**" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, any other business entity or a governmental entity (or any department, agency, or political subdivision thereof).

"**Purchase Price**" has the meaning set forth in Section 2.3 below.

"**Securities Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"**Schwinn**" means Nautilus with respect to its Schwinn brand Commercial Indoor Cycle operations, including the manufacturing, marketing, and sales of Commercial Indoor Cycle products under the Schwinn trademark.

"**Nautilus**" has the meaning set forth in the preface above.

"**Tax**" or "**Taxes**" means any federal, state, local, or non-U.S. income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, whether computed on a separate or consolidated, unitary or combined basis or in any other manner, including any interest, penalty, or addition thereto, whether disputed or not.

"**Tax Benefit**" has the meaning set forth in Section 8.5 below.

"**Third-Party Claim**" has the meaning set forth in Section 8.4 below.

ARTICLE 2 - BASIC TRANSACTION

2.1 Purchase and Sale of Assets. On and subject to the terms and conditions of this Agreement, Buyer agrees to purchase from Nautilus, and Nautilus agrees to sell, transfer, convey, and deliver to Buyer, all of the Acquired Assets at the Closing for the consideration specified below in this Article 2. Buyer acknowledges and agrees that the Acquired Assets do not include raw materials, work in progress or any assets related to the manufacture, marketing and sale of any products other than Commercial Indoor Cycles sold under the Schwinn brand.

2.2 Assumption of Liabilities. On and subject to the terms and conditions of this Agreement, Buyer agrees to assume and become responsible for all of the Assumed Liabilities at the Closing. Buyer will not assume or have any responsibility, however, with respect to any other obligation or liability of Nautilus not included within the definition of Assumed Liabilities.

2.3 Purchase Price. Buyer agrees to pay to Nautilus an amount (the "**Purchase**

Price") equal to the sum of (a) the value as of the Closing Date of the Schwinn Commercial Indoor Cycle inventory, and (b) the value as of the Closing Date of all open purchase orders for Schwinn Commercial Indoor Cycle products. At Closing, Buyer will pay to Nautilus an amount (the "**Estimated Purchase Price**") equal to the sum of (a) Three Million U.S. Dollars ($3,000,000), which represents the estimated value of the Schwinn Commercial Indoor Cycle inventory as of the Closing Date, and (b) the estimated value as of the Closing Date of all open purchase orders for Schwinn Commercial Indoor Cycle products, as determined in good faith by Nautilus three (3) business days prior to the Closing Date; provided, that for the purpose of determining both the Estimated Purchase Price and the final Purchase Price, the minimum value of such open purchase orders shall be One Million Five Hundred Thousand U.S. Dollars (U.S.$1,500,000) and the maximum value of such open purchase orders shall be Two Million Five Hundred Thousand U.S. Dollars ($2,500,000). The Purchase Price shall be finally determined as provided in Section 2.4 below. The Estimated Purchase Price shall be paid to Nautilus at Closing in cash payable by wire transfer or delivery of other immediately available funds.

2.4 Adjustment Procedure.

(a) Nautilus will prepare financial statements ("**Closing Financial Statements**") of Schwinn setting forth the value as of the Closing Date of the Schwinn Commercial Indoor Cycle inventory and the Schwinn Commercial Indoor Cycle open purchase orders, in each case determined in accordance with GAAP and consistent with Nautilus' past practice with regard to the preparation of its financial statements. Nautilus will deliver the Closing Financial Statements to Buyer within sixty (60) days after the Closing Date. If within thirty days following delivery of the Closing Financial Statements Buyer has not given Nautilus notice of its objection to the Closing Financial Statements (such notice must contain a statement of the basis of Buyer's objection), then the inventory and open purchase order amounts reflected in the Closing Financial Statements will be used in computing the Purchase Price. If Buyer gives such notice of objection, then the issues in dispute will be submitted to , certified public accountants (the "**Accountants**"), for resolution. If issues in dispute are submitted to the Accountants for resolution, (i) each party will furnish to the Accountants such workpapers and other documents and information relating to the disputed issues as the Accountants may request and are available to that party or its Subsidiaries (or its independent public accountants), and will be afforded the opportunity to present to the Accountants any material relating to the determination and to discuss the determination with the Accountants; (ii) the determination by the Accountants, as set forth in a notice delivered to both parties by the Accountants, will be binding and conclusive on the parties; and (iii) Buyer and Nautilus will each bear 50% of the fees of the Accountants for such determination.

(b) On the tenth business day following the final determination of the Purchase Price (based on the valuations determined in accordance with Section 2.4(a) above), if the Purchase Price is greater than the Estimated Purchase Price, Buyer will pay the difference to Nautilus, and if the Purchase Price is less than the Estimated Purchase Price, Nautilus will pay the difference to Buyer. No interest shall accrue on any such payments. Payments must be made in cash by wire transfer or other immediately available funds.

2.5 The Closing. The closing of the transactions contemplated by this Agreement (the "**Closing**") shall take place at the offices of Garvey Schubert Barer, 1191 Second Avenue, Eighteenth Floor, Seattle, Washington, 98101, commencing at 9:00 a.m. local time on the second business day following the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated hereby (other than conditions with respect to actions the respective Parties will take at the Closing itself) or such other date as the Parties may mutually determine (the "**Closing Date**").

2.6 Deliveries at the Closing. At the Closing, (a) Nautilus will deliver to Buyer the various certificates, instruments, and documents referred to in Section 7.1 below; (b) Buyer will deliver to Nautilus the various certificates, instruments, and documents referred to in Section 7.2 below; (c) Nautilus will execute, acknowledge (if appropriate), and deliver to Buyer (i) assignments in the forms attached hereto as Exhibit B and (ii) such other instruments of sale, transfer, conveyance, and assignment as Buyer and its counsel may reasonably request; (d) Buyer will execute, acknowledge (if appropriate), and deliver to Nautilus (i) an assumption in the form attached hereto as Exhibit C and (ii) such other instruments of assumption as Nautilus and its counsel may reasonably request; (e) Buyer will deliver to Nautilus the consideration specified in Section 2.3 above; and (f) Nautilus and Buyer shall enter into the License Agreement.

2.7 Allocation. The Parties agree to allocate the Purchase Price (and all other capitalizable costs) among the Acquired Assets for all purposes (including financial accounting and tax purposes) in accordance with the allocation schedule attached hereto as Exhibit D.

ARTICLE 3 - NAUTILUS' REPRESENTATIONS AND WARRANTIES

Nautilus represents and warrants to Buyer that the statements contained in this Article 3 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Article 3), except as set forth in the disclosure schedule accompanying this Agreement as Exhibit A (the "**Disclosure Schedule**"). The Disclosure Schedule will be arranged in sections corresponding to the lettered and numbered sections contained in this Agreement.

3.1 Organization of Nautilus. Nautilus is a corporation duly organized, validly existing, and in good standing under the laws of the State of Washington.

3.2 Authorization of Transaction. Nautilus has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Nautilus, enforceable in accordance with its terms and conditions.

3.3 Non-contravention. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and

assumptions referred to in Article 2 above) by Nautilus, will (a) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Schwinn is subject or any provision of the charter or bylaws of Nautilus or (b) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Schwinn is a party or by which it is bound or to which any of its assets is subject (or result in the imposition of any Lien upon any of Schwinn's assets), except where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice, or Lien would not have a material adverse effect on Schwinn. Nautilus need not give notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement (including the assignments and assumptions referred to in Article 2 above), except where the failure to give notice, to file, or to obtain any authorization, consent, or approval would not have a material adverse effect on Schwinn. For purposes of this Section 3.3, an adverse effect shall be considered "material" if it results in a loss or liability in excess of Three Hundred Thousand U.S. Dollars ($300,000).

3.4 Brokers' Fees. Nautilus has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which Buyer could become liable or obligated.

3.5 Title to Assets. Nautilus has good and marketable title to, or a valid leasehold interest in, the Acquired Assets, free and clear of all Liens or restriction on transfer.

3.6 Financial Information. Attached hereto as Exhibit E is selected historical financial information related to Schwinn (collectively the "**Financial Information**"). The Financial Information was derived from Nautilus financial statements prepared in accordance with GAAP throughout the periods covered thereby.

3.7 Inventory. The Schwinn inventory included in the Acquired Assets consists of Commercial Indoor Cycle parts and finished goods, all of which is merchantable and fit for the purpose for which it was procured or manufactured, as set forth on Section 3.7 of the Disclosure Schedules, none of which is slow-moving, obsolete, damaged, or defective, subject only to the reserve for inventory writedown set forth in the Financial Information.

3.8 Contracts. With respect to the contracts and agreements set forth on Section 3.8 of the Disclosure Schedules (the "Assumed Contracts"), to the Knowledge of Nautilus: (i) the agreement is legal, valid, binding, enforceable, and in full force and effect in all material respects; (ii) no party is in material breach or default, and no event has occurred that with notice or lapse of time would constitute a material breach or default, or permit termination, modification, or acceleration, under the agreement; and (iii) no party has repudiated any material provision of the agreement.

3.9 Terms of Sale. Substantially all of the Commercial Indoor Cycle products manufactured, sold, leased, or delivered by Schwinn are subject to standard terms and conditions of sale or lease, copies of which have been made available to Buyer.

3.10 Product Liability. Schwinn has no material liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due) arising out of any injury to individuals or property as a result of the ownership, possession, or use of any Commercial Indoor Cycle product manufactured, sold, leased, or delivered by Schwinn.

3.11 Customers and Suppliers.

(a) Section 3.11 of the Disclosure Schedule lists the ten (10) largest customers of Schwinn for each of the two (2) most recent fiscal years and sets forth opposite the name of each such customer the percentage of consolidated net sales attributable to such customer. Section 3.11 of the Disclosure Schedule also lists any additional current customers that Schwinn anticipates shall be among the ten (10) largest customers for the current fiscal year.

(b) Since the date of the Most Recent Balance Sheet, no material supplier of Schwinn has indicated in writing that it shall stop, or materially decrease the rate of, supplying materials, products or services to Schwinn, and no customer listed on Section 3.11 of the Disclosure Schedule has indicated in writing that it shall stop, or materially decrease the rate of, buying materials, products or services from Schwinn.

ARTICLE 4 - BUYER'S REPRESENTATIONS AND WARRANTIES

Buyer represents and warrants to Nautilus that the statements contained in this Article 4 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Article 4).

4.1 Organization of Buyer. Buyer is a corporation (or other entity) duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation (or other formation).

4.2 Authorization of Transaction. Buyer has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Buyer, enforceable in accordance with its terms and conditions. The execution, delivery and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by Buyer.

4.3 Non-contravention. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in Article 2 above) by Buyer, will (a) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Buyer is subject or any provision of its

charter, bylaws, or other governing documents or (b) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Buyer is a party or by which it is bound or to which any of its assets are subject. Buyer need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement (including the assignments and assumptions referred to in Article 2 above).

4.4 Brokers' Fees. Buyer has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

ARTICLE 5 - PRE-CLOSING COVENANTS

The Parties agree as follows with respect to the period between the execution of this Agreement and the Closing:

5.1 General. Each of the Parties will use its reasonable best efforts to take all actions and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the Closing conditions set forth in Article 7 below).

5.2 Notices and Consents. Nautilus will give any notices to third parties, and Nautilus will use its commercially reasonable efforts to obtain any third-party consents referred to in Section 3.3 above and the items set forth in Schedule 7.1(c) hereto. Each of the Parties will give any notices to, make any filings with, and use its commercially reasonable efforts to obtain any authorizations, consents, and approvals of governments and governmental agencies in connection with the matters referred to in Sections 3.3 and 4.3 above. Without limiting the generality of the foregoing, each of the Parties will file any Notification and Report Forms and related material that it may be required to file with the Federal Trade Commission and the Antitrust Division of the United States Department of Justice under the Hart-Scott-Rodino Act, will use its reasonable best efforts to obtain a waiver of the applicable waiting period, and will make any further filings pursuant thereto that may be necessary, proper, or advisable in connection therewith.

5.3 Full Access. Nautilus will permit representatives of Buyer (including legal counsel and accountants) to have full access at all reasonable times, and in a manner so as not to interfere with the normal business operations of Nautilus, to all premises, properties, personnel, books, records (including Tax records), contracts, and documents of or pertaining to Schwinn. Buyer will treat and hold as such any Confidential Information it receives from Nautilus and its Subsidiaries (and their representatives) in the course of the reviews contemplated by this Section 5.3, will not use any of the Confidential Information except in connection with this Agreement, and, if this Agreement is terminated for any reason whatsoever, will return to Nautilus all tangible embodiments (and all copies) of the Confidential Information that are in its possession.

5.4 Notice of Developments. Each Party will give prompt written notice to the other Party of any material adverse development causing a breach of any of its own representations and warranties in Articles 3 and 4 above. No disclosure by any Party pursuant to this Section 5.4, however, shall be deemed to amend or supplement the Disclosure Schedule or to prevent or cure any misrepresentation, breach of warranty, or breach of covenant.

ARTICLE 6 - POST-CLOSING COVENANTS

The Parties agree as follows with respect to the period following the Closing:

6.1 General. In case at any time after the Closing any further actions are necessary to carry out the purposes of this Agreement, each of the Parties will take such further actions (including the execution and delivery of such further instruments and documents) as the other Party may reasonably request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under Article 8 below).

6.2 Litigation Support. In the event and for so long as any Party actively is contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand in connection with (i) any transaction contemplated under this Agreement or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or prior to the Closing Date involving Schwinn, the other Party will cooperate with the contesting or defending Party and its counsel in the contest or defense, make available its personnel, and provide such testimony and access to its books and records as shall be necessary in connection with the contest or defense, all at the sole cost and expense of the contesting or defending Party (unless the contesting or defending Party is entitled to indemnification therefor under Article 8 below).

6.3 Transition. Nautilus will not take any action that is designed or intended to have the effect of discouraging any licensor, customer, supplier, or other business associate of Schwinn from maintaining the same business relationships with Buyer after the Closing as it maintained with Schwinn prior to the Closing. During the ninety (90) day period immediately following the Closing, Nautilus agrees to place purchase orders with its suppliers of Schwinn Commercial Indoor Cycle products as requested by Buyer; provided, that Buyer shall be obligated to pay to Nautilus the full amount of any such purchase orders three (3) business days prior to the purchase order payment date. Title to any such products shall be transferred from Nautilus to Buyer upon entry into the U.S.

6.4 Warranty. As part of the Assumed Liabilities, and subject to Section 8.2(c), Buyer shall be responsible for all warranty liability for Schwinn Commercial Indoor Cycle products.

ARTICLE 7 - CONDITIONS TO OBLIGATION TO CLOSE

7.1 Conditions to Buyer's Obligation. The obligation of Buyer to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(a) the representations and warranties set forth in Article 3 above shall be true and correct in all material respects at and as of the Closing Date, except to the extent that such representations and warranties are qualified by the term "material," in which case such representations and warranties (as so written, including the term "material") shall be true and correct in all respects at and as of the Closing Date;

(b) Nautilus shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by the term "material," in which case Nautilus shall have performed and complied with all of such covenants (as so written, including the term "material") in all respects through the Closing;

(c) Nautilus shall have procured the third-party consents specified in Schedule 7.1(c);

(d) no action, suit, or proceeding shall be pending before (or that could come before) any court or quasi-judicial or administrative agency of any federal, state, local, or non-U.S. jurisdiction or before (or that could come before) any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (i) prevent consummation of any of the transactions contemplated by this Agreement, (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, or (iii) adversely affect the right of Buyer to own the Acquired Assets or operate the former business of Schwinn (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(e) Nautilus shall have delivered to Buyer a certificate to the effect that each of the conditions specified above in Section 7.1(a)-(d) is satisfied in all respects;

(f) Nautilus and Buyer shall have received all material authorizations, consents, and approvals of governments and governmental agencies referred to in Sections 3.3 and 4.3 above;

(g) Nautilus shall have delivered to Buyer a certificate of the secretary or an assistant secretary of Nautilus, dated the Closing Date, in form and substance reasonably satisfactory to Buyer, as to any resolutions of the board of directors (or a duly authorized committee thereof) of Nautilus relating to this Agreement and the transactions contemplated hereby; and

(h) Nautilus shall have executed and delivered the License Agreement.

Buyer may waive any condition specified in this Section 7.1 by executing a writing so stating at or prior to the Closing, or by consummating the Closing.

7.2 Conditions to Nautilus' Obligation. The obligation of Nautilus to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(a) the representations and warranties set forth in Article 4 above shall be true and correct in all material respects at and as of the Closing Date, except to the extent that such representations and warranties are qualified by the term "material," in which case such representations and warranties (as so written, including the term "material") shall be true and correct in all respects at and as of the Closing Date;

(b) Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by the term "material," in which case Buyer shall have performed and complied with all of such covenants (as so written, including the term "material") in all respects through the Closing;

(c) no action, suit, or proceeding shall be pending before any court or quasi-judicial or administrative agency of any federal, state, local, or non-U.S. jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (i) prevent consummation of any of the transactions contemplated by this Agreement or (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(d) Buyer shall have delivered to Nautilus a certificate to the effect that each of the conditions specified above in Section 7.2(a)-(c) is satisfied in all respects;

(e) Nautilus and Buyer shall have received all material authorizations, consents, and approvals of governments and governmental agencies referred to in Sections 3.3 and 4.3 above. Nautilus may waive any condition specified in this Section 7.2 by executing a writing so stating at or prior to the Closing, or by consummating the Closing; and

(f) Buyer shall have executed and delivered the License Agreement.

ARTICLE 8 - REMEDIES FOR BREACHES OF THIS AGREEMENT

8.1 Survival of Representations and Warranties. All of the representations and warranties of Nautilus contained in Article 3 above shall survive the Closing and continue in full force and effect for a period of one (1) year thereafter; provided, that the warranties set forth in Sections 3.2 and 3.5 shall continue for a period of three (3) years after Closing. All of the other representations and warranties of the Parties contained in this Agreement shall survive the Closing and continue in full force and effect forever thereafter (subject to any applicable statutes of limitations).

8.2 Indemnification Provisions for Buyer's Benefit.

(a) In the event Nautilus breaches any of its representations, warranties, and

covenants contained in this Agreement, and, provided that Buyer makes a written claim for indemnification against Nautilus pursuant to Section 10.7 below within the survival period (if there is an applicable survival period pursuant to Section 8.1 above), then Nautilus agrees to indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer resulting from, arising out of, relating to, in the nature of, or caused by the breach; provided, however, that (i) Nautilus shall not have any obligation to indemnify Buyer from and against any Adverse Consequences resulting from, arising out of, relating to, in the nature of, or caused by the breach of any representation or warranty of Nautilus contained in Article 3 above until Buyer has suffered Adverse Consequences by reason of all such breaches in excess of a One Hundred Fifty Thousand U.S. Dollars ($150,000) aggregate deductible (after which point Nautilus will be obligated only to indemnify Buyer from and against further such Adverse Consequences); and (ii) there will be a Two Million U.S. Dollars ($2,000,000) aggregate ceiling on the obligation of Nautilus to indemnify Buyer from and against Adverse Consequences resulting from, arising out of, relating to, in the nature of, or caused by breaches of the representations and warranties of Nautilus contained in Article 3 above.

(b) Nautilus further agrees to indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer resulting from, arising out of, relating to, in the nature of, or caused by any liability of Nautilus that is not an Assumed Liability (including any liability of Nautilus that becomes a liability of Buyer under any bulk transfer law of any jurisdiction, under any common law doctrine of de facto merger or successor liability, or otherwise by operation of law).

(c) In the event Buyer incurs warranty expense in excess of Five Hundred Thousand U.S. Dollars ($500,000) on account of warranty claims received by Buyer within one year following Closing for Schwinn Commercial Indoor Cycle products sold by Nautilus prior to Closing, Nautilus shall pay to Buyer an amount equal to fifty percent (50%) of such excess. The obligation of Nautilus to provide such payment shall be subject to receipt by Nautilus of documentation identifying the customer, the product defect and the product serial number for all warranty claims received by Buyer during the one year period following Closing, together with a detailed accounting of the warranty expense for such claims. For purposes of this Section 8.2, warranty expense shall consist of the direct labor and materials costs of warranty repair and replacement, without mark-up or allocation of indirect costs.

8.3 Indemnification Provisions for Nautilus' Benefit.

(a) In the event Buyer breaches any of its representations, warranties, and covenants contained in this Agreement, and, provided that Nautilus makes a written claim for indemnification against Buyer pursuant to Section 10.7 below within the survival period (if there is an applicable survival period pursuant to Section 8.1 above), then Buyer agrees to indemnify Nautilus from and against the entirety of any Adverse Consequences suffered resulting from, arising out of, relating to, in the nature of, or caused by the breach.

(b) Buyer further agrees to indemnify Nautilus from and against the entirety of any Adverse Consequences suffered resulting from, arising out of, relating to, in the nature of, or caused by any Assumed Liability.

8.4 Matters Involving Third Parties.

(a) If any third party notifies any Party (the "**Indemnified Party**") with respect to any matter (a "**Third-Party Claim**") that may give rise to a claim for indemnification against the other Party (the "**Indemnifying Party**") under this Article 8, then the Indemnified Party shall promptly notify the Indemnifying Party thereof in writing; provided, however, that no delay on the part of the Indemnified Party in notifying the Indemnifying Party shall relieve the Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party is thereby actually and materially prejudiced.

(b) The Indemnifying Party will have the right to assume the defense of the Third-Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party at any time within fifteen (15) days after the Indemnified Party has given notice of the Third-Party Claim; provided, however, that the Indemnifying Party must conduct the defense of the Third-Party Claim actively and diligently thereafter in order to preserve its rights in this regard; and provided further that the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third-Party Claim.

(c) So long as the Indemnifying Party has assumed and is conducting the defense of the Third-Party Claim in accordance with Section 8.4(b) above, (i) the Indemnifying Party will not consent to the entry of any judgment on or enter into any settlement with respect to the Third-Party Claim without the prior written consent of the Indemnified Party (not to be unreasonably withheld) unless the judgment or proposed settlement involves only the payment of money damages by the Indemnifying Party and does not impose an injunction or other equitable relief upon the Indemnified Party and (ii) the Indemnified Party will not consent to the entry of any judgment on or enter into any settlement with respect to the Third-Party Claim without the prior written consent of the Indemnifying Party (not to be unreasonably withheld).

(d) In the event the Indemnifying Party does not assume and conduct the defense of the Third-Party Claim in accordance with Section 8.4(b) above, however, (i) the Indemnified Party may defend against, and consent to the entry of any judgment on or enter into any settlement with respect to, the Third-Party Claim in any manner it reasonably may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, the Indemnifying Party in connection therewith) and (ii) the Indemnifying Party will remain responsible for any Adverse Consequences the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third-Party Claim to the fullest extent provided in this Article 8.

8.5 Determination of Adverse Consequences. The amount of any Adverse Consequences shall be determined net of any insurance proceeds for purposes of this Article 8. Indemnification payments under this Article 8 shall be paid by the Indemnifying Party without reduction for any Tax Benefits available to the Indemnified Party. However, to the extent that the Indemnified Party recognizes Tax Benefits as a result of any Adverse Consequences, the Indemnified Party shall pay the amount of such Tax Benefits (but not in excess of the indemnification payment or payments actually received from the Indemnifying Party with respect to such Adverse Consequences) to the Indemnifying Party as such Tax Benefits are actually recognized by the Indemnified Party. For this purpose, the Indemnified Party shall be deemed to recognize a tax benefit ("Tax Benefit") with respect to a taxable year if, and to the extent that, the Indemnified Party's cumulative liability for Taxes through the end of such taxable year, calculated by excluding any Tax items attributable to the Adverse Consequences from all taxable years, exceeds the Indemnified Party's actual cumulative liability for Taxes through the end of such taxable year, calculated by taking into account any Tax items attributable to the Adverse Consequences and the receipt of indemnification payment under this Article 8 for all taxable years (to the extent permitted by relevant Tax law and treating such Tax items as the last items taken into account for any taxable year). All indemnification payments under this Article 8 shall be deemed adjustments to the Purchase Price.

8.6 Exclusive Remedy. Buyer and Nautilus acknowledge and agree that the foregoing indemnification provisions in this Article 8 shall be the exclusive remedy of Buyer and Nautilus with respect to Schwinn and the transactions contemplated by this Agreement. Without limiting the generality of the foregoing, Buyer and Nautilus hereby waive any statutory, equitable, or common law rights or remedies relating to any environmental, health, or safety matters.

ARTICLE 9 - TERMINATION

9.1 Termination of Agreement. Certain of the Parties may terminate this Agreement as provided below:

(a) Buyer and Nautilus may terminate this Agreement by mutual written consent at any time prior to the Closing;

(b) Buyer may terminate this Agreement by giving written notice to Nautilus at any time prior to the Closing (i) in the event Nautilus has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Buyer has notified Nautilus of the breach, and the breach has continued without cure for a period of thirty (30) days after the notice of breach, or (ii) if the Closing shall not have occurred on or before December 30, 2009, by reason of the failure of any condition precedent under Section 7.1 hereof (unless the failure results primarily from Buyer itself breaching any representation, warranty, or covenant contained in this Agreement); and

(c) Nautilus may terminate this Agreement by giving written notice to Buyer at any time prior to the Closing (i) in the event Buyer has breached any material

representation, warranty, or covenant contained in this Agreement in any material respect, Nautilus has notified Buyer of the breach, and the breach has continued without cure for a period of thirty (30) days after the notice of breach or (ii) if the Closing shall not have occurred on or before December 30, 2009, by reason of the failure of any condition precedent under Section 7.2 hereof (unless the failure results primarily from Nautilus itself breaching any representation, warranty, or covenant contained in this Agreement).

9.2 Effect of Termination. If any Party terminates this Agreement pursuant to Section 9.1 above, all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to the other Party (except for any liability of any Party then in breach); provided, however, that the confidentiality provisions contained in Section 5.5 above shall survive termination.

ARTICLE 10 - MISCELLANEOUS

10.1 Press Releases and Public Announcements. No Party shall issue any press release or public announcement relating to the subject matter of this Agreement prior to the Closing without the prior written approval of the other Party; provided, however, that any Party may make any public disclosure it believes in good faith is required by applicable law or any listing or trading agreement concerning its publicly traded securities (in which case the disclosing Party will use its reasonable best efforts to advise the other Party prior to making the disclosure), and provided further, that Buyer acknowledges that Nautilus will need to publicly disclose this Agreement and the subject matter hereof to comply with rules and regulations of the Securities and Exchange Commission, and Buyer consents to such disclosure.

10.2 No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

10.3 Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, to the extent they relate in any way to the subject matter hereof.

10.4 Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party; provided, however, that Buyer may (a) assign any or all of its rights and interests hereunder to one or more of its Affiliates and (b) designate one or more of its Affiliates to perform its obligations hereunder (in any or all of which cases Buyer nonetheless shall remain responsible for the performance of all of its obligations hereunder).

10.5 Counterparts. This Agreement may be executed in one or more counterparts (including by means of facsimile), each of which shall be deemed an original but all of which together will constitute one and the same instrument.

10.6 Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

10.7 Notices. All notices, requests, demands, claims, and other communications hereunder shall be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given (a) when delivered personally to the recipient, (b) one (1) business day after being sent to the recipient by reputable overnight courier service (charges prepaid), (c) one (1) business day after being sent to the recipient by facsimile transmission or electronic mail, or (d) four (4) business days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid, and addressed to the intended recipient as set forth below:

If to Nautilus:	Nautilus, Inc. 16400 SE Nautilus Drive Vancouver, Washington 98683 Attn: Wayne C. Bolio Facsimile: (360) 859 2511 E-mail: wbolio@nautilus.com
with a copy to:	Garvey Schubert Barer 1191 Second Avenue, 18th Floor Seattle, Washington 98101-2939 Attn: Bruce A. Robertson Facsimile: (206) 464-0125 E-mail: brobertson@gsblaw.com
If to Buyer:	Fit Dragon International, Ltd. Attn: _____ 1st Floor CNAC Group Building No. 10 Queens Road Central Facsimile: 011 86 592-621-8275 E-mail: _____
with a copy to:	C. Reed Brown 1232 West Lexington Street Washington, Utah 84780 Facsimile: (435) 216-1176 E-mail: reed.crb@gmail.com

Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

10.8 Governing Law. This Agreement shall be governed by and construed in accordance with the domestic laws of the State of Washington without giving effect to any choice or conflict of law provision or rule (whether of the State of Washington or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Washington.

10.9 Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by Buyer and Nautilus. No waiver by any Party of any provision of the Agreement or any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be valid unless the same shall be in writing and signed by the Party making such waiver nor shall such waiver be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

10.10 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

10.11 Expenses. Each of Buyer and Nautilus will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

10.12 Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or non-U.S. statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word “including” shall mean including without limitation.

10.13 Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

10.14 Bulk Transfer Laws. Buyer acknowledges that Nautilus will not comply with the provisions of any bulk transfer laws of any jurisdiction in connection with the transactions contemplated by this Agreement.

10.15 Governing Language. This Agreement has been negotiated and executed by the Parties in English. In the event any translation of this Agreement is prepared for convenience or any other purpose, the provisions of the English version shall prevail.

10.16 Tax Disclosure Authorization. Notwithstanding anything herein to the contrary, the Parties (and each Affiliate and Person acting on behalf of any Party) agree that each Party

(and each employee, representative, and other agent of such Party) may disclose to any and all Persons, without limitation of any kind, the transaction's tax treatment and tax structure (as such terms are used in regulations promulgated under Code section 6011) contemplated by this agreement and all materials of any kind (including opinions or other tax analyses) provided to such Party or such Person relating to such tax treatment and tax structure, except to the extent necessary to comply with any applicable federal or state securities laws; provided, however, that such disclosure may not be made until the earlier of date of (i) public announcement of discussions relating to the transaction, (ii) public announcement of the transaction, or (iii) execution of an agreement (with or without conditions) to enter into the transaction. This authorization is not intended to permit disclosure of any other information including (without limitation) (i) any portion of any materials to the extent not related to the transaction's tax treatment or tax structure, (ii) the identities of participants or potential participants, (iii) the existence or status of any negotiations, (iv) any pricing or financial information (except to the extent such pricing or financial information is related to the transaction's tax treatment or tax structure), or (v) any other term or detail not relevant to the transaction's tax treatment or the tax structure.

(Signatures of following page)

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first above written.

BUYER:

FIT DRAGON INTERNATIONAL, LTD.

By: /s/ Michael Bruno
Signature
Print Name: Michael Bruno
Title: CEO

SELLER:

NAUTILUS, INC.

By: /s/ Kenneth L. Fish
Signature
Print Name: Kenneth L. Fish
Title: CFO

LICENSE AGREEMENT

THIS LICENSE AGREEMENT (hereinafter "License" or "License Agreement") is effective as of the date of signing by the last of the parties to sign below and is by and between Xiamen World Gear Sports Goods Co., Ltd. a corporation under the laws of the People's Republic of China ("Buyer"), having a place of business at 27-29 North 2nd Road, Xinglin, Jimei District, Xiamen City, Fujian Province, People's Republic of China and Nautilus, Inc., a Washington Corporation ("Nautilus"), having a place of business at 16400 SE Nautilus Drive, Vancouver, WA. 98683. Buyer and Nautilus are referred to collectively herein as the "Parties". This License is an exhibit to an Asset Purchase Agreement entered into on the same date between Buyer and Nautilus. The parties agree as follows:

1. Definitions and Schedules

A. Unless expressly otherwise defined herein, the Terms used in this License that are defined in the Asset Purchase Agreement shall have the same meaning as defined in the Asset Purchase Agreement.

B. "And/or" shall mean "and", "or" and both "and" and "or".

C. "Accessories" shall mean pedals, seats, seat posts and handlebars that replace standard components of Licensed Indoor Cycles and offer alternate functionality such as additional compatibility, comfort, cost, etc.

D. "Affiliate" shall have the meaning set forth in rule 12b-2 of the regulations promulgated under the Securities Exchange Act in force as of the effective date of this License.

E. "Asset Purchase Agreement" shall mean an agreement entered into between the Parties to which this License Agreement is an exhibit.

F. "Commercial Channel" shall mean bona fide sales to commercial, corporate, and government entities that are not Affiliates of Buyer and that provide access to the Indoor Cycles to multiple users including fitness centers, gyms, health clubs, studios, hotels, resorts, schools, military, and corporate employee centers. The Commercial Channel does not include and excludes all other sales or distributions of Indoor Cycles, including but not limited to sales and other distributions: (a) to end users (non-commercial users, typically home use) and resellers, such as retailers and online resellers; and/or (b) to any entity where there is reason to know that such entity is selling or distributing to end users and/or resellers (except as used equipment following normal use in the entity's facility).

G. “Permitted Retail Channel” shall mean bona fide sales to Independent Bike Dealers and Specialty Retailers that are not Affiliates of Buyer. Specialty Retailers shall mean retailers selling fitness equipment and fitness accessories and the sales of fitness equipment and accessories constitutes at least 90% of the retailers total sales. By way of example only, and not of limitation, Specialty Retailers does not include Dick’s Sporting Goods, Cabelas, Sports Authority, or other retailers having greater than 10% sales of non-fitness equipment.

H. “Channel” shall mean the Commercial Channel and the Permitted Retail Channel.

I. “Gross Sales” shall mean the total invoice price of Indoor Cycles and Accessories, and all related charges of any type whether separately invoiced (including, but not limited to, installation charges, shipping charges, taxes, and delivery charges) and whether the Indoor Cycles and/or Accessories are sold, leased or otherwise distributed.

J. “Copyrighted Works” shall mean tangible works of authorship previously used by Nautilus, and/or previously created for use by Nautilus, in connection with marketing and sales of Indoor Cycles in the Commercial Channel, such as, but not limited to, marketing collateral, photos, brochures, artwork, decals, packaging, manuals, guides, instructions, console software, and for which Nautilus owns or has exclusive rights to relevant copyrights, regardless of whether the copyright for any such Copyrighted Works are registered with any copyright office.

K. “Indoor Cycle” shall mean a stationary exercise machine that simulates bicycling and is part of the larger class of Stationary Cycles which consists of Indoor Cycles, Upright Cycles, and Recumbent Cycles. While there is overlap of these product categories, particularly between Indoor Cycles and Upright Cycles, Indoor Cycles are distinguished from Upright Cycles by exposed frames and flywheels, adjustable handlebar positioning, lacking motors, and lacking consoles that control the flywheel resistance. As a business model, Indoor Cycles are generally positioned for use in group settings at fitness centers and health clubs.

L. “Indoor Cycle Know How” shall mean technical information that may not be confidential, but that is required to efficiently convey manufacture of Indoor Cycles. Indoor Cycle Know How includes tooling for Indoor Cycles and components thereof obtained by Buyer from Nautilus.

M. “Indoor Cycle Confidential Information” shall mean Confidential Information relating to manufacturing and marketing of Indoor Cycles for the Commercial Channel.

N. “Licensed Accessories” shall mean Accessories solely for the Channel, but not otherwise, and that bear and/or are marketed in connection with any one or more of the Licensed Marks.

O. “Licensed Domain Names” shall mean the domain names listed in Schedule C to this License.

P. “Licensed Indoor Cycles” shall mean Indoor Cycles solely for the Channel, but not otherwise, and that bear and/or are marketed in connection with any one or more of the Licensed Marks.

Q. “Licensed Indoor Cycles and Accessories” shall mean Licensed Indoor Cycles and/or Licensed Accessories.

R. “Licensed Patents” shall mean patents and patent applications listed on Schedule A to this License together with all subsequently filed and/or pending patent applications that claim priority to any one of the patents or patent applications listed on Schedule A.

S. “Licensed Rights” shall mean the rights and restrictions set forth in the license agreements identified in Schedule D to this License.

T. “Licensed Marks” shall mean the registered and common law trademarks and service marks listed in Schedule B to this License.

U. “Nautilus Quality Standards” shall mean the quality control standards set forth in Schedule E to this License, and includes modifications to the Schedule E quality control standards in accordance with the terms of this License.

V. “Nautilus Trademark Usage Guidelines” shall mean the guidelines for use of Nautilus Trademarks as set forth in Schedule F to this License, and include modifications to the Schedule F guidelines in accordance with the terms of this License. The identification of a trademark or name in Schedule F does not mean that any license to such name or mark is granted by this License, unless the mark or name is included in the Licensed Marks.

W. “Net Sales” means “Gross Sales” less allowances for: (a) returns of Indoor Cycles and Accessories actually received; (b) refunds by Buyer to customers and cancellation of orders from Buyer by customers for Licensed Indoor Cycles and Accessories; (c) local, State and federal sales, VAT, and use and excise taxes required to be charged by Buyer for sales of Licensed Indoor Cycles and Accessories, if separately stated on an invoice; and (d) freight charges and delivery fees, if separately stated on an invoice, and provided that any such separately stated freight charges and delivery fees do not exceed one hundred and ten (110) percent of the actual costs incurred by Buyer for freight and delivery.

X. “Sales” means sales, leases and any other types of distribution of goods and services.

Y. “Trade Secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process that:

(a) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Z. This License incorporates the attached schedules, listed below:

Schedule A: Licensed Patents

Schedule B: Licensed Trademarks

Schedule C: Licensed Domain Names

Schedule D: Licensed Rights (Prior Licenses Affecting Rights Granted Herein)

Schedule E: Quality Control Provisions

Schedule F: Nautilus Trademark Usage Guidelines

Schedule G: Electronic Payment Instructions

Schedule H: Sublicense Agreement (for Triple Link pedals in the USA)

2. License Grant

A. Patent License.

Subject to the terms of this License, Nautilus hereby grants Buyer a non-exclusive, non-transferable, non-assignable, non-sublicensable, worldwide, license to the Licensed Patents to make, use, sell, offer to sell, and/or import Licensed Indoor Cycles and Licensed Accessories solely in the Commercial Channel and Permitted Retail Channel. Subject to the terms of this License and while this License is in effect, Nautilus covenants not to sue Buyer under any patent rights owned by Nautilus and used by Buyer in making, using, selling, offering to sell, and/or importing Licensed Indoor Cycles and Accessories solely in the Commercial Channel and Permitted Retail Channel. While this License is in effect, and commencing upon execution of this License, Nautilus will not grant any license of the Licensed Patents to a third party to make Indoor Cycles for the Commercial Channel. Buyer understands that Mad Dogg Athletics, Inc. is, and remains, an existing licensee (See Schedule D) of Nautilus. Nautilus is not restricted by this Patent License from otherwise exploiting the Licensed Patents itself, such as by having any products made for Nautilus for sale by and/or on behalf of Nautilus.

B. Trademark License.

Subject to the terms of this License, Nautilus hereby grants Buyer an exclusive, non-transferable, non-assignable, non-sublicensable, worldwide, royalty-bearing, license to the Licensed Marks solely for use on Indoor Cycles and Accessories in the Commercial Channel and in connection with marketing and selling Indoor Cycles and Accessories in the Commercial Channel. Subject to the terms of this License, Nautilus hereby also grants to Buyer a non-exclusive, non-transferable, non-assignable, non-sublicensable, worldwide, royalty-bearing, license to the Licensed Marks solely for use on Indoor Cycles and Accessories in the Permitted Retail Channel. No license is granted by this License to use the Licensed Marks, and Buyer shall not use any Licensed Mark and/or any mark confusingly similar to any Licensed Mark, for any goods or services other than for Indoor Cycles and Accessories in the Channel. The Trademark License of this Section 2.B. shall be subject to Buyer’s compliance with Nautilus Quality Standards as to product quality, product appearance, customer satisfaction and service as set forth in Section 4.B. below and in Schedule E and Buyer’s compliance with Nautilus Trademark Usage Guidelines as set forth in Section 4.B. below and in Schedule F. Buyer shall prominently use at least the SCHWINN

mark on all Indoor Cycles sold by Buyer that are made using any Nautilus Trade Secrets, Copyrighted Works, Nautilus Indoor Cycle Know How, or Nautilus Indoor Cycle Confidential Information, and/or that are covered by any Licensed Patents. Buyer may combine the SCHWINN mark with Buyer's trademarks, for example to market "SCHWINN LA" Indoor Cycles provided that the SCHWINN mark is prominently used. Buyer understands and agrees that Buyer is to focus Buyer's efforts on sales of Licensed Indoor Cycles and Accessories in the Commercial Channel and that Buyer is only licensed by this License to make up to a maximum of twenty (25) percent of Buyer's total Net Sales of Licensed Indoor Cycles and Accessories in the Permitted Retail Channel in any Calendar Year.

C. Copyright License.

Subject to the terms of this License, Nautilus hereby grants Buyer a non-exclusive, non-transferable, non-assignable, non-sublicensable, worldwide, license to reproduce, distribute, perform and make derivative works of all Copyrighted Works solely in connection with sales of Licensed Indoor Cycles and Accessories.

D. Domain Name License.

Subject to the terms of this License, Nautilus hereby grants Buyer a non-exclusive, non-transferable, non-assignable, non-sublicensable, worldwide, license to use the Licensed Domain Names solely in connection with sales of Licensed Indoor Cycles and Accessories.

E. Trade Secrets, Know How and Confidential Information.

Subject to the terms of this License, Nautilus hereby grants to Buyer a non-exclusive, non-transferable, non-assignable, non-sublicensable, and worldwide license to Nautilus Indoor Cycle Know How, Nautilus Trade Secrets and Nautilus Indoor Cycle Confidential Information solely for use in connection with sales and marketing of Indoor Cycles and Accessories bearing a Licensed Trademark in the Channel.

F. Licensed Rights.

Except for rights to U.S. Patent 6,877,399 that Nautilus has under the license from Peloton Fitness identified in Schedule D (Peloton License), to which no rights are granted by Nautilus to Buyer under this Section 2.F., to the extent Nautilus has any rights under the Licensed Rights identified in Schedule D that are sublicensable, and subject to the terms of this License, Nautilus hereby grants to Buyer a non-exclusive,

non-transferable, non-assignable, non-sublicensable, worldwide, license to rights under such Licensed Rights needed by Buyer to market and sell Indoor Cycles and Accessories in the Channel, but not otherwise. To the extent any such Licensed Rights impose restrictions on the activities of Buyer, Buyer shall be subject to and agrees to abide by such restrictions.

G. Sublicense Under Nautilus and Peloton License Agreement Identified in Schedule D.

Contemporaneous with this Agreement, the Parties shall execute a Sublicense Agreement by which Nautilus shall grant Buyer rights to distribute Triple Link pedals in the USA. The Sublicense Agreement is attached as Schedule H.

During a transition period of up to six (6) months from the date of this Agreement, Buyer may acquire Triple Link pedals from Nautilus at a cost of US$28/pair. For all Triple Link pedals imported into the USA, Buyer shall pay Nautilus the royalty specified in the Sublicense Agreement.

3. Payments for License

A. Royalty.

For the Trademark License rights granted by this License Agreement to Buyer, Buyer shall pay Nautilus a Royalty which is equal to:

(i) For the calendar year 2009, no Royalty;

(ii) For the calendar year 2010, the Royalty rate shall be five (5) percent of Net Sales of Licensed Indoor Cycles and Accessories;

(iii) For the calendar year 2011, the Royalty rate shall be five (5) percent of Net Sales of Licensed Indoor Cycles and Accessories; and

(iv) For the calendar year 2012 and each year thereafter the Royalty rate shall be three (3) percent of Net Sales of Licensed Indoor Cycles and Accessories.

Because of the difficulty of allocating royalties and the different types of intellectual property being licensed by this License, the Parties agree that a Royalty based on Net Sales of products that bear and/or are marketed in connection with any one or more of the Licensed Marks is an appropriate and convenient manner of establishing the Royalty.

B. Payment Schedule. The Royalty will accrue upon the earlier of the invoice date, or the shipping date for the goods by Buyer. The amounts set forth in this section are payable quarterly from Buyer to Nautilus within thirty (30) days after each March 31st, June 30th, September 30th, and December 31st, beginning January 1. 2010. The quarterly royalty payments shall accompany the required reports of Section 3.F.

C. Minimum Payment to Nautilus.

(i) Buyer shall pay Nautilus an Annual Minimum Royalty beginning in Calendar Year 2010. The royalty payments shall be paid quarterly and each quarterly payment shall be at least one-quarter (1/4) of the Annual Minimum Royalty until the royalty payments for the calendar year at least equal the Annual Minimum Royalty.

For the Calendar Year 2009 - Minimum Annual Payment = $0;

For the Calendar Year 2010 - Minimum Annual Payment = $800,000;

For the Calendar Year 2011 - Minimum Annual Payment = $1,000,000;

For the Calendar Year 2012 and each Calendar Year thereafter – Minimum Annual Payment = $600,000.

(ii) Example:

The Annual Minimum Royalty for 2010 is $800,000, or $200,000 per quarter until the total royalty paid to Nautilus for the calendar year is equal to or exceeds $800,000. Thus, if the net sales for Q1 yield royalties less than $200,000, Buyer shall pay $200,000. If the net sales in Q2 yield royalties in excess of $200,000, Buyer shall pay the actual royalty and the royalty paid in excess of one-quarter of the Annual Minimum may not be carried over or credited to Q3 unless the Annual Minimum has been reached. Only, when the actual paid royalties for a Calendar Year exceed the Annual Minimum Royalty, may a royalty payment for a quarter be less than one-quarter (1/4) of the Annual Minimum Royalty.

D. Methods of Payments to Nautilus. All payments under this Agreement to Nautilus shall be made in U.S. Dollars and made by electronic payment as set out in Schedule G to this License. Buyer shall not be permitted to pay money in escrow or to any entity other than Nautilus, unless pursuant to a final court order that is not subject to appeal.

E. Reports and Records. Buyer shall keep and preserve accurate records of all of its operations within the scope of this License Agreement. With each payment by Buyer to

Nautilus, and for the Calendar Quarter for which a payment is being paid, Buyer shall provide to Nautilus a report stating the Gross Sales, Net Sales, Net Sales in the Commercial Channel, Net Sales in the Permitted Retail Channel, and returns by product number (preferably SKU identifiers), Royalty calculations, Royalty due, and a Quality Control Report as specified in Schedule F during the applicable Calendar Quarter. Nautilus and its agents (e.g., accountants) shall have the right to inspect and copy such records at reasonable times.

F. Costs of Inspection and Copying. The cost of any inspection and copying of records under Section 3.E. shall be borne by Nautilus unless a discrepancy is discovered in Nautilus' favor in an amount that is greater than five (5) percent of the Royalty due versus the Royalty paid, in which case such costs shall be borne by Buyer.

G. Record Retention. Buyer and Nautilus are not required to retain any records relating to this License Agreement for longer than five (5) years from the date of their creation.

H. Pricing. All pricing for products sold by Buyer shall be determined by and be under the sole control of Buyer.

I. Currency. All amounts set forth in this License are in U.S. dollars.

4. Rights in Licensed Marks and Use of Marks.

A. Ownership of Licensed Marks by Nautilus. Buyer confirms that, as between the parties, Nautilus owns all rights in and to the Licensed Marks. Buyer agrees to not use any of the Licensed Marks, or any marks confusingly similar to the Licensed Marks, for any purpose, whether in advertising, promotional materials or otherwise, except as expressly permitted by this License. Buyer shall not use, register or attempt to register any one or more of the following marks and names, or any confusingly similar marks and names for any purpose: Nautilus, Nautilus logo, and/or any other Mark owned by Nautilus except for use of the Licensed Marks as expressly permitted by this Agreement.

B. Use of Licensed Marks by Buyer. Any and all uses of the Licensed Marks by Buyer for goods and services, shall be only as permitted by this Agreement, and then only for goods and services that meet Nautilus Quality Standards as set forth in Schedule E to this License Agreement. Nautilus may make reasonable modifications to Nautilus Quality Standards from time to time provided that such modifications benefit customers and/or users and are made applicable to comparable Nautilus Indoor Cycle Products sold by Nautilus outside of the Commercial Channel. Buyer

shall comply with Nautilus Quality Standards and with all such modifications to Nautilus Quality Standards, but shall have three (3) months to implement any such modifications to Nautilus Quality Standards unless such modifications relate to product safety, which Buyer shall immediately implement. All uses of the Licensed Marks shall inure to the sole benefit of Nautilus. Where Buyer deviates from past usage of a Licensed Trademark, Nautilus shall have the right to require pre-approval of any and all new proposed usages of the Licensed Marks by Buyer, whether in advertising, promotional materials, or otherwise. Where Nautilus requires prior approval, Nautilus shall have a review period of twenty-one (21) days from the receipt by Nautilus from Buyer of advertising and/or promotional materials submitted for approval by Buyer to either approve or deny approval of such materials. If Written Notice of the approval or denial of approval of such materials is not provided to Buyer before the end of the twenty-one (21) day review period, the submitted materials shall be deemed approved. Any Written Notice denying approval of the submitted materials shall provide the reasons for the disapproval and the disapproved materials shall not be used by Buyer. Buyer may correct and resubmit any disapproved materials for approval, which submission will restart the twenty-one (21) day review period. Any disagreement by the Parties as to whether materials should be approved shall be subject to the dispute resolution procedures, including mediation, of Section 15 of this License. All such uses of Licensed Marks must be in accordance with Nautilus Trademark Usage Guidelines of Schedule F, as modified by Nautilus from time to time. Nautilus hereby approves usage of Licensed Marks that strictly comply with the then current version of the Nautilus Trademark Usage Guidelines.

C. No Challenges to Licensed Marks. Buyer shall not in any way challenge or interfere with Nautilus' rights in the Licensed Marks or assist anyone else in doing so. Buyer shall not register or attempt to register any of the Licensed Marks or any confusingly similar marks in any country.

D. Disputed Marks. If: (i) Nautilus determines that one or more of the Licensed Marks poses a significant risk of infringing the rights of a third party in a country; or (ii) Nautilus receives a letter from a third party asserting rights in one or more of the Licensed Marks in a country (any mark falling into 4.D. (i) and/or 4.D. (ii) shall hereinafter be called a Disputed Licensed Mark), then Nautilus shall have the option to

substitute a different mark for each Disputed Licensed Mark, in which case each substituted mark shall become a Licensed Mark; and thereafter, upon sixty (60) days Written Notice to Buyer of the Disputed Licensed Mark, Buyer shall cease all use of each Disputed Licensed Mark for which such Written Notice has been provided.

5. Registration, Filings and Enforcement.

A. Registrations and Filings. Nautilus, in its sole discretion, has the option to, but is not required to: (i) file additional applications to register any one or more of the Licensed Marks in the United States and/or in any other country; (ii) maintain any registration for any one or more of the Licensed Marks in any country; (iii) file to register copyrights in the United States in the name of Nautilus as owner for any one or more Copyrighted Works; and/or (iv) file any U.S. Patent Application, and/or maintain a patent or pending application for any one or more inventions. Notwithstanding the requirements of this Section 5.A., to the extent permitted by the law of the country where the registration has been granted and while this License is in effect, Nautilus agrees to maintain the existing registrations in Schedule B to this License that include or consist of the word SCHWINN; provided, however, to the extent Buyer has the information, Buyer must cooperate with Nautilus, at Buyer's expense, and as requested by Nautilus, by providing information concerning the use of such marks and specimens of use; so as to assist Nautilus to maintain such registrations. While this License is in effect, Nautilus, at the written request of Buyer and at Buyer's expense for all such actions of Nautilus, agrees to file applications in the name of Nautilus to register the Licensed Marks in countries where they have not been registered, to prosecute such applications, and to obtain and maintain registrations based on any such applications for Licensed Marks in other countries. Nautilus is not required to continue the prosecution of any such application beyond a final rejection thereof by the respective Trademark Office.

B. Enforcement. Except as provided in Section 5.C., Nautilus has the sole right and option, at Nautilus' sole discretion, to take any or no action against: (i) violators or alleged violators of any of the subject matter licensed by this License and/or relating thereto. Buyer has no right to and shall not threaten to initiate or take any action relating to the Licensed Marks, Licensed Patents, and/or to any other subject matter or rights relating to this License.

C. Possible Enforcement by Buyer. If Buyer discovers that any of the Licensed Patents and/or Licensed Trademarks are infringed, Buyer shall timely communicate the details of the infringement to Nautilus. Nautilus shall thereupon have the right, but not the obligation, to take whatever action it deems necessary, including the filing of lawsuits, to protect the rights of the Parties to this License and to terminate such infringement. Buyer shall provide reasonable assistance to Nautilus at Buyer's expense, if Nautilus takes any such action, but all expenses of Nautilus shall be borne by Nautilus. If Nautilus recovers any damages or compensation for any action it takes hereunder, Nautilus shall retain 100% of such damages. Nautilus shall have ninety (30) days from the receipt of such details of infringement from Buyer to decide, in its sole discretion, whether to take any action to stop such infringement. Nautilus shall provide Written Notice of Nautilus' decision to Buyer before the end of such ninety (30) day time period. If Nautilus decides not to file any action (or to discontinue any action if initially undertaken by Nautilus), Buyer shall also have the right, but not the obligation, to take any such action to stop the infringement, in which case Nautilus shall provided reasonable assistance to Buyer at Nautilus' expense as long as Nautilus is not a party (by joinder or otherwise) to any action, but all of Buyer's expenses shall be borne by Buyer. If Nautilus decides not to file any action, and/or to discontinue any action if initially undertaken by Nautilus, and Buyer decides to take such action and/or to continue any action that Nautilus decides to discontinue, then Buyer shall provide Written Notice to Nautilus of Buyer's decision and, if Nautilus is a party (by joinder or otherwise) to such action, then Buyer shall bear all of Nautilus' expenses of participation in such action incurred from the time Buyer decides to take such action and/or continue such action, including, but not limited to, subsequently incurred attorney's fees through and including trial and upon appeal In such event Buyer will retain 100% of damages recovered. The Party pursuing the action shall be entitled to control the action; provided, however, no settlement shall be entered into without the written consent of Nautilus, which consent shall not be unreasonably withheld. Nautilus is not required to consent to any settlement that grants an alleged infringer a license under any one or more of the Licensed Patents and/or any one or more of the Licensed Trademarks; and/or that allows an infringer to continue to use a mark that is confusingly similar to a Licensed Mark.

6. **Written Notice.** Any Written Notice that is required under this License shall be in writing and shall be deemed delivered upon actual delivery to the other party in the case of hand delivery, which includes delivery by a recognized courier (such as

FedEx), or upon deposit thereof in the United States mail by certified mail return receipt requested (provided the address for notice is in the United States), with postage thereon fully prepaid, addressed as follows:

To Nautilus: Nautilus, Inc.
Attention: Legal Department
16400 SE Nautilus Drive
Vancouver, WA 98683
Fax: 011-306-859-????
E-Mail:

To Buyer: Xiamen World Gear Sports Goods Co., Ltd.
Attention: Michael Bruno
27-29 North 2nd Road
Xinglin, Jimei District, Xiamen City,
Fujian Province
People's Republic of China

Telephone: 011-86-592-6248-245
Fax: 011-86-592-621-8270
E-Mail:

With a Copy to:
Attention: C. Reed Brown
1232 W Lexington Street
Washington, Utah, 84780

Fax: 435-216-1176
E-Mail: reed.crb@gmail.com

7. **Entire Agreement.** This License, and Schedules A - G hereto, which are incorporated by reference herein, contains the entire agreement of the parties relating to licensing of intellectual

property rights from Nautilus to Buyer, and supersedes all existing agreements and all other oral, written or other communications between the parties relating to its subject matter. This License Agreement cannot be modified except in a writing signed by all of the parties and that expressly recites that the writing is an amendment to or a modification of this License Agreement.

8. **Compliance with Laws.** Buyer shall at all times comply with all applicable laws, statutes, rules, regulations and ordinances, including without limitation those governing wages, hours, desegregation, employment discrimination, health and safety, and equal opportunity laws and regulations to the extent that they are applicable.

9. **Proprietary Rights Notice.** While this License is in effect, Buyer shall mark products with appropriate patent markings as required by Nautilus and shall use appropriate trademark designations (™, ®) as required by Nautilus. Schedule A lists current Licensed Indoor Cycles and Accessories that Nautilus in good faith believes are covered by the Licensed Patents. Buyer shall not, unless directed to do so by Nautilus, remove or alter any copyright or proprietary rights notices on tangible materials received by Buyer from Nautilus

10. **Confidentiality and Unauthorized Disclosure.**

A. Definition of “Confidential Information. As used in this License, the term “Confidential Information” means: (i) proprietary information that one party (the “Disclosing Party”) discloses to the other party (the “Receiving Party”); (ii) information marked or designated by the Disclosing Party as confidential; (iii) information, whether or not in written form and whether or not designated as confidential, that is known by the Receiving Party to be treated by the Disclosing Party as confidential or which, given the nature of the information or the circumstances surrounding its disclosure, would be understood by a reasonable person as being confidential or proprietary; and (iv) information provided to the Disclosing Party by third parties that the Disclosing Party is obligated to keep confidential provided that, in the event that such third party information does not otherwise qualify as Confidential Information hereunder, the Disclosing Party notifies the Receiving Party of such obligations. Confidential Information shall not include: (i) information that is publicly available at the time of disclosure by the Disclosing Party to the Receiving Party or its Representatives; (ii) information that becomes publicly available other than through actions of the Receiving Party or any of its Representatives in violation of this Agreement; (iii) information already known to the Receiving Party as documented by written records that predate the disclosure; (iv) information

from the Disclosing Party that becomes owned by the Receiving Party; (v) information rightfully obtained from third parties and not subject to any obligation of confidentiality to the Disclosing Party; (vi) information independently developed by the Receiving Party without use of, reference to, or reliance on the Disclosing Party's Confidential Information; and (vii) any information following the expiration of five (5) years from the date of the first disclosure thereof to the Receiving Party.

B. Nondisclosure. Except as set forth in Section 10.D., the Receiving Party agrees that it will not disclose Confidential Information to any third party, directly or indirectly, under any circumstances or by any means, without the Disclosing Party's prior written consent. Buyer specifically agrees that Buyer shall not disclose any Trade Secret, Indoor Cycle Confidential Information, and/or Indoor Cycle Know How to any third party without the express written consent of Nautilus, which Nautilus may withhold, except that Buyer may exploit engineering and design information concerning Indoor Cycles in the Commercial Channel as Buyer deems appropriate.

C. Nonuse. The Receiving Party further agrees that it will not use Confidential Information except as may be necessary to perform its obligations and/or exercise its rights under this License.

D. Protection. Notwithstanding anything contained in this License to the contrary, the Receiving Party may disclose Confidential Information to its employees, representatives and other agents ("Representatives"). The Receiving Party and its affiliates and their respective employees, agents, representatives and subcontractors agree to take all reasonable precautions to protect the confidentiality of Confidential Information. Any unpermitted disclosure by any Representative of the Receiving Party shall be deemed to have been made by the Receiving Party.

E. Injunctive Relief. The Receiving Party acknowledges that a breach of any obligation under this section 10 will result in irreparable injury to the business of the Disclosing Party and that its remedy at law for such a breach will be inadequate. Accordingly, the Receiving Party agrees that, in addition to other remedies available at law and in equity, the Disclosing Party will be entitled to seek both preliminary and permanent injunctions to prevent and/or halt a breach or threatened breach of any obligation under this section 10.

F. Disclosures for Tax Purposes. Notwithstanding anything to the contrary contained in this License, the parties and their respective affiliates and Representatives may disclose to any

person the tax structure and any of the tax aspects of the transaction(s) contemplated by the Agreement solely to the extent necessary to describe or support any United States federal income tax benefits that may result therefrom or any materials relating thereto in order to comply with United States federal or state securities laws. For the purposes of this provision, “tax structure” is limited to facts relevant to the U.S. federal income tax treatment of the transaction(s) and does not include information relating to the identity of the parties, their affiliates, agents, or advisors.

G. Compelled Disclosure. If the Receiving Party becomes legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or similar process, or applicable law or regulation) to disclose any Confidential Information, the Receiving Party shall (unless prohibited by such demand or process) give the Disclosing Party prompt written notice of the requirement before releasing the information so that the Disclosing Party may seek a protective order or other appropriate remedy and/or waive compliance with the terms of the Agreement. The Receiving Party shall cooperate with the Disclosing Party to obtain a protective order. If a protective order or other remedy is not obtained, or the Disclosing Party waives compliance with the terms of this section 10, the Receiving Party shall provide only that limited portion of the Confidential Information that is legally required and shall exercise best efforts to obtain assurance that confidential treatment will be accorded the information. Upon request of the Disclosing Party, the Receiving Party shall provide an opinion of counsel to the Disclosing Party to the effect that the Receiving Party is legally compelled to disclose the information.

11. Termination and Default.

A. Material Breach Cure Period. Unless otherwise specified in this License that no cure time period or a different cure time period applies to the failure to perform any material term or condition of this License, it shall be a default of this Agreement for Buyer or Nautilus to fail to perform any material term or condition of this License Agreement within a sixty (60) day cure time period following Written Notice setting forth such failure or alleged failure by Buyer to Nautilus and/or by Nautilus to Buyer. Except as otherwise expressly provided by this License, in the event of a default of this License by Buyer that is not cured within any applicable cure period, Nautilus shall have the right to terminate this Agreement by Written Notice of termination to Buyer that is provided to Buyer at any time up to the longer of six (6) months following expiration of any applicable cure period; or one (1) month following the completion

of any Dispute resolution procedure under Section 15 below concerning the issue of whether a material term or condition has or has not been performed by Buyer. Except as otherwise expressly provided by this License, in the event of a default of this License by Nautilus that is not cured within any applicable cure period, Buyer shall have the right to terminate this License by Written Notice of termination to Nautilus provided at any time up to the longer of six (6) months following expiration of any applicable cure period; or one (1) month following the completion of any Dispute resolution procedure under Section 15 below concerning the issue of whether a material term or condition has or has not been performed by Nautilus. Whether a material term or condition has or has not been performed is subject to the Dispute resolution procedures of Sections 15.B. – 15.C. of this License.

B. Termination for Failure to Meet Minimum Annual Net Sales Requirement.

(i). Nautilus shall have the right to terminate this License upon Written Notice to Buyer, with no cure period being available to Buyer, in the event during any three (3) consecutive Calendar Years the Minimum Annual Net Sales set forth in Section 11.B.(ii) below are not met. This three (3) year time period shall be reset and start over in the event the Net Sales for a given Calendar Year exceeds the Minimum Annual Net Sales requirement.

(ii) For the Calendar Year 2009 - Minimum Annual Net Sales = $0;

For the Calendar Year 2010 - Minimum Annual Net Sales = $16,000,000;

For the Calendar Year 2011 - Minimum Annual Net Sales = $20,000,000;

For the Calendar Year 2012 and each Calendar Year thereafter, Minimum Annual Net Sales shall be $20,000,000.

Thus, for example, if Buyer’s actual Net Sales for the Calendar Year 2010 is $15,000,000; for the Calendar Year 2011 is $19,000,000; and for the Calendar Year 2012 is $19,000,000; then Nautilus shall have the right to terminate this Agreement by Written Notice to Buyer following the end of the Calendar Year 2012 because the Annual Minimum Net Sales requirement has not been met for three consecutive Calendar Years. Termination for this reason does not excuse Buyer from paying the required Minimum Annual Payments under this License for any Calendar Year prior to termination. If, on the other hand, the Net Sales for the Calendar Year 2010 is $15,000,000; the Net Sales for the Calendar Year 2011 is $19,000,000; and the Net Sales for the Calendar Year 2012 is $21,000,000; then the Minimum Annual Net Sales has been met for the Calendar Year 2012 and there has not been three consecutive three (3) years

during which the Minimum Annual Net Sales has not been met. In this case, the three consecutive Calendar Year time period for determining a failure to meet Minimum Annual Net Sales will not restart until such time, if any, that a Calendar Year again occurs in which the Net Sales falls below the applicable Minimum Annual Net Sales requirement for that Calendar Year. The Minimum Annual Net Sales requirement shall not apply to any Calendar Year during which one or more Force Majeure events of Section 16.(c) significantly disrupts the ability of Buyer to make sales of Licensed Indoor Cycles and Accessories. The Calendar Year of any such Force Majeure disruption event shall not be considered in determining whether the Minimum Annual Sales requirement has been met for three (3) consecutive Calendar Years, but shall not result in restarting the three (3) Calendar Year calculation. Thus, for example, assume during the Calendar Year 2011, the Net Sales are $19,000,000; during the Calendar Year 2012 there is a Force Majeure event that significantly disrupts sales of Licensed Indoor Cycles and the Net Sales for Calendar Year 2012 are $6,000,000; the Net Sales for the Calendar year 2013 are $18,000,000 and the net sales for the Calendar Year 2014 are $18,000,000. Based on these assumptions, there is no Minimum Annual Net Sales requirement for the Calendar Year 2012 because of the Force Majeure event. Therefore, the License is not subject to termination for failure to meet the Minimum Annual Net Sales requirements for the three (3) Calendar Years of 2011, 2012 and 2013. However, the License is subject to termination for failure to meet the Minimum Annual Net Sales requirements at the end of the Calendar Year 2014 because of the failure for the three (3) Calendar Years 2011, 2013 and 2014, which are deemed consecutive Calendar Years because the Force Majeure event Calendar Year 2012 is not counted and does not restart the three consecutive Calendar Year count.

C. Termination for Failure to Make the Minimum Royalty Payments. Nautilus shall have the right to terminate this License upon Written Notice to Buyer in the event any Minimum Royalty payment for a quarter required by Section 3.B. is not made when due and is not paid within thirty (30) days of the Written Notice.

D. Events Upon Termination or Expiration. In the event of any termination or expiration of this Agreement for any reason:

(i) Any and all use of Licensed Marks by Buyer, as well as of any marks, names or domain names confusingly similar thereto, shall immediately cease except that Buyer may complete all unfinished goods (work-in-progress) and sell all inventory for up to six (6) months after termination. Buyer may not acquire any additional parts or

materials to complete unfinished goods after termination of this Agreement. Any and all use by Buyer of any Licensed Patents and any other rights licensed by Nautilus under this License to Buyer shall immediately cease upon sale of outstanding inventory.

(ii) All payments from Buyer to Nautilus that have accrued as of the date of termination or expiration shall immediately become due and payable.

E. Additional Relief. The Parties shall be entitled to such other relief as may be determined by a court of law as selected under Section 15.A. below.

12. Term.

A. Except as provided in Section 12.B. below, this License, including, but not limited to the rights licensed under Sections 2.A., 2.B.,2.C., 2.D., 2.E. and 2.F in the Commercial Channel, unless terminated in accordance with the terms of this License, shall continue in force.

B. Term for the Permitted Retail Channel

(i) Initial Term: Unless terminated in accordance with its terms, the Initial Term of this License for the Permitted Retail Channel shall be for only four (4) years from the effective date of the License. If no extension to the Initial Term is negotiated by the Parties, Buyer shall automatically have a two (2) year Wind Up Term to wind up its activity in the Permitted Retail Channel and at the end of the Wind Up Term, Buyer shall cease all sales in the Permitted Retail Channel involving the Licensed Trademarks.

(ii) Notice for Renegotiation: No earlier than six months prior to the expiration of the Initial Term and no later than sixty (60) days prior to the expiration of this Initial Term for the Permitted Retail Channel, Buyer may provide Written Notice to Nautilus of Buyer’s desire to renegotiate a license to rights for the Permitted Retail Channel for a period of time beyond the Initial Term.

(iii) Renewal Term: If Nautilus does not respond by written notice to Buyer’s request for renegotiation within sixty (60) days, then this License for rights for the Permitted Retail Channel will continue for a Renewal Term of four (4) years commencing at the end of the Initial Term.

(iv) Second Notice for Renegotiation: No earlier than six months prior to the expiration of the Renewal Term and no later than sixty (60) days prior to the expiration of this Renewal Term, Buyer may provide Written Notice to Nautilus of Buyer’s desire to renegotiate a license to rights for the Permitted Retail Channel for a period of time beyond the Renewal Term.

(v) If Nautilus does not respond by written notice to Buyer's request to renegotiate a license for rights for the Permitted Retail Channel, then Buyer's rights in the Permitted Retail Channel shall continue and have the same term as Buyer's rights in the Commercial Channel.

(v) If Nautilus does provide a response to the Buyer's renegotiation request within the sixty (60) day response time, the Parties agree to negotiate in good faith in an attempt to reach a new license agreement, which may be on different terms than this License Agreement, relating to rights in the Permitted Retail Channel. If within three (3) months of the response to Buyer's renegotiation request, the Parties are unable to agree to terms for a new license agreement for rights in the Permitted Retail Channel, then the Parties agree that they have failed to renegotiate a License for the Permitted Retail Channel and Buyer shall enter the above defined two (2) year Wind Up Term.

(vi) Any expiration of rights licensed to Buyer in the Permitted Retail Channel will not affect the Minimum Annual Payments under Section 3.C. above.

13. Disclaimer.

Disclaimer. ALL RIGHTS LICENSED BY NAUTILUS ARE LICENSED "AS IS" AND WITHOUT ANY WARRANTY OF ANY KIND. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NAUTILUS HEREBY DISCLAIMS ALL WARRANTIES, EXPRESS AND/OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND/OR WARRANTIES AGAINST INFRINGEMENT. THE MAXIMUM LIABILITY OF NAUTILUS TO BUYER RELATING TO THIS AGREEMENT SHALL BE NO GREATER THAN THE TOTAL OF ANY ROYALTY ACTUALLY PAID BY BUYER TO NAUTILUS DURING THE TWELVE MONTH TIME PERIOD IMMEDIATELY PRECEEDING THE DATE A CLAIM IS MADE AGAINST NAUTILUS BY BUYER.

14. Export Restrictions. Buyer agrees to comply with all applicable international and national laws that apply to products, including U.S. Export Administration Regulations, as well as End-

User, End-Use and Destination restrictions issued by the United States and other governments. Nothing in the preceding sentence shall be construed to grant Buyer any rights to in any manner for any purpose not expressly recited by this License.

15. Controlling Law, Venue and Dispute Resolution.

A. Court and Law. This Agreement shall be interpreted in accordance with and governed by the substantive and procedural laws of the State of Washington, without regard to choice-of-law principles. The parties hereby irrevocably consent to the exclusive jurisdiction of the courts of the State of Washington, Clark County, or of a U.S. District Court for the Western District of Washington, USA in connection with any dispute relating to this License Agreement and/or to any alleged breach of this License Agreement. Each party hereby irrevocably waives any objection that the party may now or hereafter have regarding this choice of forum.

B. Resolution Procedures. The parties agree to follow procedures set forth in sub-sections 15.C. – 15.E. for the resolution of any dispute, whether this License specifically recites the applicability of these dispute resolution procedures to the Dispute.

C. Negotiated Resolution. Buyer and Nautilus wish to avoid disputes. In the event of any dispute, the parties shall first attempt to resolve the matter by an in-person meeting between executive level managers of Buyer and Nautilus to review a presentation by each of them concerning the dispute. The meeting will be held in Seattle, Washington unless otherwise agreed. Unless otherwise agreed by Buyer and Nautilus, only if the executive level managers are unable to resolve the dispute within the shorter of thirty (30) days of the first such meeting or forty-five (45) days from the first Written Notice by either Party requesting such meeting, shall any party be free to proceed under Section 15.D.

D. Mediation. Any Dispute that has not been resolved under Section 15.C. shall be the subject of non- binding mediation before a single impartial mediator selected by mutual agreement of Buyer and Nautilus. This mediator shall be an attorney with at least 15 years experience in intellectual property licensing issues. Buyer and Nautilus agree to make a good faith effort to select a mediator within thirty (30) days from the date that the mediation is first requested by Written Notice by either Buyer or Nautilus. Unless otherwise agreed to by the parties, the mediation will be held in Seattle, Washington and shall be completed within sixty days of any such Written Notice of a request for mediation. A party shall not be entitled to request mediation until after the end of the negotiation and resolution procedure of Section 15.C. Each party shall bear its own costs, including attorney fees of any mediation and shall

share equally the costs of the mediator. Unless otherwise agreed by the parties, only if mediation does not resolve the alleged claim or controversy, shall any party be free to proceed under sub-section 15.E.

E. Litigation. Any dispute that is not resolved pursuant to the procedures of Section 15.C. and 15.D. shall be subject to litigation by either party, subject to Section 15.A. The Parties agree that neither party shall be liable to the other party for any attorney fees in connection with any dispute, whether at trial, upon appeal, or otherwise.

16. General.

A. Nonwaiver. No failure on the part of Buyer or Nautilus to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise by Buyer or Nautilus of any right hereunder preclude any further exercise thereof of such right or of any other right.

B. Severability. No portion of Sections 2 and 3 of this License may be severed from this License or otherwise altered, except by mutual written agreement of the Parties. If any portions of Sections 2 and 3 of this License are found to be unenforceable as written, then either Party shall have the right to terminate this License upon thirty (30) days Written Notice to the other Party. Any provision of this License Agreement other than Sections 2 and 3 that are prohibited or rendered unenforceable by any law shall be ineffective only to the extent of the prohibition or unenforceability without invalidating the remaining provisions of this Agreement.

C. Force Majeure. Neither party shall be liable for delays due to any cause beyond the control and without the fault or negligence of the Party incurring the delay, including, to the extent it satisfies the above description, any fire, unusual weather conditions, riot, act of God, act of the public enemy, death or incapacity of an individual who is to perform work, or other similar event. However, both Parties agree to seek to mitigate the potential impact of any such delay. The Party incurring the delay shall within thirty (30) business days from the beginning of the delay, notify the other Party in writing of the causes of the delay and its probable extent. The notification of delay shall not be the basis for a request for additional compensation. In the event of any such delay, any required completion date may be extended by a reasonable period not exceeding the time actually lost by reason of the delay.

D. No Other Representations. Buyer and Nautilus hereby acknowledge that they have not been induced to enter into this License by any representation or warranty not set forth in this License.

E. Headings. The headings and subheadings of this License are intended for convenience of reference only and shall not be used to interpret this License or affect the construction of this License.

F. Construction. Words importing the singular include the plural, words importing any gender include every gender and words importing persons include entities, corporate and otherwise; and (in each case) vice versa. Whenever the terms “including” or “include” are used in this License in connection with a single item or a list of items within a particular classification (whether or not the term is followed by the phrase “but not limited to” or words of similar effect) that reference shall be interpreted to be illustrative only, and shall not be interpreted as a limitation on, or an exclusive enumeration of the items within that classification.

G. Survival. The terms, provisions and representations contained in this License Agreement shall survive any termination or expiration of this License Agreement to the extent that such survival is necessary to give effect to their full meaning and intent. Without limiting the foregoing, the parties expressly agree that the following Sections (including all sub-parts, unless a specific sub-part is specified) of this License shall survive termination and expiration of this License: Section 1; Section 3 for Royalties on Net Sales prior to termination and the completion of unfinished goods under Section 11.C.; Section 4 except for 4.B.; Sections 5, 6, 7, 8; Section 10; Sections 11.C. and 11.D.; Section 13; Section 14 in connection with the completion of unfinished goods under Section 11.C.; Section 15 and Section 16.

H. No Third Party Beneficiaries. This License is intended solely for the benefit of the parties hereto. Except as expressly set forth in the License, nothing in the License shall be construed to create any liability to or any benefit for any person not a party to this License.

I. Successors and Assigns. This License Agreement is personal to Buyer and shall not be assigned by Buyer, except to an Affiliate of Buyer, with the written consent of Nautilus, which consent shall not be unreasonably withheld. No rights granted to Buyer under this License Agreement are assignable, transferable, or sub-licensable in any way. Nautilus shall have the right to assign this License and its rights hereunder to a successor in interest to any portion of the Nautilus business that includes the Indoor Cycling business of Nautilus.

J. Effective Date. This License Agreement shall be effective on the date of the last signature by the Parties as indicated on the signature page hereto (“Effective Date”).

K. Counterparts. This License Agreement may be executed in any number of counterparts, which together will constitute one instrument.

L. Independent Contractors. Buyer and Nautilus are independent contractors and are not the agent(s) of one another for any purpose. Neither Buyer nor Nautilus shall have any authority to bind or obligate one another.

M. Ethical Conduct. Buyer and Nautilus shall use the highest ethical standards in their business activities and shall each not do anything to bring the other into an unfavorable light.

N. Determining Time Periods. Time periods for Written Notice under this Agreement, such as a time period for taking action upon Written Notice, shall not count the day the Written Notice is effective and shall end at midnight Vancouver, Washington time of the last day of the time period.

In agreement hereto the parties have signed below.

Xiamen World Gear Sports Goods Co., Ltd.	**Nautilus, Inc.**
(Buyer)	**(Nautilus)**
/s/ Michael Bruno	/s/ Kenneth L. Fish
Signature	Signature
Michael Bruno	Kenneth L. Fish
Printed Name	Printed Name
CEO	CFO
Title	Title
December 5, 2009	December 5, 2009
Date	Date

Exhibit 10.25

STAIRMASTER
ASSET PURCHASE AGREEMENT

BETWEEN

FIT DRAGON INTERNATIONAL, LTD.
(Buyer)

AND

NAUTILUS, INC.
(Seller)

December 5, 2009.

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STAIRMASTER ASSET PURCHASE AGREEMENT

This StairMaster Asset Purchase Agreement (this "**Agreement**") is entered into as of December 5, 2009, by and between Fit Dragon International, Ltd., a British Virgin Islands corporation ("**Buyer**"), and Nautilus, Inc., a Washington corporation ("**Nautilus**"). Buyer and Nautilus are referred to collectively herein as the "**Parties**."

This Agreement contemplates a transaction in which Buyer will purchase certain assets (and assume certain liabilities) of Nautilus in return for cash.

Now, therefore, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows.

ARTICLE 1 - DEFINITIONS

"**Acquired Assets**" means all right, title, and interest in and to the following assets of Nautilus: (a) all customer purchase orders for StairMaster Products that are open as of the Closing Date (the "**StairMaster Purchase Orders**"); (b) the StairMaster finished goods and warranty parts inventory; and (c) all owned production and tooling equipment used exclusively in the manufacture of StairMaster products.

"**Adverse Consequences**" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, reasonable amounts paid in settlement, liabilities, obligations, taxes, liens, losses, expenses, and fees, including court costs and reasonable attorneys' fees and expenses.

"**Affiliate**" has the meaning set forth in Rule 12b-2 of the regulations promulgated under the Securities Exchange Act.

"**Assumed Contracts**" means all contracts set forth on Section 3.9 of the Disclosure Schedules.

"**Assumed Liabilities**" means the following liabilities and obligations of Nautilus (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due): (a) all warranty liability for StairMaster products (subject to labor warranty reimbursement as set forth in Section 6.4 hereto); (b) the liabilities and obligations set forth on Schedule 2.2 hereto; (c) the liabilities and obligations under the Assumed Contracts; and (d) all liabilities and obligations arising or related to ownership or use of the Acquired Assets.

"**Buyer**" has the meaning set forth in the preface above.

"**Closing**" has the meaning set forth in Section 2.6 below.

"**Closing Date**" has the meaning set forth in Section 2.6 below.

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Confidential Information**" means any information concerning the terms of this Agreement, including the terms of the Schedules and Exhibits hereto, and/or the business and affairs of Nautilus that is not already generally available to the public. Confidential Information does not include such information that subsequently becomes generally available to the public through no fault of the Buyer.

"**Disclosure Schedule**" has the meaning set forth in Article 3 below.

"**Financial Information**" has the meaning set forth in Section 3.6 below.

"**GAAP**" means United States generally accepted accounting principles as in effect from time to time, consistently applied.

"**Hart-Scott-Rodino Act**" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"**Indemnified Party**" has the meaning set forth in Section 8.4 below.

"**Indemnifying Party**" has the meaning set forth in Section 8.4 below.

"**Knowledge**" means, with respect to Nautilus, actual knowledge of the following individuals: Kenneth Fish, Wayne Bolio, and Tim Peters.

"**Lien**" means any mortgage, pledge, lien, encumbrance, charge, or other security interest other than (a) liens for Taxes not yet due and payable, (b) purchase money liens and liens securing rental payments under capital lease arrangements, and (c) other liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money.

"**Nautilus**" has the meaning set forth in the preface above.

"**Ordinary Course of Business**" means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

"**Party**" has the meaning set forth in the preface above.

"**Person**" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, any other business entity or a governmental entity (or any department, agency, or political subdivision thereof).

"**Purchase Price**" has the meaning set forth in Section 2.3 below.

"**Securities Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"**StairMaster**" means Nautilus with respect to its StairMaster brand operations, including the manufacturing, marketing, and sales of products under the StairMaster Marks, as such term is defined in the Technology Transfer Agreement

"**StairMaster Products**" has the meaning as set forth in the Technology Transfer Agreement.

"**Tax**" or "**Taxes**" means any federal, state, local, or non-U.S. income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, whether computed on a separate or consolidated, unitary or combined basis or in any other manner, including any interest, penalty, or addition thereto, whether disputed or not.

"**Technology Transfer Agreement**" means the StairMaster Technology Transfer and License Agreement in the form attached hereto as Exhibit F.

"**Tax Benefit**" has the meaning set forth in Section 8.5 below.

"**Third-Party Claim**" has the meaning set forth in Section 8.4 below.

ARTICLE 2 - BASIC TRANSACTION

2.1 Purchase and Sale of Assets. On and subject to the terms and conditions of this Agreement, Buyer agrees to purchase from Nautilus, and Nautilus agrees to sell, transfer, convey, and deliver to Buyer, all of the Acquired Assets at the Closing for the consideration specified below in this Article 2.

2.2 Assumption of Liabilities. On and subject to the terms and conditions of this Agreement, Buyer agrees to assume and become responsible for all of the Assumed Liabilities at the Closing. Buyer will not assume or have any responsibility, however, with respect to any other obligation or liability of Nautilus not included within the definition of Assumed Liabilities.

2.3 Purchase Price. Buyer agrees to pay to Nautilus Three Million Eight Hundred Thousand Four Hundred Fourteen U.S. Dollars (the "**Purchase Price**"), which shall be paid to Nautilus at Closing in cash by wire transfer or delivery of other immediately available funds.

2.4 The Closing. The closing of the transactions contemplated by this Agreement (the "**Closing**") shall take place at the offices of Garvey Schubert Barer, 1191 Second Avenue, Eighteenth Floor, Seattle, Washington, 98101, commencing at 9:00 a.m. local time on the second business day following the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated hereby (other than conditions with respect to actions the respective Parties will take at the Closing itself) or such other date as the Parties may mutually determine (the "**Closing Date**").

2.5 Deliveries at the Closing. At the Closing, (a) Nautilus will deliver to Buyer the various certificates, instruments, and documents referred to in Section 7.1 below; (b) Buyer will deliver to Nautilus the various certificates, instruments, and documents referred to in Section 7.2 below; (c) Nautilus will execute, acknowledge (if appropriate), and deliver to Buyer (i) assignments in the forms attached hereto as Exhibit B, and (ii) such other instruments of sale, transfer, conveyance, and assignment as Buyer and its counsel may reasonably request; (d) Buyer will execute, acknowledge (if appropriate), and deliver to Nautilus (i) an assumption in the form attached hereto as Exhibit C and (ii) such other instruments of assumption as Nautilus and its counsel may reasonably request; and (e) Buyer will deliver to Nautilus the consideration specified in Section 2.3 above.

2.6 Allocation. The Parties agree to allocate the Purchase Price (and all other capitalizable costs) among the Acquired Assets for all purposes (including financial accounting and tax purposes) in accordance with the allocation schedule attached hereto as Exhibit D.

ARTICLE 3 - NAUTILUS' REPRESENTATIONS AND WARRANTIES

Nautilus represents and warrants to Buyer that the statements contained in this Article 3 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Article 3), except as set forth in the disclosure schedule accompanying this Agreement as Exhibit A (the "**Disclosure Schedule**"). The Disclosure Schedule will be arranged in sections corresponding to the lettered and numbered sections contained in this Agreement.

3.1 Organization of Nautilus. Nautilus is a corporation duly organized, validly existing, and in good standing under the laws of the State of Washington.

3.2 Authorization of Transaction. Nautilus has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Nautilus, enforceable in accordance with its terms and conditions.

3.3 Non-contravention. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in Article 2 above) by Nautilus, will (a) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Nautilus is subject or any provision of the charter or bylaws of Nautilus or (b) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Nautilus is a party or by which it is bound or to which any of its assets is subject (or result in the

imposition of any Lien upon any of its assets), except where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice, or Lien would not have a Material Adverse Effect. Nautilus need not give notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement (including the assignments and assumptions referred to in Article 2 above), except where the failure to give notice, to file, or to obtain any authorization, consent, or approval would not have a Material Adverse Effect.

3.4 Brokers' Fees. Nautilus has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which Buyer could become liable or obligated.

3.5 Title to Assets. Nautilus has good and marketable title to, or a valid leasehold interest in, the Acquired Assets, free and clear of all Liens or restriction on transfer.

3.6 Financial Information. Attached hereto as Exhibit E is selected historical financial information related to StairMaster (collectively the "**Financial Information**"), including the value, as of November 30, 2009, of the StairMaster inventory and the StairMaster Open Purchase Orders. The Financial Information was derived from Nautilus financial statements prepared in accordance with GAAP throughout the periods covered thereby.

3.7 Inventory. The inventory of StairMaster included in the Acquired Assets consists of finished goods and warranty parts, all of which are merchantable and fit for the purpose for which such products were manufactured, as set forth on Section 3.7 of the Disclosure Schedules, none of which is slow-moving, obsolete, damaged, or defective, subject only to the reserve for inventory writedown set forth in the Financial Information.

3.8 Contracts. With respect to the contracts and agreements set forth on Section 3.9 of the Disclosure Schedules (the "**Assumed Contracts**"), to the Knowledge of Nautilus: (i) the agreement is legal, valid, binding, enforceable, and in full force and effect in all material respects; (ii) no party is in material breach or default, and no event has occurred that with notice or lapse of time would constitute a material breach or default, or permit termination, modification, or acceleration, under the agreement; and (iii) no party has repudiated any material provision of the agreement.

3.9 Terms of Sale. Substantially all of the products manufactured, sold, leased, or delivered by StairMaster are subject to standard terms and conditions of sale or lease, copies of which have been made available to Buyer.

3.10 Product Liability. StairMaster has no material liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due) arising out of any injury to individuals or property as a result of the ownership, possession, or use of any product manufactured, sold, leased, or delivered by StairMaster.

3.11 Customers and Suppliers.

(a) Section 3.11 of the Disclosure Schedule lists the ten (10) largest customers of StairMaster for each of the two (2) most recent fiscal years and sets forth opposite the name of each such customer the percentage of consolidated net sales attributable to such customer. Section 3.11 of the Disclosure Schedule also lists any additional current customers that StairMaster anticipates shall be among the ten (10) largest customers for the current fiscal year.

(b) Since the date of the Most Recent Balance Sheet, no material supplier of StairMaster has indicated in writing that it shall stop, or materially decrease the rate of, supplying materials, products or services to StairMaster, and no customer listed on Section 3.11 of the Disclosure Schedule has indicated in writing that it shall stop, or materially decrease the rate of, buying materials, products or services from StairMaster.

ARTICLE 4 - BUYER'S REPRESENTATIONS AND WARRANTIES

Buyer represents and warrants to Nautilus that the statements contained in this Article 4 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Article 4).

4.1 Organization of Buyer. Buyer is a corporation (or other entity) duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation (or other formation).

4.2 Authorization of Transaction. Buyer has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Buyer, enforceable in accordance with its terms and conditions. The execution, delivery and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by Buyer.

4.3 Non-contravention. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in Article 2 above) by Buyer, will (a) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Buyer is subject or any provision of its charter, bylaws, or other governing documents or (b) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Buyer is a party or by which it is bound or to which any of its assets are subject. Buyer need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement (including the assignments and assumptions referred to in Article 2 above).

4.4 Brokers' Fees. Buyer has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

ARTICLE 5 - PRE-CLOSING COVENANTS

The Parties agree as follows with respect to the period between the execution of this Agreement and the Closing:

5.1 General. Each of the Parties will use its reasonable best efforts to take all actions and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the Closing conditions set forth in Article 7 below).

5.2 Notices and Consents. Nautilus will give any notices to third parties, and Nautilus will use its commercially reasonable efforts to obtain any third-party consents referred to in Section 3.3 above and the items set forth in Schedule 7.1(c) hereto. Each of the Parties will give any notices to, make any filings with, and use its commercially reasonable efforts to obtain any authorizations, consents, and approvals of governments and governmental agencies in connection with the matters referred to in Sections 3.3 and 4.3 above. Without limiting the generality of the foregoing, each of the Parties will file any Notification and Report Forms and related material that it may be required to file with the Federal Trade Commission and the Antitrust Division of the United States Department of Justice under the Hart-Scott-Rodino Act, will use its reasonable best efforts to obtain a waiver of the applicable waiting period, and will make any further filings pursuant thereto that may be necessary, proper, or advisable in connection therewith.

5.3 Full Access. Nautilus will permit representatives of Buyer (including legal counsel and accountants) to have full access at all reasonable times, and in a manner so as not to interfere with the normal business operations of Nautilus, to all premises, properties, personnel, books, records (including Tax records), contracts, and documents of or pertaining to StairMaster. Buyer will treat and hold as such any Confidential Information it receives from Nautilus and its Subsidiaries (and their representatives) in the course of the reviews contemplated by this Section 5.3, will not use any of the Confidential Information except in connection with this Agreement, and, if this Agreement is terminated for any reason whatsoever, will return to Nautilus all tangible embodiments (and all copies) of the Confidential Information that are in its possession.

5.4 Notice of Developments. Each Party will give prompt written notice to the other Party of any material adverse development causing a breach of any of its own representations and warranties in Articles 3 and 4 above. No disclosure by any Party pursuant to this Section 5.4, however, shall be deemed to amend or supplement the Disclosure Schedule or to prevent or cure any misrepresentation, breach of warranty, or breach of covenant.

ARTICLE 6 - POST-CLOSING COVENANTS

The Parties agree as follows with respect to the period following the Closing:

6.1 General. In case at any time after the Closing any further actions are necessary to carry out the purposes of this Agreement, each of the Parties will take such further actions (including the execution and delivery of such further instruments and documents) as the other Party may reasonably request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under Article 8 below).

6.2 Litigation Support. In the event and for so long as any Party actively is contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand in connection with (i) any transaction contemplated under this Agreement or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or prior to the Closing Date involving StairMaster, the other Party will cooperate with the contesting or defending Party and its counsel in the contest or defense, make available its personnel, and provide such testimony and access to its books and records as shall be necessary in connection with the contest or defense, all at the sole cost and expense of the contesting or defending Party (unless the contesting or defending Party is entitled to indemnification therefor under Article 8 below).

6.3 Transition. Nautilus will not take any action that is designed or intended to have the effect of discouraging any licensor, customer, supplier, or other business associate of StairMaster from maintaining the same business relationships with Buyer after the Closing as it maintained with StairMaster prior to the Closing.

6.4 Labor Warranty. As part of the Assumed Liabilities, Buyer shall be responsible for all warranty liability for StairMaster products; provided, that Nautilus shall reimburse Buyer for any warranty-related labor liability up to $200 per documented service visit for a period of twelve (12) months following Closing. Buyer shall document all such direct out of pocket labor costs during such reimbursement period, and shall submit such costs to Nautilus on a quarterly basis. Nautilus shall thereafter reimburse Buyer, within thirty (30) days of receipt of the cost submission from Buyer, for all such costs up to the $200 per documented service visit limit.

6.5 Post-Closing Manufacturing. From the Closing Date through January 31, 2010, Nautilus agrees to continue to manufacture steppers and Step Mills, using its Closing Date inventory of components, parts, raw materials and work in progress for StairMaster Products (collectively, the "**Closing Date Unfinished Goods Inventory**"). Buyer agrees to purchase the finished goods so manufactured by Nautilus at the price and on the terms set forth in the written memorandum executed and delivered by Buyer and Nautilus on or prior to the date of this Agreement. Any Closing Date Unfinished Goods Inventory remaining as of January 31, 2010 shall be purchased by Buyer at the price and according to the terms set forth in the written memorandum described in the preceding sentence.

ARTICLE 7 - CONDITIONS TO OBLIGATION TO CLOSE

7.1 Conditions to Buyer's Obligation. The obligation of Buyer to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(a) the representations and warranties set forth in Article 3 above shall be true and correct in all material respects at and as of the Closing Date, except to the extent that such representations and warranties are qualified by the term "material," in which case such representations and warranties (as so written, including the term "material") shall be true and correct in all respects at and as of the Closing Date;

(b) Nautilus shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by the term "material," in which case Nautilus shall have performed and complied with all of such covenants (as so written, including the term "material") in all respects through the Closing;

(c) Nautilus shall have procured the third-party consents specified in Schedule 7.1(c);

(d) no action, suit, or proceeding shall be pending before (or that could come before) any court or quasi-judicial or administrative agency of any federal, state, local, or non-U.S. jurisdiction or before (or that could come before) any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (i) prevent consummation of any of the transactions contemplated by this Agreement, (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, or (iii) adversely affect the right of Buyer to own the Acquired Assets or operate the former business of StairMaster (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(e) Nautilus shall have delivered to Buyer a certificate to the effect that each of the conditions specified above in Section 7.1(a)-(d) is satisfied in all respects;

(f) Nautilus and Buyer shall have received all material authorizations, consents, and approvals of governments and governmental agencies referred to in Sections 3.3 and 4.3 above;

(g) Nautilus shall have delivered to Buyer a certificate of the secretary or an assistant secretary of Nautilus, dated the Closing Date, in form and substance reasonably satisfactory to Buyer, as to any resolutions of the board of directors (or a duly authorized committee thereof) of Nautilus relating to this Agreement and the transactions contemplated hereby; and

(h) Nautilus shall have executed and delivered the Technology Transfer Agreement.

Buyer may waive any condition specified in this Section 7.1 by executing a writing so stating at or prior to the Closing, or by consummating the Closing.

7.2 Conditions to Nautilus' Obligation. The obligation of Nautilus to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(a) the representations and warranties set forth in Article 4 above shall be true and correct in all material respects at and as of the Closing Date, except to the extent that such representations and warranties are qualified by the term "material," in which case such representations and warranties (as so written, including the term "material") shall be true and correct in all respects at and as of the Closing Date;

(b) Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by the term "material," in which case Buyer shall have performed and complied with all of such covenants (as so written, including the term "material") in all respects through the Closing;

(c) no action, suit, or proceeding shall be pending before any court or quasi-judicial or administrative agency of any federal, state, local, or non-U.S. jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (i) prevent consummation of any of the transactions contemplated by this Agreement or (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(d) Buyer shall have delivered to Nautilus a certificate to the effect that each of the conditions specified above in Section 7.2(a)-(c) is satisfied in all respects;

(e) Nautilus and Buyer shall have received all material authorizations, consents, and approvals of governments and governmental agencies referred to in Sections 3.3 and 4.3 above. Nautilus may waive any condition specified in this Section 7.2 by executing a writing so stating at or prior to the Closing, or by consummating the Closing; and

(f) Buyer shall have executed and delivered the Technology Transfer Agreement.

ARTICLE 8 - REMEDIES FOR BREACHES OF THIS AGREEMENT

8.1 Survival of Representations and Warranties. All of the representations and warranties of Nautilus contained in Article 3 above shall survive the Closing and continue in full force and effect for a period of six (6) months thereafter. All of the other representations and warranties of the Parties contained in this Agreement shall survive the Closing and continue in full force and effect forever thereafter (subject to any applicable statutes of limitations).

8.2 Indemnification Provisions for Buyer's Benefit.

(a) In the event Nautilus breaches any of its representations, warranties, and covenants contained in this Agreement, and, provided that Buyer makes a written claim for

indemnification against Nautilus pursuant to Section 10.7 below within the survival period (if there is an applicable survival period pursuant to Section 8.1 above), then Nautilus agrees to indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer resulting from, arising out of, relating to, in the nature of, or caused by the breach; provided, however, that (i) Nautilus shall not have any obligation to indemnify Buyer from and against any Adverse Consequences resulting from, arising out of, relating to, in the nature of, or caused by the breach of any representation or warranty of Nautilus contained in Article 3 above until Buyer has suffered Adverse Consequences by reason of all such breaches in excess of a $150,000 aggregate deductible (after which point Nautilus will be obligated only to indemnify Buyer from and against further such Adverse Consequences) and (ii) there will be a $2,000,000 aggregate ceiling on the obligation of Nautilus to indemnify Buyer from and against Adverse Consequences resulting from, arising out of, relating to, in the nature of, or caused by breaches of the representations and warranties of Nautilus contained in Article 3 above.

(b) Nautilus further agrees to indemnify Buyer from and against the entirety of any Adverse Consequences Buyer may suffer resulting from, arising out of, relating to, in the nature of, or caused by any liability of Nautilus that is not an Assumed Liability (including any liability of Nautilus that becomes a liability of Buyer under any bulk transfer law of any jurisdiction, under any common law doctrine of de facto merger or successor liability, or otherwise by operation of law).

8.3 Indemnification Provisions for Nautilus' Benefit.

(a) In the event Buyer breaches any of its representations, warranties, and covenants contained in this Agreement, and, provided that Nautilus makes a written claim for indemnification against Buyer pursuant to Section 10.7 below within the survival period (if there is an applicable survival period pursuant to Section 8.1 above), then Buyer agrees to indemnify Nautilus from and against the entirety of any Adverse Consequences suffered resulting from, arising out of, relating to, in the nature of, or caused by the breach.

(b) Buyer further agrees to indemnify Nautilus from and against the entirety of any Adverse Consequences suffered resulting from, arising out of, relating to, in the nature of, or caused by any Assumed Liability.

8.4 Matters Involving Third Parties.

(a) If any third party notifies any Party (the "**Indemnified Party**") with respect to any matter (a "**Third-Party Claim**") that may give rise to a claim for indemnification against the other Party (the "**Indemnifying Party**") under this Article 8, then the Indemnified Party shall promptly notify the Indemnifying Party thereof in writing; provided, however, that no delay on the part of the Indemnified Party in notifying the Indemnifying Party shall relieve the Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party is thereby actually and materially prejudiced.

(b) The Indemnifying Party will have the right to assume the defense of the Third-Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party at any time

within fifteen (15) days after the Indemnified Party has given notice of the Third-Party Claim; provided, however, that the Indemnifying Party must conduct the defense of the Third-Party Claim actively and diligently thereafter in order to preserve its rights in this regard; and provided further that the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third-Party Claim.

(c) So long as the Indemnifying Party has assumed and is conducting the defense of the Third-Party Claim in accordance with Section 8.4(b) above, (i) the Indemnifying Party will not consent to the entry of any judgment on or enter into any settlement with respect to the Third-Party Claim without the prior written consent of the Indemnified Party (not to be unreasonably withheld) unless the judgment or proposed settlement involves only the payment of money damages by the Indemnifying Party and does not impose an injunction or other equitable relief upon the Indemnified Party and (ii) the Indemnified Party will not consent to the entry of any judgment on or enter into any settlement with respect to the Third-Party Claim without the prior written consent of the Indemnifying Party (not to be unreasonably withheld).

(d) In the event the Indemnifying Party does not assume and conduct the defense of the Third-Party Claim in accordance with Section 8.4(b) above, however, (i) the Indemnified Party may defend against, and consent to the entry of any judgment on or enter into any settlement with respect to, the Third-Party Claim in any manner it reasonably may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, the Indemnifying Party in connection therewith) and (ii) the Indemnifying Party will remain responsible for any Adverse Consequences the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third-Party Claim to the fullest extent provided in this Article 8.

8.5 Determination of Adverse Consequences. The amount of any Adverse Consequences shall be determined net of any insurance proceeds for purposes of this Article 8. Indemnification payments under this Article 8 shall be paid by the Indemnifying Party without reduction for any Tax Benefits available to the Indemnified Party. However, to the extent that the Indemnified Party recognizes Tax Benefits as a result of any Adverse Consequences, the Indemnified Party shall pay the amount of such Tax Benefits (but not in excess of the indemnification payment or payments actually received from the Indemnifying Party with respect to such Adverse Consequences) to the Indemnifying Party as such Tax Benefits are actually recognized by the Indemnified Party. For this purpose, the Indemnified Party shall be deemed to recognize a tax benefit ("**Tax Benefit**") with respect to a taxable year if, and to the extent that, the Indemnified Party's cumulative liability for Taxes through the end of such taxable year, calculated by excluding any Tax items attributable to the Adverse Consequences from all taxable years, exceeds the Indemnified Party's actual cumulative liability for Taxes through the end of such taxable year, calculated by taking into account any Tax items attributable to the Adverse Consequences and the receipt of indemnification payment under this Article 8 for all taxable years (to the extent permitted by relevant Tax law and treating such Tax items as the last items taken into account for any taxable year). All indemnification payments under this Article 8 shall be deemed adjustments to the Purchase Price.

8.6 Exclusive Remedy. Buyer and Nautilus acknowledge and agree that the foregoing indemnification provisions in this Article 8 shall be the exclusive remedy of Buyer and Nautilus with

respect to StairMaster and the transactions contemplated by this Agreement. Without limiting the generality of the foregoing, Buyer and Nautilus hereby waive any statutory, equitable, or common law rights or remedies relating to any environmental, health, or safety matters.

ARTICLE 9 - TERMINATION

9.1 Termination of Agreement. Certain of the Parties may terminate this Agreement as provided below:

(a) Buyer and Nautilus may terminate this Agreement by mutual written consent at any time prior to the Closing;

(b) Buyer may terminate this Agreement by giving written notice to Nautilus at any time prior to the Closing (i) in the event Nautilus has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Buyer has notified Nautilus of the breach, and the breach has continued without cure for a period of thirty (30) days after the notice of breach or (ii) if the Closing shall not have occurred on or before December 31, 2009, by reason of the failure of any condition precedent under Section 7.1 hereof (unless the failure results primarily from Buyer itself breaching any representation, warranty, or covenant contained in this Agreement); and

(c) Nautilus may terminate this Agreement by giving written notice to Buyer at any time prior to the Closing (i) in the event Buyer has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Nautilus has notified Buyer of the breach, and the breach has continued without cure for a period of thirty (30) days after the notice of breach or (ii) if the Closing shall not have occurred on or before December 31, 2009, by reason of the failure of any condition precedent under Section 7.2 hereof (unless the failure results primarily from Nautilus itself breaching any representation, warranty, or covenant contained in this Agreement).

9.2 Effect of Termination. If any Party terminates this Agreement pursuant to Section 9.1 above, all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to the other Party (except for any liability of any Party then in breach); provided, however, that the confidentiality provisions contained in Section 5.5 above shall survive termination.

ARTICLE 10 - MISCELLANEOUS

10.1 Press Releases and Public Announcements. No Party shall issue any press release or public announcement relating to the subject matter of this Agreement prior to the Closing without the prior written approval of the other Party; provided, however, that any Party may make any public disclosure it believes in good faith is required by applicable law or any listing or trading agreement concerning its publicly traded securities (in which case the disclosing Party will use its reasonable best efforts to advise the other Party prior to making the disclosure), and provided further, that Buyer acknowledges that Nautilus will need to publicly disclose this Agreement and the subject matter hereof to comply with rules and regulations of the Securities and Exchange Commission, and Buyer consents to such disclosure.

10.2 No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

10.3 Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, to the extent they relate in any way to the subject matter hereof.

10.4 Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party; provided, however, that Buyer may (a) assign any or all of its rights and interests hereunder to one or more of its Affiliates and (b) designate one or more of its Affiliates to perform its obligations hereunder (in any or all of which cases Buyer nonetheless shall remain responsible for the performance of all of its obligations hereunder).

10.5 Counterparts. This Agreement may be executed in one or more counterparts (including by means of facsimile), each of which shall be deemed an original but all of which together will constitute one and the same instrument.

10.6 Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

10.7 Notices. All notices, requests, demands, claims, and other communications hereunder shall be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given (a) when delivered personally to the recipient, (b) one (1) business day after being sent to the recipient by reputable overnight courier service (charges prepaid), (c) one (1) business day after being sent to the recipient by facsimile transmission or electronic mail, or (d) four (4) business days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid, and addressed to the intended recipient as set forth below:

If to Nautilus:

Nautilus, Inc.
16400 SE Nautilus Drive
Vancouver, Washington 98683
Attn: Wayne Bolio
Facsimile: (360) 694-7755
E-mail: wbolio@nautilus.com

with a copy to:	Garvey Schubert Barer 1191 Second Avenue, 18th Floor Seattle, Washington 98101-2939 Attn: Bruce A. Robertson Facsimile: (206) 464-0125 E-mail: brobertson@gsblaw.com
If to Buyer:	Fit Dragon International, Ltd. Attn: Michael Bruno 1st Floor CNAC Group Building no. 10 Queens Road Central Facsimile: 011 86 592-621-8275 E-mail: bruno@laxiamen.com
with a copy to:	C. Reed Brown 1232 West Lexington Street Washington, Utah 84780 Facsimile: (435) 216-1176 E-mail: reed.crb@gmail.com

Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

10.8 Governing Law. This Agreement shall be governed by and construed in accordance with the domestic laws of the State of Washington without giving effect to any choice or conflict of law provision or rule (whether of the State of Washington or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Washington.

10.9 Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by Buyer and Nautilus. No waiver by any Party of any provision of the Agreement or any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be valid unless the same shall be in writing and signed by the Party making such waiver nor shall such waiver be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

10.10 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

10.11 Expenses. Each of Buyer and Nautilus will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

10.12 Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or non-U.S. statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "**including**" shall mean including without limitation.

10.13 Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

10.14 Bulk Transfer Laws. Buyer acknowledges that Nautilus will not comply with the provisions of any bulk transfer laws of any jurisdiction in connection with the transactions contemplated by this Agreement.

10.15 Governing Language. This Agreement has been negotiated and executed by the Parties in English. In the event any translation of this Agreement is prepared for convenience or any other purpose, the provisions of the English version shall prevail.

10.16 Tax Disclosure Authorization. Notwithstanding anything herein to the contrary, the Parties (and each Affiliate and Person acting on behalf of any Party) agree that each Party (and each employee, representative, and other agent of such Party) may disclose to any and all Persons, without limitation of any kind, the transaction's tax treatment and tax structure (as such terms are used in regulations promulgated under Code section 6011) contemplated by this agreement and all materials of any kind (including opinions or other tax analyses) provided to such Party or such Person relating to such tax treatment and tax structure, except to the extent necessary to comply with any applicable federal or state securities laws; provided, however, that such disclosure may not be made until the earlier of date of (i) public announcement of discussions relating to the transaction, (ii) public announcement of the transaction, or (iii) execution of an agreement (with or without conditions) to enter into the transaction. This authorization is not intended to permit disclosure of any other information including (without limitation) (i) any portion of any materials to the extent not related to the transaction's tax treatment or tax structure, (ii) the identities of participants or potential participants, (iii) the existence or status of any negotiations, (iv) any pricing or financial information (except to the extent such pricing or financial information is related to the transaction's tax treatment or tax structure), or (v) any other term or detail not relevant to the transaction's tax treatment or the tax structure.

(Signatures on following page)

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first above written.

BUYER

FIT DRAGON INTERNATIONAL, LTD.

By: /s/ Michael Bruno
Signature
Print Name: Michael Bruno
Title: CEO

SELLER

NAUTILUS, INC.

By: /s/ Kenneth L. Fish
Signature
Print Name: Kenneth L. Fish
Title: CFO

Exhibit 10.26

STAIRMASTER TECHNOLOGY TRANSFER
AND LICENSE AGREEMENT

THIS STAIRMASTER TECHNOLOGY TRANSFER AND LICENSE AGREEMENT (hereinafter "Stairmaster Technology Agreement" or "Agreement") relates to technology connected with the Nautilus Stairmaster business and is effective as of the date of signing by the last of the parties to sign below and is by and between Xiamen World Gear Sports Goods Co., Ltd. a corporation organized under the laws of the People's Republic of China ("Buyer"), having a place of business at 27-29 North 2nd Road, Xinglin, Jimei District, Xiamen City, Fujian Province, People's Republic of China and Nautilus, Inc. ("Nautilus"), a Washington corporation, having a place of business at 16400 SE Nautilus Drive, Vancouver, WA. 98683. Buyer and Nautilus are referred to collectively herein as the "Parties". This Stairmaster Technology Agreement is an exhibit to a Stairmaster Asset Purchase Agreement relating to the Nautilus Stairmaster business entered into on the same date between Buyer and Nautilus. The parties agree as follows:

1. Definitions and Schedule

A. Unless expressly otherwise defined herein, the terms used in this Stairmaster Technology Agreement that are defined in the Stairmaster Asset Purchase Agreement shall have the same meaning as defined in the Stairmaster Asset Purchase Agreement.

B. "And/or" shall mean "and", "or" and both "and" and "or".

C. "Affiliate" shall have the meaning set forth in rule 12b-2 of the regulations promulgated under the Securities Exchange Act in force as of the effective date of this Stairmaster Technology Agreement.

D. "Stairmaster Asset Purchase Agreement" shall mean an agreement entered into between the Parties to which this Stairmaster Technology Agreement is an exhibit.

E. "Commercial Channel" shall mean bona fide sales to commercial, corporate, and government entities that are not Affiliates of Buyer and that provide access to the Stairmaster Products to multiple users, including fitness centers, gyms, health clubs, studios, hotels, resorts, schools, military, and corporate employee centers. The Commercial Channel does not include and excludes all other sales or distributions of Stairmaster Products, including but not limited to sales and other distributions: (a) to end users (non-commercial users, typically home use) and

resellers, such as retailers and online resellers; and/or (b) to any entity where there is reason to know that such entity is selling or distributing to end users and/or resellers (except as used equipment following normal use in the entity's facility).

F. "IBD and SF Retail Channel" shall mean bona fide sales of Stairmaster Products to Independent Bicycle Dealers (IBDs) and Specialty Fitness (SF) Retailers that are not Affiliates of Buyer. Specialty Fitness Retailers shall mean retailers selling fitness equipment and fitness accessories and the sales of fitness equipment and accessories constitutes at least 90% of the retailer's total sales. By way of example only, and not of limitation, Specialty Fitness Retailers do not include Dick's Sporting Goods, Cabelas, Sports Authority, or other retailers having greater than 10% sales of non-fitness equipment. The IBD and SF Retail Channel is a subset of the Stairmaster Permitted Retail Channel.

G. "Channel" shall mean the Commercial Channel and the Stairmaster Permitted Retail Channel.

H. "Gross Sales" shall mean the total invoice price of Stairmaster Products, and all related charges of any type whether separately invoiced (including, but not limited to, installation charges, shipping charges, taxes, and delivery charges) and whether the Stairmaster Products are sold, leased or otherwise distributed.

I. "Net Sales" means "Gross Sales" less allowances for: (a) returns of Stairmaster Products actually received; (b) refunds by Buyer to customers and cancellation of orders from Buyer by customers for Stairmaster Products; (c) local, State and federal sales, VAT, and use and excise taxes required to be charged by Buyer for sales of Stairmaster Products, if separately stated on an invoice; and (d) freight charges and delivery fees, if separately stated on an invoice, and provided that any such separately stated freight charges and delivery fees do not exceed one hundred and ten (110) percent of the actual costs incurred by Buyer for freight and delivery.

J. "Sales" means sales, leases and any other types of distribution of goods and services.

K. "Other Retail Channel" shall mean those portions of the Permitted Retail Channel that excludes the IBD and SF Retail Channel.

L. " Permitted Retail Channel" shall mean bona fide sales to third parties (who are not Affiliates of a Party) who resell the purchased products as new, in-box to retail customers including in-store sales and online sales. The Permitted Retail Channel consists of the (1) IBD and SF Retail Channel and (2) Other Retail Channel.

M. “Direct Channel” shall mean bona fide sales by a Party directly to customers (end users) who are not in the Commercial Channel or Permitted Retail Channel, such as to individuals who will use or gift the products, and will not make the products available to additional users in a commercial, business, or government setting.

N. “Restricted Parties” shall mean the following listed parties: ICON Health & Fitness, Inc., Amer Sports (includes Precor whether or not affiliated with Amer), Johnson Fitness Co. (includes Matrix, Vision, and Horizon whether or not affiliated with Johnson), Brunswick Corporate (including Lifefitness whether or not affiliated with Brunswick), Cybex International, Inc., Technogym SpA, and TRUE Fitness Technology, and affiliates thereof.

O. “Stairmaster Copyrighted Works” shall mean tangible works of authorship previously used by Nautilus, and/or previously created for use by Nautilus, in connection with selling products under one or more of the Stairmaster Trademarks, and for which Nautilus owns or has exclusive rights to relevant copyrights, regardless of whether the copyright for any such Copyrighted Works are registered with any copyright office.

P. “Stairmaster Products” shall mean products sold under one or more of the Stairmaster Trademarks.

Q. “Stairmaster Know How” shall mean technical information that may not be confidential, but that is required to efficiently manufacture Stairmaster Products. Stairmaster Know How includes tooling for Stairmaster Products and components thereof obtained by Buyer from Nautilus.

R. “Stairmaster Confidential Information” shall mean Confidential Information relating to manufacturing and marketing of Stairmaster Products.

S. “ Stairmaster Domain Names” shall mean the following domain names:

stairmaster.com

stairmasterfitness.com

stairmastercanada.com

stairmaster.us

stairmaster.tv

stairmaster.org

stairmaster.mobi

stairmaster.info

stairmaster.biz

stair-master.com

T. “Stairmaster Patents” shall mean:

US 5,374,227 – Linkage system to move the foot pedal to match a user’s motion

US 5,749,807 – Using rheological resistance system for Stepper

US D373,805 – Design patent for a stepper platform

US D376,828 – Design patent for a shrouding

U. “Stairmaster Marks” and Stairmaster Trademarks” shall mean the following trademarks (registrations for which are listed in Schedule A to this Stairmaster Technology Agreement):

STAIRMASTER word mark

STAIRMASTER stylized

STAIRMASTER HEALTH AND FITNESS PRODUCTS word

STEPMILL word

“S” design

CLUBSTRIDE word

CROSSROBICS word

FREECLIMBER word

V. “Stairmaster Trade Secrets” means information, including a formula, pattern, compilation, program, device, method, technique, or process that is necessary for the manufacture of Stairmaster Products and that:

(a) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

W. “Stairmaster Intellectual Property” or “Stairmaster IP” means Stairmaster Confidential Information, Stairmaster Copyrighted Works, Stairmaster Domain Names, Stairmaster Know How, Stairmaster Marks, Stairmaster Patents and Stairmaster Trade Secrets.

X. This Stairmaster Technology Agreement incorporates the attached schedules A, B, C and D, listed below:

Schedule A: Registrations of Stairmaster Marks

Schedule B: Patent Assignment (for recordation purpose)

Schedule C: Trademark Assignment (for recordation purposes)

Schedule D: Electronic Payment Instructions

2. Transfer of Rights

A. Patent Assignment.

Subject to the terms of this Stairmaster Technology Agreement, Nautilus hereby assigns and transfers to Buyer all of Nautilus' rights and interests in the Stairmaster Patents. To confirm this assignment of patent rights, simultaneously with the execution of this Stairmaster Technology Agreement, Nautilus agrees to execute the Patent Assignment of Schedule B to this Stairmaster Technology Agreement.

B. Trademark Assignment.

(i) Subject to the terms of this Stairmaster Technology Agreement, Nautilus hereby assigns to Buyer all of Nautilus right title and interest in and to: (i) the Stairmaster Trademarks; (ii) the registrations of Schedule A; and (iii) the goodwill of the Nautilus Stairmaster business associated with the Stairmaster Trademarks. Nautilus agrees to execute the trademark assignment of Schedule C to this Stairmaster Technology Agreement to confirm this assignment.

(ii) Notwithstanding Section 2.B.(i), Buyer agrees it shall not sublicense any of the Stairmaster Marks to any Restricted Parties or allow any one or more of the Restricted Customers to use any one or more of the Stairmaster Marks.

C. Trademark Licenses to Nautilus

(i) Direct Channel: Buyer hereby grants to Nautilus an exclusive, irrevocable, worldwide, royalty-free, license to the Stairmaster Marks, and variations thereof, solely for use in connection with products sold or otherwise distributed by or for Nautilus in the Direct Channel. Nautilus grants back to Buyer, a non-exclusive, irrevocable, worldwide, royalty-free license to the Stairmaster Marks, and variations thereof, for non-targeted sales in the Direct Channel. Non-targeted shall mean that Buyer shall not publish advertising directed to the Direct Channel. Buyer agrees it shall limit it gross sales in the Direct Channel to less than ten (10) percent of its total gross sales for all Stairmaster Products.

(ii) Nautilus agrees that all Stairmaster Products it sells in the Direct Channel shall be products Nautilus obtains from Buyer or an affiliate of Buyer: the parties expressly agree that Land America Life & Fitness Co., Ltd. is such an affiliate.

(ii) Other Retail Channel: For 18 months from the effective date of this Stairmaster Technology Agreement, Nautilus shall have the exclusive license to, and Buyer shall have no right to, use the Stairmaster Marks in the Other Retail Channel.

(iii) These licenses are non-assignable and non-transferable except that Nautilus may transfer/assign this license to a successor-in-interest of Nautilus. For purpose of clarification, Nautilus has no license to use any of the Stairmaster Marks in the Commercial Channel. Any and all usage of the Stairmaster marks by Nautilus will be for products meeting Buyer's quality standards. The Parties agree that products having a quality that is at least equal to the quality of products currently being sold by Nautilus under the Stairmaster Marks meet Buyer's quality standards. Any use by Nautilus of the Stairmaster Trademarks under the license to Nautilus of this Section 2.B of the Stairmaster Technology Agreement shall be in accordance with Buyer's Trademark usage guidelines that are applicable to Buyer's own Stairmaster Products. The Parties agree that any usage by Nautilus of the Stairmaster Trademarks in the manner currently being used by Nautilus meet Buyer's Trademark Usage Guidelines.

D. Copyright Transfer.

Subject to the terms of this Stairmaster Technology Agreement, Nautilus hereby assigns to Buyer all of Nautilus' rights in Copyrighted Works that are currently being used by Nautilus solely in connection with manufacturing and/or selling of Stairmaster Products. To the extent Nautilus has any rights in Copyrighted Works being used by Nautilus in connection with making and selling both Stairmaster Products and non-Stairmaster Trademarked Products ("Other Copyrighted Works"), and thus that are not being used by Nautilus solely in connection with manufacturing and/or selling Stairmaster Products, and that are necessary to manufacture and sell Stairmaster Products, Nautilus grants to Buyer a non-exclusive, non-transferable, non-assignable, non-sublicensable, worldwide, license to reproduce, distribute, perform and make derivative works of any such Other Copyrighted Works solely in connection with Stairmaster Products in the Commercial Channel and/or the Permitted Retail Channel.

E. Domain Name Transfer.

Subject to the terms of this Stairmaster Technology Agreement, Nautilus hereby assigns the Stairmaster Domain Names to Buyer. Buyer agrees to only use the domain names in connection with websites selling Stairmaster Products in the Commercial Channel and/or the Permitted Retail Channel.

F. Trade Secrets, Know How and Confidential Information.

Subject to the terms of this Stairmaster Technology Agreement, Nautilus hereby grants to Buyer a non-exclusive, non-transferable, non-assignable, non-sublicensable, and worldwide license to Stairmaster Know How, Stairmaster Trade Secrets and Stairmaster Confidential Information solely for use in connection with sales and marketing of Stairmaster Products in the Commercial Channel and/or the Permitted Retail Channel.

G. Covenant Not to Sue

Buyer hereby covenants not to sue Nautilus for any violations of any of the Stairmaster Intellectual Property for any Nautilus acts outside of the Commercial Channel.

3. Registration, Filings and Enforcement.

A. Registrations and Filings. Buyer shall maintain the Registrations of Schedule A that include the word Stairmaster for at least ten (10) years from the effective date of this Stairmaster Technology Agreement.

4. Payments

A. Royalty on Net Sales of Stairmaster Products in the Commercial Channel.

(i) For the Trademark rights granted by this License Agreement to Buyer for Stairmaster Products sold in the Commercial Channel, Buyer shall pay Nautilus a fixed Royalty of US$83,333.33 per quarter for each of the Calendar Years 2010, 2011 and 2012. Thereafter, there shall be no Royalty for Net Sales of Stairmaster Products in the Commercial Channel.

B. Royalty on Net Sales of Stairmaster Products in the IBD and SF Channel.

(i) For the Trademark rights granted by this License Agreement to Buyer for Stairmaster Products sold in the IBD and SF Channel, Buyer shall pay Nautilus a Royalty which is equal to three (3) percent of Net Sales of Stairmaster Products in the IBD and SF Retail Channel. The Royalty of this Section 4.B.(i) shall continue for so long as Buyer is selling Stairmaster Products in the IBD and SF Retail Channel and shall have no applicable Minimum Annual Payment or Royalty Cap.

C. Royalty on Net Sales of Stairmaster Products in the Other Retail Channel.

(i) For the Trademark License rights granted by this License Agreement to Buyer for Stairmaster Products sold in the Other Retail Channel, Buyer shall pay Nautilus a Royalty which is equal to five (5) percent of Net Sales of Stairmaster Products in the Other Retail Channel. The Royalty of this Section 4.C.(i) shall continue for so long as Buyer is selling Stairmaster Products in the Other Retail Channel and shall have no applicable Minimum Annual Payment or Royalty Cap.

(ii) Buyer shall have no rights in the Other Retail Channel for eighteen (18) months from the execution of this Agreement per section 2.C.(ii).

D. Because of the difficulty of allocating royalties and the different types of intellectual property being licensed by this License, the Parties agree that a Royalty based on Net Sales of products that bear and/or are marketed in connection with any one or more of the Licensed Marks is an appropriate and convenient manner of establishing the Royalty.

E. Payment Schedule. The Royalties of this Stairmaster Technology Agreement will accrue upon the earlier of the invoice date, or the shipping date for the goods by Buyer. The Royalty amounts set forth in sections 4.A.; 4.B. and 4.C. are payable quarterly from Buyer to Nautilus within thirty (30) days after each March 31st, June 30th, September 30 th, and December 31st, beginning January 1. 2010. The quarterly royalty payments shall accompany the required reports of Section 4.G.

F. Methods of Payments to Nautilus. All payments under this Agreement to Nautilus shall be made in U.S. Dollars and made by electronic payment as set out in Schedule D to this Agreement. Buyer shall not be permitted to pay money in escrow or to any entity other than Nautilus, unless pursuant to a final court order that is not subject to appeal.

G. Reports and Records. Buyer shall keep and preserve accurate records of all of its operations within the scope of this Agreement. With each payment by Buyer to Nautilus, and for the Calendar Quarter for which a payment is being paid, Buyer shall provide to Nautilus a report stating the Gross Sales, Net Sales, Net Sales in the Commercial Channel, Net Sales in the IBD and SF Channel, Net Sales for the Other Channel and returns by channel and product number (preferably SKU identifiers), Royalty calculations, and Royalty due. Nautilus and its agents (e.g., accountants) shall have the right to inspect and copy such records at reasonable times.

H. Costs of Inspection and Copying. The cost of any inspection and copying of records under Section 4/G/. shall be borne by Nautilus unless a discrepancy is discovered in Nautilus' favor in an amount that is greater than five (5) percent of the Royalty due versus the Royalty paid, in which case such costs shall be borne by Buyer.

I. Record Retention. Buyer and Nautilus are not required to retain any records relating to this License Agreement for longer than five (5) years from the date of their creation.

J. Pricing. All pricing for products sold by Buyer shall be determined by and be under the sole control of Buyer.

K. Currency. All amounts set forth in this License are in U.S. dollars.

5. Written Notice. Any Written Notice that is required under this Stairmaster Technology Agreement shall be as provided as set forth in the Stairmaster Asset Purchase Agreement.

6. Entire Agreement. This Stairmaster Technology Agreement and Schedules A, B and C hereto, which are incorporated by reference herein, contain the entire agreement of the parties relating to the assignment, transfer and/or licensing of Nautilus Stairmaster business related intellectual property rights from Nautilus to Buyer, and supersedes all existing agreements and all other oral, written or other communications between the parties relating to its subject matter. This Stairmaster Technology Agreement cannot be modified except in a writing signed by all of the parties and that expressly recites that the writing is an amendment to or a modification of this Stairmaster Technology Agreement.

7. Compliance with Laws. Buyer shall at all times comply with all applicable laws, statutes, rules, regulations and ordinances, including without limitation those governing wages, hours, desegregation, employment discrimination, health and safety, and equal opportunity laws and regulations to the extent that they are applicable.

8. Confidential Information

Confidential Information shall be as defined in the Stairmaster Asset Purchase Agreement. Buyer agrees to maintain the confidentiality of the Confidential Information, otherwise neither party shall have any obligations of confidence with respect to any Stairmaster Intellectual Property.

9. Termination and Default.

A. Material Breach Due to Improper Sublicense: If Buyer breaches section 2.B.(ii) of this Agreement (improper sublicense) and fails to, or refuses to, cure such breach within 60 days of written notice by Nautilus, Nautilus may terminate this Agreement and require reassignment of the Stairmaster Trademarks to Nautilus.

B. Other Material Breach: It shall be a default of this Stairmaster Technology Agreement for Buyer or Nautilus to fail to perform any material term or condition of this Stairmaster Technology Agreement within a sixty (60) day cure time period following written notice setting forth such failure or alleged failure by Buyer to Nautilus and/or by Nautilus to Buyer. In the event of a default of this Agreement by Buyer that is not cured within the sixty (60) day cure period, the Parties shall follow the dispute resolution provisions of Section 13 below.

C. Events Upon Termination or Expiration.

(i) In the event of any termination or expiration of this Agreement for any reason: All payments from Buyer to Nautilus that have accrued under the Stairmaster Asset Purchase Agreement and/or under the Stairmaster Technology Agreement as of the date of termination or expiration shall immediately become due and payable.

(ii) In the event of any Termination of this Stairmaster Technology Agreement is based in whole or in part upon default by Buyer of Section 2.B.(ii), then any and all rights assigned, transferred and/or licensed to Buyer under this Stairmaster Technology Agreement shall automatically revert back to Nautilus and all use of the Stairmaster Marks by Buyer, as well as of any marks, names or domain names confusingly similar thereto, shall immediately cease except that Buyer may complete all unfinished goods (work-in-progress) and sell all inventory for up to six (6) months after termination. Buyer may not acquire any additional parts or materials to complete unfinished goods after termination of this Stairmaster Technology Agreement for this reason. Any and all use by Buyer of any Stairmaster Patents and of any other rights Buyer has received under this Stairmaster Technology Agreement from Nautilus shall immediately cease upon sale of such outstanding inventory.

D. Additional Relief. The Parties shall be entitled to such other relief as may be determined by a court of law as selected under Section 13.A. below.

10. Term. This Stairmaster Technology Agreement, unless terminated in accordance with its terms, shall continue in force.

11. Disclaimer.

Disclaimer. ALL RIGHTS ASSIGNED, TRANSFERRED AND/OR LICENSED BY NAUTILUS TO BUYER ARE PROVIDED “AS IS” AND WITHOUT ANY WARRANTY OF ANY KIND. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NAUTILUS HEREBY DISCLAIMS ALL WARRANTIES, EXPRESS AND/OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND/OR WARRANTIES AGAINST INFRINGEMENT. THE MAXIMUM LIABILITY OF NAUTILUS TO BUYER RELATING TO THIS STAIRMASTER TECHNOLOGY AGREEMENT SHALL BE NO GREATER THAN $100,000 .

12. Export Restrictions. Buyer agrees to comply with all applicable international and national laws that apply to products, including U.S. Export Administration Regulations, as well as End-User, End-Use and Destination restrictions issued by the United States and other governments. Nothing in the preceding sentence shall be construed to grant Buyer any rights to in any manner for any purpose not expressly recited by this Stairmaster Technology Agreement.

13. Controlling Law, Venue and Dispute Resolution.

A. Court and Law. This Stairmaster Technology Agreement shall be interpreted in accordance with and governed by the substantive and procedural laws of the State of Washington, without regard to choice-of-law principles. The parties hereby irrevocably consent to the exclusive jurisdiction of the courts of the State of Washington, Clark County, or of a U.S. District Court for the Western District of Washington, USA in connection with any dispute relating to this Stairmaster Technology Agreement and/or to any alleged breach of this Stairmaster Technology Agreement. Each party hereby irrevocably waives any objection that the party may now or hereafter have regarding this choice of forum.

B. Resolution Procedures. The parties agree to follow procedures set forth in sub-sections 13.C. – 13.E. for the resolution of any dispute, whether this Stairmaster Technology Agreement specifically recites the applicability of these dispute resolution procedures to the dispute.

C. Negotiated Resolution. Buyer and Nautilus wish to avoid disputes. In the event of any dispute, the parties shall first attempt to resolve the matter by an in-person meeting between executive level managers of Buyer and Nautilus to review a presentation by each of them concerning the dispute. The meeting will be held in Seattle, Washington unless otherwise agreed. Unless otherwise agreed by Buyer and Nautilus, only if the executive level managers are unable to resolve the dispute within the shorter of thirty (30) days of the first such meeting or forty-five (45) days from the first Written Notice by either Party requesting such meeting, shall any party be free to proceed under Section 13.D.

D. Mediation. Any dispute that has not been resolved under Section 13.C. shall be the subject of non- binding mediation before a single impartial mediator selected by mutual agreement of Buyer and Nautilus. This mediator shall be an attorney with at least 15 years experience in intellectual property licensing issues. Buyer and Nautilus agree to make a good faith effort to select a mediator within thirty (30) days from the date that the mediation is first requested by Written Notice by either Buyer or Nautilus. Unless otherwise agreed to by the parties, the mediation will be held in Seattle, Washington and shall be completed within sixty days of any such Written Notice of a request for mediation. A party shall not be entitled to

request mediation until after the end of the negotiation and resolution procedure of Section 13.C. Each party shall bear its own costs, including attorney fees of any mediation and shall share equally the costs of the mediator. Unless otherwise agreed by the parties, only if mediation does not resolve the alleged claim or controversy, shall any party be free to proceed under sub-section 13.E.

E. Litigation. Any dispute that is not resolved pursuant to the procedures of Section 13.C. and 13.D. shall be subject to litigation by either party, subject to Section 13.A. The Parties agree that neither party shall be liable to the other party for any attorney fees in connection with any dispute, whether at trial, upon appeal, and/or otherwise; provided, however that, to the extent a dispute relates to the failure by Buyer to make any payments under this Stairmaster Technology Agreement when due, Buyer shall pay Nautilus' reasonable attorney fees in connection therewith, including at trial, upon appeal and/or otherwise.

14. General.

A. Nonwaiver. No failure on the part of Buyer or Nautilus to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise by Buyer or Nautilus of any right hereunder preclude any further exercise thereof of such right or of any other right.

B. Severability. Any provision of this Stairmaster Technology Agreement that is prohibited or rendered unenforceable by any law shall be ineffective only to the extent of the prohibition or unenforceability without invalidating the remaining provisions of this Stairmaster Technology Agreement.

C. Force Majeure. Neither party shall be liable for delays due to any cause beyond the control and without the fault or negligence of the Party incurring the delay, including, to the extent it satisfies the above description, any fire, unusual weather conditions, riot, act of God, act of the public enemy, death or incapacity of an individual who is to perform work, or other similar event. However, both Parties agree to seek to mitigate the potential impact of any such delay. The Party incurring the delay shall within thirty (30) business days from the beginning of the delay, notify the other Party in writing of the causes of the delay and its probable extent. The notification of delay shall not be the basis for a request for additional compensation. In the event of any such delay, any required completion date may be extended by a reasonable period not exceeding the time actually lost by reason of the delay.

D. No Other Representations. Buyer and Nautilus hereby acknowledge that they have not been induced to enter into this Stairmaster Technology Agreement by any representation or warranty not set forth in this Stairmaster Technology Agreement.

E. Headings. The headings and subheadings of this Stairmaster Technology Agreement are intended for convenience of reference only and shall not be used to interpret this Stairmaster Technology Agreement or affect the construction of this Stairmaster Technology Agreement.

F. Construction. Words importing the singular include the plural, words importing any gender include every gender and words importing persons include entities, corporate and otherwise; and (in each case) vice versa. Whenever the terms “including” or “include” are used in this Stairmaster Technology Agreement in connection with a single item or a list of items within a particular classification (whether or not the term is followed by the phrase “but not limited to” or words of similar effect) that reference shall be interpreted to be illustrative only, and shall not be interpreted as a limitation on, or an exclusive enumeration of the items within that classification.

G. Survival. The terms, provisions and representations contained in this Stairmaster Agreement shall survive any termination or expiration of this Stairmaster Technology Agreement to the extent that such survival is necessary to give effect to their full meaning and intent. Without limiting the foregoing, the parties expressly agree that the following Sections (including all sub-parts, unless a specific sub-part is specified) of this Stairmaster Technology Agreement shall survive termination and expiration of this Stairmaster Technology Agreement: 1; 2.B,(ii); 2.C., exclusive license back to Nautilus, unless ownership of the Stairmaster Trademarks returned to Nautilus; 2.G; 3.A unless ownership of the Stairmaster Trademarks is returned to Nautilus; 5; 6; 7; 8; 9; 10; 11; 12; and 13.

H. No Third Party Beneficiaries. This Stairmaster Technology Agreement is intended solely for the benefit of the parties hereto. Except as expressly set forth in the Stairmaster Technology Agreement, nothing in the Stairmaster Technology Agreement shall be construed to create any liability to or any benefit for any person not a party to this Stairmaster Technology Agreement.

I. Successors and Assigns. This Stairmaster Technology Agreement is personal to Buyer and shall not be assigned by Buyer, except to an Affiliate of Buyer, with the written consent of Nautilus, which consent shall not be unreasonably withheld. Except as provided in the preceding sentence, none of the rights granted to Buyer under this Stairmaster Technology

Agreement are assignable, transferable, or sub-licensable in any way. Nautilus shall have the right to assign this Stairmaster Technology Agreement and its rights hereunder to a successor in interest.

J. Effective Date. This Stairmaster Technology Agreement shall be effective on the date of the last signature by the Parties as indicated on the signature page hereto ("Effective Date").

K. Counterparts. This Stairmaster Technology Agreement may be executed in any number of counterparts, which together will constitute one instrument.

L. Independent Contractors. Buyer and Nautilus are independent contractors and are not the agent(s) of one another for any purpose. Neither Buyer nor Nautilus shall have any authority to bind or obligate one another.

M. Ethical Conduct. Buyer and Nautilus shall use the highest ethical standards in their business activities and shall each not do anything to bring the other into an unfavorable light.

N. Determining Time Periods. Time periods for Written Notice under this Stairmaster Technology Agreement, such as a time period for taking action upon Written Notice, shall not count the day the Written Notice is effective and shall end at midnight Vancouver, Washington time of the last day of the time period.

In agreement hereto the parties have signed below.

Xiamen World Gear Sports Goods Co., Ltd.	**Nautilus, Inc.**
(Buyer)	**(Nautilus)**
/s/ Michael Bruno	Kenneth L. Fish
Signature	Signature
Michael Bruno	Kenneth L. Fish
Printed Name	Printed Name
CEO	CFO
Title	Title
December 5, 2009	12/5/2009
Date	Date

Exhibit 10.27

ASSET PURCHASE AGREEMENT

BETWEEN

MED-FIT SYSTEMS, INC.
(Buyer)

AND

NAUTILUS, INC.
(Seller)

February 18, 2010.

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ASSET PURCHASE AGREEMENT

This Asset Purchase Agreement (this "**Agreement**") is entered into as of February 18, 2010, by and between Med-Fit Systems, Inc., a California corporation ("**Buyer**"), and Nautilus, Inc., a Washington corporation ("**Nautilus**"). Buyer and Nautilus are referred to collectively herein as the "**Parties**."

This Agreement contemplates a transaction in which Buyer will purchase certain assets (and assume certain liabilities) of Nautilus relating to the Commercial Fitness Equipment business.

Now, therefore, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows.

ARTICLE 1 - DEFINITIONS

"**Acquired Assets**" means all right, title, and interest in and to the following assets of Nautilus: (a) the Commercial Fitness Equipment inventory, excluding finished goods inventory, consisting of Commercial Fitness Equipment raw materials, work-in-progress and spare parts, to be set forth in the Physical Inventory Report, (b) the Tangible Personal Property, and (c) the intellectual property rights described in the Commercial License Agreement.

"**Adverse Consequences**" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, costs, reasonable amounts paid in settlement, liabilities, obligations, taxes, liens, losses, expenses, and fees, including court costs and reasonable attorneys' fees and expenses.

"**Affiliate**" means, with respect to a specified Person, a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified.

"**Assumed Contracts**" means all contracts set forth on Section 3.8 of the Disclosure Schedules, which includes all customer purchase orders for delivery of Commercial Fitness Equipment which are open on the Closing Date.

"**Assumed Liabilities**" means the following liabilities and obligations of Nautilus (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due): (a) warranty liability for the Commercial Fitness Equipment products as provided in Section 6.4 below; (b) the liabilities and obligations set forth on Schedule 2.2 hereto, which includes all purchase orders for Commercial Fitness Equipment parts, components or supplies that are open on the Closing Date; (c) the liabilities and obligations under the Assumed Contracts; and (d) all liabilities and obligations arising out of or related to ownership or use of the Acquired Assets after the Closing.

"**Business**" means the Commercial Fitness Equipment business operated by Nautilus.

"**Buyer**" has the meaning set forth in the preface above.

"**Closing**" means the closing of the Buyer's purchase of the Acquired Assets from Nautilus as described in Section 2.5.

"**Closing Date**" has the meaning set forth in Section 2.5 below.

"**Code**" means the Internal Revenue Code of 1986, as amended.

"**Commercial Fitness Equipment**" means Nautilus-branded commercial grade strength training equipment manufactured in the Nautilus manufacturing facility located in Independence, Virginia and Nautilus-branded commercial grade cardio fitness equipment purchased from contract manufacturers.

"**Confidential Information**" means any information concerning the business and affairs of Nautilus that is not already generally available to the public.

"**Disclosure Schedule**" has the meaning set forth in Article 3 below.

"**Financial Information**" has the meaning set forth in Section 3.6 below.

"**GAAP**" means United States generally accepted accounting principles as in effect from time to time, consistently applied.

"**Indemnified Party**" has the meaning set forth in Section 8.4 below.

"**Indemnifying Party**" has the meaning set forth in Section 8.4 below.

"**Knowledge**" means, with respect to Nautilus, actual knowledge of the following individuals: Tim Peters, Kenneth Fish and Wayne Bolio.

"**Lease Agreement**" means the Lease Agreement providing for the lease by Nautilus to Buyer of certain real property located in Independence, Virginia in the form attached hereto as Exhibit F.

"**License Agreement**" means the License Agreement providing for the license by Nautilus to Buyer of certain intellectual property used in the Business. The License Agreement shall be substantially in the form attached hereto as Exhibit G.

"**Lien**" means any mortgage, pledge, lien, encumbrance, charge, or other security interest other than (a) liens for Taxes not yet due and payable, (b) purchase money liens and liens securing rental payments under capital lease arrangements, and (c) other liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money.

"**Ordinary Course of Business**" means the ordinary course of business of Nautilus in operating the Business, consistent with past custom and practice (including with respect to quantity and frequency of activities).

"**Party**" has the meaning set forth in the preface above.

"**Person**" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, any other business entity or a governmental entity (or any department, agency, or political subdivision thereof).

"**Physical Inventory Report**" has the meaning set forth in Schedule 2.3 attached hereto.

"**Purchase Price**" has the meaning set forth in Section 2.3 below.

"**Securities Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"**Tangible Personal Property**" means all machinery, equipment, tools, furniture, office equipment, computer hardware, supplies, materials, vehicles and other items of tangible personal property (other than the Commercial Fitness Equipment inventory) of every kind that is owned or leased by Nautilus and located at the Virginia Facility, together with: (i) any tooling used in the production of Commercial Fitness Equipment that is owned by Nautilus and located on the premises of Nautilus suppliers, and (ii) any express or implied warranties by the manufacturers or sellers or lessors of any such items and all maintenance records and other documents relating thereto. A Schedule of the Tangible Personal Property is attached hereto as listed on Schedule 3.12.

"**Tax**" or "**Taxes**" means any federal, state, local, or non-U.S. income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, whether computed on a separate or consolidated, unitary or combined basis or in any other manner, including any interest, penalty, or addition thereto, whether disputed or not.

"**Tax Benefit**" has the meaning set forth in Section 8.5 below.

"**Technical Assets**" means Nautilus' data, technical information, know-how and trade secrets existing (in any medium) at the Virginia Facility as of the Closing, excluding the Manhattan Project, as understood by the Parties, which will be the subject of a patent application by Nautilus.

"**Third-Party Claim**" has the meaning set forth in Section 8.4 below.

"**Virginia Facility**" means the Nautilus manufacturing and warehouse facility located in Independence, Virginia that is the subject of the Lease Agreement. The Virginia Facility consists of a campus of four (4) buildings and appurtenant improvements located on a 56 acre parcel of land.

"**Warranty Service Agreement**" means the Warranty Service Agreement to be negotiated in good faith and executed by Buyer and Nautilus after Closing. Under the Warranty Service Agreement, Buyer shall provide warranty service for the TreadClimber® (TC 916) product, Nautilus EV916 product, and Clubtrack Treadmill Model 425, Model 510, and Model 620 products in North America by using parts provided by Nautilus at no charge to Buyer. If parts are needed that Nautilus is unable to provide, Buyer shall procure the parts and Nautilus shall reimburse Buyer for its actual cost of procuring such parts plus an additional service fee of 25% of such cost of procurement.

ARTICLE 2 - BASIC TRANSACTION

2.1 Purchase and Sale of Assets. On and subject to the terms and conditions of this Agreement, Buyer agrees to purchase from Nautilus, and Nautilus agrees to sell, transfer, convey, and deliver to Buyer, all of the Acquired Assets at the Closing for the consideration specified below in this Article 2.

2.2 Assumption of Assumed Liabilities. On and subject to the terms and conditions of this Agreement, Buyer agrees to assume and become responsible for all of the Assumed Liabilities at the Closing. Buyer will not assume or have any responsibility, however, with respect to any other obligation or liability of Nautilus not specifically identified as one of the Assumed Liabilities. Product liability for products distributed prior to Closing is expressly not included as Assumed Liabilities.

2.3 Purchase Price. As payment for the Acquired Assets, Buyer agrees to pay to Nautilus a cash purchase price (the "**Purchase Price**") determined in accordance with and payable as set forth in Schedule 2.3 attached hereto. In the event Buyer obtains a senior working capital line of credit providing financing for Buyer's conduct of the Business, Nautilus agrees to subordinate the security interest granted under the security agreement attached to Schedule 2.3 to the lien of such senior lender according to usual and customary terms; provided, that from the date of any such subordination the promissory note shall bear interest at the rate of 6% per annum.

2.4 The Closing. The closing of the transactions contemplated by this Agreement (the "**Closing**") shall take place on February 19, 2010 following the satisfaction or waiver of all conditions to the obligations of the Parties to consummate the transactions contemplated hereby (other than conditions with respect to actions the respective Parties will take at the Closing itself) or such other date as the Parties may mutually determine (the "**Closing Date**"). The Parties will not meet for the Closing. Instead, they will exchange signature pages to the various documents to be executed at the Closing by fax or email. Within five (5) business days after the Closing, the Parties will assemble and exchange complete copies of the documents signed at the Closing, together with original signature pages.

2.5 Deliveries at the Closing. At the Closing, (a) Nautilus will deliver to Buyer the various certificates, instruments, and documents referred to in Section 7.1 below; (b) Buyer will deliver to Nautilus the various certificates, instruments, and documents referred to in Section 7.2 below; (c) Nautilus will execute, acknowledge (if appropriate), and deliver to Buyer (i)

assignments in the forms attached hereto as Exhibit B and (ii) such other instruments of sale, transfer, conveyance, and assignment as Buyer and its counsel may reasonably request; (d) Buyer will execute, acknowledge (if appropriate), and deliver to Nautilus (i) an assumption in the form attached hereto as Exhibit C and (ii) such other instruments of assumption as Nautilus and its counsel may reasonably request; (e) Buyer will deliver to Nautilus the consideration specified in Section 2.3 above, including the Promissory Note and the Security Agreement described in Schedule 2.3; and (f) Nautilus and Buyer shall enter into the Lease Agreement and the License Agreement.

2.6 Allocation. The Parties agree to allocate the Purchase Price (and all other capitalizable costs) among the Acquired Assets for all purposes (including financial accounting and tax purposes) in accordance with the allocation schedule attached hereto as Exhibit D.

2.7 Accounts Payable Reconciliation. As soon as reasonably practicable after completion of the Physical Inventory Report, as defined in Schedule 2.3, but in any even no later than fifteen (15) days after the Closing Date, Nautilus and Buyer shall reconcile in good faith any accounts payable related to the Business under the following guidelines:

(i) Any accounts payable related to inventory included in the Physical Inventory Report shall be the responsibility of Nautilus, shall be a retained liability of Nautilus, and Nautilus shall indemnify and hold Buyer harmless from and against any and all such accounts payable.

(ii) Any accounts payable related to inventory not included in the Physical Inventory Report and to be delivered after completion of the Physical Inventory Report shall be assumed by Buyer as an Assumed Liability, and Buyer shall indemnify and hold Nautilus harmless from and against any and all such accounts payable.

2.8 Finished Goods Inventory. The Commercial Fitness Equipment finished goods inventory is not included in the Acquired Assets and ownership of such inventory shall be retained by Nautilus. Buyer agrees to warehouse, free of charge, the Commercial Fitness Equipment finished goods inventory on behalf Nautilus. Buyer further agrees to use commercially reasonable efforts to market and sell such inventory to Buyer's customers. Nautilus agrees to sell such inventory at the pricing set forth in Schedule 2.8, to Buyer for resale to Buyer's customers. Buyer shall pay Nautilus within 60 days from date of each individual shipment to Buyer's customers. Any Technology Goods listed on Schedule 2.8 that are not sold by Buyer as of September 29, 2010 shall be retained by Nautilus and removed from Buyer's warehouse at the expense of Nautilus no later than October 15, 2010. Any Finished Goods Inventory, other than Technology Goods, listed on Schedule 2.8 that are not sold by Buyer as of September 29, 2010 shall be sold to Buyer as of that date at the pricing set forth in Schedule 2.8, with payment being due on or before December 29, 2010.

ARTICLE 3 - NAUTILUS' REPRESENTATIONS AND WARRANTIES

Nautilus represents and warrants to Buyer that the statements contained in this Article 3 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the

date of this Agreement throughout this Article 3), except as set forth in the disclosure schedule accompanying this Agreement as Exhibit A (the "**Disclosure Schedule**"). The Disclosure Schedule will be arranged in sections corresponding to the lettered and numbered sections contained in this Agreement.

3.1 Organization of Nautilus. Nautilus is a corporation duly organized, validly existing, and in good standing under the laws of the State of Washington.

3.2 Authorization of Transaction. Nautilus has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Nautilus, enforceable in accordance with its terms and conditions.

3.3 Non-Contravention. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in Article 2 above) by Nautilus, will (a) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Nautilus is subject or any provision of the charter or bylaws of Nautilus or (b) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Nautilus is a party or by which it is bound or to which any of its assets is subject (or result in the imposition of any Lien upon any of Nautilus's assets not included as part of the Acquired Assets), except where the violation, conflict, breach, default, acceleration, termination, modification, cancellation, failure to give notice, or Lien would not have a material adverse effect on Nautilus. Nautilus need not give notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement (including the assignments and assumptions referred to in Article 2 above), except where the failure to give notice, to file, or to obtain any authorization, consent, or approval would not have a material adverse effect on Nautilus. For purposes of this Section 3.3, an adverse effect shall be considered "material" if it results in a loss or liability in excess of Two Hundred Thousand U.S. Dollars ($200,000). The foregoing definition of materiality shall apply only to this Section 3.3 and not to any other representation or warranty of Nautilus made in this Agreement.

3.4 Brokers' Fees. Nautilus has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which Buyer could become liable or obligated.

3.5 Title to Assets. Nautilus has good and marketable title to, or a valid leasehold interest in, the Acquired Assets, free and clear of all Liens or restriction on transfer.

3.6 Financial Information. Attached hereto as Exhibit E is selected historical financial information related to the Business (collectively the "**Financial Information**"). The Financial Information was derived from Nautilus financial statements prepared in accordance with GAAP throughout the periods covered thereby.

3.7 Inventory. Subject to the reserve for inventory writedown set forth in the Financial Information, the Commercial Fitness Equipment inventory included in the Acquired Assets is merchantable and fit for the purpose for which it was procured or manufactured.

3.8 Contracts. With respect to each of the contracts and agreements set forth on Section 3.8 of the Disclosure Schedules (the "Assumed Contracts"), to the Knowledge of Nautilus: (i) the agreement is legal, valid, binding, enforceable, and in full force and effect in all material respects; (ii) no party is in material breach or default, and no event has occurred that with notice or lapse of time would constitute a material breach or default, or permit termination, modification, or acceleration, under the agreement; and (iii) no party has repudiated any material provision of the agreement.

3.9 Terms of Sale. Substantially all of the Commercial Fitness Equipment products manufactured, sold, leased, or delivered by Nautilus are subject to standard terms and conditions of sale or lease, copies of which have been made available to Buyer.

3.10 Customers and Suppliers.

(a) Section 3.10 of the Disclosure Schedule lists the ten (10) largest customers of the Commercial Fitness Equipment business for calendar year 2008 and sets forth opposite the name of each such customer the percentage of consolidated net sales attributable to such customer. Section 3.10 of the Disclosure Schedule also lists any additional current customers that Nautilus anticipates shall be among the ten (10) largest customers for the current fiscal year.

(b) Since November 30, 2009, no material supplier of Nautilus has indicated in writing that it will stop, or materially decrease the rate of, supplying materials, products or services to Nautilus, and no customer listed on Section 3.10 of the Disclosure Schedule has indicated in writing that it will stop, or materially decrease the rate of, buying materials, products or services from Nautilus.

3.11 Litigation. There is no litigation pending, or to the Knowledge of Nautilus, threatened, that could reasonably be expected to have a material adverse effect on the Business or the Acquired Assets after Closing.

3.12 Tangible Personal Property. To Nautilus's Knowledge, the Schedule of Tangible Personal Property attached hereto as Schedule 3.12 contains a complete and accurate listing of the Tangible Personal Property being acquired by Buyer, it being agreed, however, that all items of Tangible Personal Property located at the Virginia Facility may not be listed on Schedule 3.12. Accordingly, the parties agree that Buyer is acquiring all the items of Tangible Personal Property located at the Virginia Facility, regardless of whether such items are specifically listed on Schedule 3.12.

3.13 Employment Matters. Except as may be set forth on the Disclosure Schedules:

(a) The Virginia Facility is not subject to any collective bargaining agreement, nor has it experienced any strikes, grievances, claims of unfair labor practices, or other collective bargaining disputes;

(b) Nautilus has complied with all immigration laws, rules and regulations relating to the employment of foreign nationals; and

(c) There is no pending, or to the Knowledge of Nautilus, threatened employment-related litigation by any person who was in the past or is currently employed at the Virginia Facility.

3.14 Environmental, Health and Safety Matters. Except as may be disclosed on the Disclosure Schedules:

(a) In operating the Virginia Facility, to Nautilus's Knowledge, Nautilus has complied with all applicable federal, state and local environmental, health and safety requirements and permits issued thereunder;

(b) Nautilus has not received any written or oral notice, report or other information regarding any actual or alleged violation of any federal, state or local environmental, health and safety requirements, or any liabilities or potential liabilities, including any investigatory, remedial or corrective obligations, relating to the Virginia Facility arising under federal, state or local environmental, health and safety requirements; and

(c) None of the following exists at the Virginia Facility: (1) underground storage tanks, (2) asbestos-containing materials in any form or condition, (3) materials or equipment containing polychlorinated biphenyls, or (4) landfills, surface impoundments, or disposal areas.

ARTICLE 4 – BUYER'S REPRESENTATIONS AND WARRANTIES

Buyer represents and warrants to Nautilus that the statements contained in this Article 4 are correct and complete as of the date of this Agreement and will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Article 4).

4.1 Organization of Buyer. Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the jurisdiction of its organization.

4.2 Authorization of Transaction. Buyer has full power and authority (including full corporate or other entity power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Buyer, enforceable in accordance with its terms and conditions. The execution, delivery and performance of this Agreement and all other agreements contemplated hereby have been duly authorized by Buyer.

4.3 Non-contravention. Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and

assumptions referred to in Article 2 above) by Buyer, will (a) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Buyer is subject or any provision of its charter, bylaws, or other governing documents or (b) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Buyer is a party or by which it is bound or to which any of its assets are subject. Buyer need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement (including the assignments and assumptions referred to in Article 2 above).

4.4 Brokers' Fees. Buyer has no liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

ARTICLE 5 - PRE-CLOSING COVENANTS

The Parties agree as follows with respect to the period between the execution of this Agreement and the Closing:

5.1 General. Each of the Parties will use its reasonable best efforts to take all actions and to do all things necessary, proper, or advisable in order to consummate and make effective the transactions contemplated by this Agreement (including satisfaction, but not waiver, of the Closing conditions set forth in Article 7 below).

5.2 Notices and Consents. Nautilus will give any notices to third parties, and Nautilus will use its commercially reasonable efforts to obtain any third-party consents referred to in Section 3.3 above and the items set forth in Schedule 7.1(c) hereto. Each of the Parties will give any notices to, make any filings with, and use its commercially reasonable efforts to obtain any authorizations, consents, and approvals of governments and governmental agencies in connection with the matters referred to in Sections 3.3 and 4.3 above.

5.3 Full Access. Nautilus will permit representatives of Buyer (including legal counsel and accountants) to have full access at all reasonable times, and in a manner so as not to interfere with the normal business operations of Nautilus, to all premises, properties, personnel, books, records (including Tax records), contracts, and documents of or pertaining to the Business. Buyer will treat and hold as such any Confidential Information it receives from Nautilus and its subsidiaries (and their representatives) in the course of the reviews contemplated by this Section 5.3, will not use any of the Confidential Information except in connection with this Agreement, and, if this Agreement is terminated for any reason whatsoever, will return to Nautilus all tangible embodiments (and all copies) of the Confidential Information that are in its possession.

5.4 Notice of Developments. Each Party will give prompt written notice to the other Party of any material adverse development causing a breach of any of its own representations and warranties in Articles 3 and 4 above. No disclosure by any Party pursuant to this Section 5.4, however, shall be deemed to amend or supplement the Disclosure Schedule or to prevent or cure any misrepresentation, breach of warranty, or breach of covenant.

5.5 Employees and Employee Benefits. For the purpose of this Agreement, the term "**Active Employees**" shall mean all employees employed by Nautilus at its Independence, Virginia facility on the Closing Date, including employees on temporary leave of absence, including family medical leave, military leave, temporary disability or sick leave, but excluding employees on long-term disability leave.

(i) Buyer shall offer employment prior to Closing to not less than ninety (90) Active Employees, such offers to be effective on the Closing Date and to include compensation and benefits comparable to that received by such Active Employees as of the date of this Agreement. Prior to Closing, Buyer will provide Nautilus with a list identifying those Active Employees to whom Buyer has made an offer of employment and whether such offer has been accepted (employees who have accepted such offers are referred to as the "**Hired Active Employees**"). Effective immediately before the Closing, Nautilus will terminate the employment of all Hired Active Employees.

(ii) Buyer shall inform Nautilus promptly of the identities of those Active Employees to whom it will not make employment offers, and, if applicable, Buyer shall assist Nautilus in complying with the WARN Act as to those Active Employees.

(iii) Nautilus shall be responsible for (A) the payment of all wages and other remuneration due to Active Employees with respect to their services as employees of Nautilus through the close of business on the day preceding the Closing Date; (B) the payment of any termination or severance payments and the provision of health plan continuation coverage in accordance with applicable contractual and legal requirements; provided, that Buyer shall reimburse Nautilus in full for any such termination, severance or health plan costs paid to an Active Employee who is not a Hired Active Employee, but who is employed by Buyer within four months after the Closing Date, and (C) any and all payments to Active Employees, if any, required under the WARN Act.

(iv) Nautilus shall be liable for any claims made or incurred by Active Employees and their beneficiaries through the day preceding the Closing Date under the Nautilus benefit plans. For purposes of the immediately preceding sentence, a charge will be deemed incurred, in the case of hospital, medical or dental benefits, when the services that are the subject of the charge are performed and, in the case of other benefits (such as disability or life insurance), when an event has occurred or when a condition has been diagnosed that entitles the employee to the benefit.

(v) All Hired Active Employees who are participants in Nautilus' retirement plans shall retain their accrued benefits under Nautilus' retirement plans as of the Closing Date, and Nautilus (or Nautilus' retirement plans) shall retain sole liability for the payment of such benefits as and when such Hired Active Employees become eligible therefor under such plans. Nautilus shall defend, indemnify and hold Buyer harmless from any cost or liability arising out of or relating to such retirement plans.

(vi) Nautilus will not make any transfer of employee benefit plan assets to Buyer.

ARTICLE 6 - POST-CLOSING COVENANTS

The Parties agree as follows with respect to the period following the Closing:

6.1 General. In case at any time after the Closing any further actions are necessary to carry out the purposes of this Agreement, each of the Parties will take such further actions (including the execution and delivery of such further instruments and documents) as the other Party may reasonably request, all at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor under Article 8 below).

6.2 Litigation Support. In the event and for so long as any Party actively is contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand in connection with (i) any transaction contemplated under this Agreement or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or prior to the Closing Date involving the Business, the other Party will cooperate with the contesting or defending Party and its counsel in the contest or defense, make available its personnel, and provide such testimony and access to its books and records as shall be necessary in connection with the contest or defense, all at the sole cost and expense of the contesting or defending Party (unless the contesting or defending Party is entitled to indemnification therefor under Article 8 below).

6.3 Transition. Nautilus will not take any action that is designed or intended to have the effect of discouraging any licensor, customer, supplier, or other business associate of the Business from maintaining the same business relationships with Buyer after the Closing as it maintained with Nautilus prior to the Closing. During the ninety (90) day period immediately following the Closing, Nautilus agrees to place purchase orders for inventory with its suppliers as requested by Buyer; provided, that Buyer shall be obligated to pay to Nautilus the full amount of any such purchase orders three (3) business days prior to the purchase order payment date. Title to any such products shall be transferred from Nautilus to Buyer upon arrival in Independence, Virginia.

6.4 Warranty. As part of the Assumed Liabilities, Buyer shall be responsible for all warranty liability for Commercial Fitness Equipment products located in North America other than the TreadClimber® (TC916) product, Nautilus EV916 product, and Clubtrack Treadmill Model 425, Model 510, and Model 620 products. Buyer will provide warranty service at Nautilus' expense for the TreadClimber® (TC 916) product, Nautilus EV916 product, and Clubtrack Treadmill Model 425, Model 510, and Model 620 products in North America in accordance with the terms of the Warranty Service Agreement.

6.5 Buyer Financial Statements. So long as there remains any unpaid balance under the promissory note delivered to Nautilus by Buyer in accordance with this Agreement, Buyer agrees to deliver to Nautilus the following financial statements of Buyer: (a) Buyer's unaudited monthly balance sheet, income statement and statement of cash flows, prepared in accordance with GAAP by Buyer's management, such monthly statements to be delivered to Nautilus no later than the 20th day of the following month; and (b) Buyer's audited semiannual financial statements, prepared in accordance with GAAP for delivery to the Virginia Small Business Financing

Authority ("**VSBFA**"), such statements to be delivered not later than the date such statements are due to be delivered to the VSBFA: provided, that if Buyer is not required to deliver such statements to the VSBFA, then Buyer shall deliver its annual audited financial statements to Nautilus not later than 60 days after the end of calendar year 2010.

ARTICLE 7 - CONDITIONS TO OBLIGATION TO CLOSE

7.1 Conditions to Buyer's Obligation. The obligation of Buyer to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(a) the representations and warranties set forth in Article 3 above shall be true and correct in all material respects at and as of the Closing Date, except to the extent that such representations and warranties are qualified by the term "material," in which case such representations and warranties (as so written, including the term "material") shall be true and correct in all respects at and as of the Closing Date;

(b) Nautilus shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by the term "material," in which case Nautilus shall have performed and complied with all of such covenants (as so written, including the term "material") in all respects through the Closing;

(c) Nautilus shall have procured the third-party consents, if any, specified in Schedule 7.1(c);

(d) no action, suit, or proceeding shall be pending before (or that could come before) any court or quasi-judicial or administrative agency of any federal, state, local, or non-U.S. jurisdiction or before (or that could come before) any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (i) prevent consummation of any of the transactions contemplated by this Agreement, (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, or (iii) adversely affect the right of Buyer to own the Acquired Assets or operate the former business of Nautilus (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(e) Nautilus shall have delivered to Buyer a certificate to the effect that each of the conditions specified above in Section 7.1(a)-(d) is satisfied in all respects;

(f) Nautilus and Buyer shall have received all material authorizations, consents, and approvals of governments and governmental agencies referred to in Sections 3.3 and 4.3 above; and

(g) Nautilus shall have executed and delivered the Lease Agreement and the License Agreement.

Buyer may waive any condition specified in this Section 7.1 by executing a writing so stating at or prior to the Closing, or by consummating the Closing.

7.2 Conditions to Nautilus' Obligation. The obligation of Nautilus to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(a) the representations and warranties set forth in Article 4 above shall be true and correct in all material respects at and as of the Closing Date, except to the extent that such representations and warranties are qualified by the term "material," in which case such representations and warranties (as so written, including the term "material") shall be true and correct in all respects at and as of the Closing Date;

(b) Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing, except to the extent that such covenants are qualified by the term "material," in which case Buyer shall have performed and complied with all of such covenants (as so written, including the term "material") in all respects through the Closing;

(c) no action, suit, or proceeding shall be pending before any court or quasi-judicial or administrative agency of any federal, state, local, or non-U.S. jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (i) prevent consummation of any of the transactions contemplated by this Agreement or (ii) cause any of the transactions contemplated by this Agreement to be rescinded following consummation (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(d) Buyer shall have delivered to Nautilus a certificate to the effect that each of the conditions specified above in Section 7.2(a)-(c) is satisfied in all respects;

(e) Nautilus and Buyer shall have received all material authorizations, consents, and approvals of governments and governmental agencies referred to in Sections 3.3 and 4.3 above. Nautilus may waive any condition specified in this Section 7.2 by executing a writing so stating at or prior to the Closing, or by consummating the Closing;

(f) Buyer shall have executed and delivered the Lease Agreement, the License Agreement and an assignment and assumption agreement for the Assumed Contracts; and

(g) Buyer shall have paid to Nautilus that portion of the Purchase Price payable at Closing, and shall have executed and delivered the promissory note and security agreement described in Schedule 2.3.

ARTICLE 8 - REMEDIES FOR BREACHES OF THIS AGREEMENT

8.1 Survival of Representations and Warranties. All of the representations and warranties of Nautilus contained in Article 3 above shall survive the Closing and continue in full force and effect for a period of one (1) year thereafter; provided, that (a) the representations and warranties set forth in Sections 3.2 and 3.5 shall continue for a period of three (3) years after

Closing, and (b) the representations and warranties set forth in Sections 3.13 and 3.14 shall survive for a period of two (2) years after Closing. All of the Buyer's representations and warranties contained in Article 4 shall continue for a period of three (3) years after Closing. All of the other representations and warranties of the Parties contained in this Agreement shall survive the Closing and continue in full force and effect forever thereafter (subject to any applicable statutes of limitations).

8.2 Indemnification Provisions for Buyer's Benefit.

(a) In the event Nautilus breaches any of its representations, warranties, and covenants contained in this Agreement, and, provided that Buyer makes a written claim for indemnification against Nautilus pursuant to Section 10.7 below within the survival period (if there is an applicable survival period pursuant to Section 8.1 above), then Nautilus agrees to defend, indemnify, and hold Buyer harmless from and against the entirety of any Adverse Consequences Buyer may suffer resulting from, arising out of, relating to, in the nature of, or caused by the breach; provided, however, that (i) Nautilus shall not have any obligation to indemnify Buyer from and against any Adverse Consequences resulting from, arising out of, relating to, in the nature of, or caused by the breach of any representation or warranty of Nautilus contained in Article 3 above until Buyer has suffered Adverse Consequences by reason of all such breaches in excess of a Seventy-Five Thousand U.S. Dollars ($75,000) aggregate deductible (after which point Nautilus will be obligated only to indemnify Buyer from and against further such Adverse Consequences); and (ii) there will be a Two Million U.S. Dollars ($2,000,000) aggregate ceiling on the obligation of Nautilus to indemnify Buyer from and against Adverse Consequences resulting from, arising out of, relating to, in the nature of, or caused by breaches of the representations and warranties of Nautilus contained in Article 3 above.

(b) Nautilus further agrees to defend, indemnify, and hold Buyer harmless from and against the entirety of any Adverse Consequences Buyer may suffer resulting from, arising out of, relating to, in the nature of, or caused by any liability of Nautilus that is not an Assumed Liability (including any liability of Nautilus that becomes a liability of Buyer under any bulk transfer law of any jurisdiction, under any common law doctrine of de facto merger or successor liability, or otherwise by operation of law). The $75,000 liability threshold and the $2,000,000 liability ceiling in Section 8.2(a) above shall not apply to Nautilus' obligations under this Section 8.2(b).

8.3 Indemnification Provisions for Nautilus' Benefit.

(a) In the event Buyer breaches any of its representations, warranties, and covenants contained in this Agreement, and, provided that Nautilus makes a written claim for indemnification against Buyer pursuant to Section 10.7 below within the survival period (if there is an applicable survival period pursuant to Section 8.1 above), then Buyer agrees to defend, indemnify, and hold Nautilus harmless, jointly and severally, from and against the entirety of any Adverse Consequences suffered resulting from, arising out of, relating to, in the nature of, or caused by the breach.

(b) Buyer further agrees to defend, indemnify, and hold Nautilus harmless, jointly and severally, from and against the entirety of any Adverse Consequences suffered resulting from, arising out of, relating to, in the nature of, or caused by any Assumed Liability.

8.4 Matters Involving Third Parties.

(a) If any third party notifies any Party (the "**Indemnified Party**") with respect to any matter (a "**Third-Party Claim**") that may give rise to a claim for indemnification against the other Party (the "**Indemnifying Party**") under this Article 8, then the Indemnified Party shall promptly notify the Indemnifying Party thereof in writing; provided, however, that no delay on the part of the Indemnified Party in notifying the Indemnifying Party shall relieve the Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party is thereby actually and materially prejudiced.

(b) The Indemnifying Party will have the right to assume the defense of the Third-Party Claim with counsel of its choice reasonably satisfactory to the Indemnified Party at any time within fifteen (15) days after the Indemnified Party has given notice of the Third-Party Claim; provided, however, that the Indemnifying Party must conduct the defense of the Third-Party Claim actively and diligently thereafter in order to preserve its rights in this regard; and provided further that the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third-Party Claim.

(c) So long as the Indemnifying Party has assumed and is conducting the defense of the Third-Party Claim in accordance with Section 8.4(b) above, (i) the Indemnifying Party will not consent to the entry of any judgment on or enter into any settlement with respect to the Third-Party Claim without the prior written consent of the Indemnified Party (not to be unreasonably withheld) unless the judgment or proposed settlement involves only the payment of money damages by the Indemnifying Party and does not impose an injunction or other equitable relief upon the Indemnified Party and (ii) the Indemnified Party will not consent to the entry of any judgment on or enter into any settlement with respect to the Third-Party Claim without the prior written consent of the Indemnifying Party (not to be unreasonably withheld).

(d) In the event the Indemnifying Party does not assume and conduct the defense of the Third-Party Claim in accordance with Section 8.4(b) above, however, (i) the Indemnified Party may defend against, and consent to the entry of any judgment on or enter into any settlement with respect to, the Third-Party Claim in any manner it reasonably may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, the Indemnifying Party in connection therewith) and (ii) the Indemnifying Party will remain responsible for any Adverse Consequences the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third-Party Claim to the fullest extent provided in this Article 8.

8.5 Determination of Adverse Consequences. The amount of any Adverse Consequences shall be determined net of any insurance proceeds for purposes of this Article 8.

Indemnification payments under this Article 8 shall be paid by the Indemnifying Party without reduction for any Tax Benefits available to the Indemnified Party. However, to the extent that the Indemnified Party recognizes Tax Benefits as a result of any Adverse Consequences, the Indemnified Party shall pay the amount of such Tax Benefits (but not in excess of the indemnification payment or payments actually received from the Indemnifying Party with respect to such Adverse Consequences) to the Indemnifying Party as such Tax Benefits are actually recognized by the Indemnified Party. For this purpose, the Indemnified Party shall be deemed to recognize a tax benefit ("Tax Benefit") with respect to a taxable year if, and to the extent that, the Indemnified Party's cumulative liability for Taxes through the end of such taxable year, calculated by excluding any Tax items attributable to the Adverse Consequences from all taxable years, exceeds the Indemnified Party's actual cumulative liability for Taxes through the end of such taxable year, calculated by taking into account any Tax items attributable to the Adverse Consequences and the receipt of indemnification payment under this Article 8 for all taxable years (to the extent permitted by relevant Tax law and treating such Tax items as the last items taken into account for any taxable year). All indemnification payments under this Article 8 shall be deemed adjustments to the Purchase Price.

8.6 Liquidated Damages. Subject to the provisions of Section 8.7, if the Closing fails to occur because Nautilus exercises its right to terminate this Agreement under Section 9.1(c), or because of Buyer's other breach of or default under this Agreement, Buyer shall pay to Nautilus the amount of Three Hundred Thousand Dollars ($300,000) in liquidated damages.

8.7 Exclusive Remedy. Buyer and Nautilus acknowledge and agree that the foregoing indemnification and liquidated damages provisions in this Article 8 shall be the exclusive remedy of Buyer and Nautilus with respect to the transactions contemplated by this Agreement; provided, however, that notwithstanding the foregoing, (a) in the event that the Closing fails to occur by reason of a breach of this Agreement by Nautilus, Buyer shall have the right to sue for specific performance of this Agreement, and (b) in the event that Closing fails to occur by reason of a breach of this Agreement by Buyer, Nautilus shall have the right, in lieu of receiving liquidated damages per Section 8.6 above, to sue for specific performance of this Agreement. Buyer hereby waives any statutory, equitable, or common law rights or remedies relating to any environmental, health or safety matters; provided, however, that in the event of a breach by Nautilus of its representations and warranties with respect to such matters in Article 3 above, Buyer shall be entitled to the remedies available to Buyer by reason of any such breach.

ARTICLE 9 - TERMINATION

9.1 Termination of Agreement. The Parties may terminate this Agreement as provided below:

(a) Buyer and Nautilus may terminate this Agreement by mutual written consent at any time prior to the Closing;

(b) Buyer may terminate this Agreement by giving written notice to Nautilus at any time prior to the Closing (i) in the event Nautilus has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Buyer has notified Nautilus of the breach, and the breach has continued without cure for a

period of thirty (30) days after the notice of breach, or (ii) if the Closing shall not have occurred on or before February 26, 2010, by reason of the failure of any condition precedent under Section 7.1 hereof (unless the failure results primarily from Buyer itself breaching any representation, warranty, or covenant contained in this Agreement); and

(c) Nautilus may terminate this Agreement by giving written notice to Buyer at any time prior to the Closing (i) in the event Buyer has breached any material representation, warranty, or covenant contained in this Agreement in any material respect, Nautilus has notified Buyer of the breach, and the breach has continued without cure for a period of thirty (30) days after the notice of breach or (ii) if the Closing shall not have occurred on or before February 26, 2010, by reason of the failure of any condition precedent under Section 7.2 hereof (unless the failure results primarily from Nautilus itself breaching any representation, warranty, or covenant contained in this Agreement).

9.2 Effect of Termination. If any Party terminates this Agreement pursuant to Section 9.1 above, all rights and obligations of the Parties hereunder shall terminate without any liability of any Party to the other Party (except for any liability of any Party then in breach); provided, however, that the confidentiality provisions contained in Section 5.5 above shall survive termination.

ARTICLE 10 - MISCELLANEOUS

10.1 Press Releases and Public Announcements. No Party shall issue any press release or public announcement relating to the subject matter of this Agreement prior to the Closing without the prior written approval of the other Party; provided, however, that any Party may make any public disclosure it believes in good faith is required by applicable law or any listing or trading agreement concerning its publicly traded securities (in which case the disclosing Party will use its reasonable best efforts to advise the other Party prior to making the disclosure), and provided further, that Buyer acknowledges that Nautilus will need to publicly disclose this Agreement and the subject matter hereof to comply with rules and regulations of the Securities and Exchange Commission, and Buyer consents to such disclosure.

10.2 No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

10.3 Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement between the Parties and supersedes any prior understandings, agreements, or representations by or between the Parties, written or oral, to the extent they relate in any way to the subject matter hereof.

10.4 Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party; provided, however, that Buyer may (a) assign any or all of its rights and interests hereunder to one or more of its Affiliates and (b) designate one or more of its Affiliates to perform its obligations hereunder (in any or all of which cases Buyer nonetheless shall remain responsible for the performance of all of its obligations hereunder).

10.5 Counterparts. This Agreement may be executed in one or more counterparts (including by means of facsimile), each of which shall be deemed an original but all of which together will constitute one and the same instrument.

10.6 Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

10.7 Notices. All notices, requests, demands, claims, and other communications hereunder shall be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given (a) when delivered personally to the recipient, (b) one (1) business day after being sent to the recipient by reputable overnight courier service (charges prepaid), (c) one (1) business day after being sent to the recipient by facsimile transmission or electronic mail, or (d) four (4) business days after being mailed to the recipient by certified or registered mail, return receipt requested and postage prepaid, and addressed to the intended recipient as set forth below:

If to Nautilus:	Nautilus, Inc. 16400 SE Nautilus Drive Vancouver, Washington 98683 Attn: Wayne M. Bolio Facsimile: (360) 859 2511 E-mail: wbolio@nautilus.com
with a copy to:	Garvey Schubert Barer 1191 Second Avenue, 18th Floor Seattle, Washington 98101-2939 Attn: Bruce A. Robertson Facsimile: (206) 464-0125 E-mail: brobertson@gsblaw.com
If to Buyer:	Med-Fit Systems, Inc. Attn: Dean Sbragia 543 E. Alvarado St. Fallbrook, CA 92028 E-mail: medfit@aol.com
with a copy to:	w/r Law Group, APC Attn: William Reavey 5330 Carroll Canyon Rd. Suite 210 San Diego, CA 92121 Facsimile: (858) 625-0571 E-mail: wreavey@thewrlaw.com

Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

10.8 Governing Law. This Agreement shall be governed by and construed in accordance with the domestic laws of the State of Washington without giving effect to any choice or conflict of law provision or rule (whether of the State of Washington or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Washington.

10.9 Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by Buyer and Nautilus. No waiver by any Party of any provision of the Agreement or any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be valid unless the same shall be in writing and signed by the Party making such waiver nor shall such waiver be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

10.10 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

10.11 Expenses. Each of Buyer and Nautilus will bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

10.12 Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local, or non-U.S. statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word “including” shall mean including without limitation.

10.13 Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

10.14 Bulk Transfer Laws. Buyer acknowledges that Nautilus will not comply with the provisions of any bulk transfer laws of any jurisdiction in connection with the transactions contemplated by this Agreement.

10.15 Governing Language. This Agreement has been negotiated and executed by the Parties in English. In the event any translation of this Agreement is prepared for convenience or any other purpose, the provisions of the English version shall prevail.

10.16 Tax Disclosure Authorization. Notwithstanding anything herein to the contrary, the Parties (and each Affiliate and Person acting on behalf of any Party) agree that each Party (and each employee, representative, and other agent of such Party) may disclose to any and all Persons, without limitation of any kind, the transaction’s tax treatment and tax structure (as such terms are

used in regulations promulgated under Code section 6011) contemplated by this agreement and all materials of any kind (including opinions or other tax analyses) provided to such Party or such Person relating to such tax treatment and tax structure, except to the extent necessary to comply with any applicable federal or state securities laws; provided, however, that such disclosure may not be made until the earlier of date of (i) public announcement of discussions relating to the transaction, (ii) public announcement of the transaction, or (iii) execution of an agreement (with or without conditions) to enter into the transaction. This authorization is not intended to permit disclosure of any other information including (without limitation) (i) any portion of any materials to the extent not related to the transaction's tax treatment or tax structure, (ii) the identities of participants or potential participants, (iii) the existence or status of any negotiations, (iv) any pricing or financial information (except to the extent such pricing or financial information is related to the transaction's tax treatment or tax structure), or (v) any other term or detail not relevant to the transaction's tax treatment or the tax structure.

(Signatures on following page)

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first above written.

BUYER:

MED-FIT SYSTEMS, INC.

By: /s/ Dean Sbragia
Signature
Print Name: Dean Sbragia
Title:

NAUTILUS:

NAUTILUS, INC.

By: /s/ Kenneth L. Fish
Signature
Print Name: Kenneth L. Fish
Title: CFO

SCHEDULE 2.3

PURCHASE PRICE CALCULATION AND PAYMENT TERMS

1. Certain Definitions. The following are defined terms used in this Schedule 2.3:

(a) Agreement. "Agreement" means that certain Asset Purchase Agreement to which this Schedule 2.3 is attached.

(b) Inventory. "Inventory" means the physical inventory of the Commercial Fitness Equipment to be taken by Nautilus before the Closing in order to create the Physical Inventory Report. The Inventory consists of three (3) categories of goods: Finished Goods, Raw Materials and Spare Parts.

(c) Inventory Purchase Price. "Inventory Purchase Price" means the portion of the Purchase Price to be paid for the Inventory, exclusive of Finished Goods and items of Raw Materials listed on Table 2.3A as having a Valuation % of zero percent (0%), or a designation of "N/A," in Column 5 of Part B.

(d) Physical Inventory Report. "Physical Inventory Report" means the report prepared by Nautilus to record the quantities of the items included as part of the Commercial Fitness Equipment being sold to Buyer. The Physical Inventory Report will be subject to adjustment as of the Closing to reflect the sales made by Nautilus between the date of the Inventory and the close of business on 18 February 2010.

(e) Standard Cost. "Standard Cost" means Nautilus's standard cost for the items listed in Table 2.3A (determined in accordance with GAAP, before any allowances). Buyer and Nautilus have agreed on the Standard Cost of the items of Inventory listed on Table 2.3A.

2. Methodology: As noted in Section 2.3 of the Agreement, the Purchase Price will be calculated with respect to the information contained in this Schedule 2.3 concerning the agreed value of (a) the Tangible Personal Property and (b) the Inventory. The portion of the Purchase Price payable for the Tangible Personal Property is set forth in Section 2(a) below and shall be paid as provided in Section 4 below. The Inventory Purchase Price has not yet been finally determined. It will be determined pursuant to Section 2(b) below. The Inventory Purchase Price has been further allocated among the following two (2) categories: Raw Materials and Spare Parts. The Inventory Purchase Price shall be paid as provided in Section 4(b) below. Finished Goods listed in Part A of the attached Table 2.3A will be sold by Buyer after the Closing in accordance with Section 2.8 of the Agreement. The Finished Goods will not be taken into account in calculating the Inventory Purchase Price. The Raw Materials are listed in Parts B and C of Table 2.3A. The Spare Parts are listed in Part D of Table 2.3A.

(a) Tangible Personal Property: The portion of the Purchase Price allocated to the Tangible Personal Property shall be Seven Hundred Fifty Thousand Dollars ($750,000).

(b) Inventory: Prior to the Closing, Nautilus conducted the Inventory and prepared the Physical Inventory Report to reflect the results of the Inventory. The Physical Inventory Report will be used to determine the Inventory Purchase Price, as more fully provided below. As noted above, the Physical Inventory Report will be adjusted as of the close of business on February 18, 2010 to reflect sales of items of Inventory after the date on which the Inventory was performed. Table 2.3A also illustrates that the Inventory Purchase Price will be calculated by multiplying the estimated Standard Cost in column 4 by the applicable Valuation % in column 5. Column 6 on line E of Table 2.3A shows the currently estimated aggregate amount of the Inventory Purchase Price, i.e. $3,284,825. The following provisions of this Section 2(b) describe how the Inventory Purchase Price will be determined.

(i) Raw Materials (Parts B and C): Table 2.3A contains two raw materials-materials-related categories – "Raw Materials and WIP" and "Raw Materials at Supplier." The term "Raw Materials" shall mean and include both such categories. This Section 2(b)(i) shall apply to all Raw Materials. The portion of the Inventory Purchase Price to be paid for the various items of Raw Materials listed in column 1 of Parts B and C shall be determined by multiplying the Standard Cost in Column 4 by the corresponding Valuation % in Column 5. To illustrate, the portion of the Inventory Purchase Price to be paid for the Raw Materials listed in column 1 on line B.3 will be $330,289 (i.e. $660,578 x 50%). It is understood that Nautilus is retaining ownership of the Clubtrack Raw Materials listed on Line B.2.

(ii) Spare Parts (Part D): The Spare Parts listed on Line D.1 of Table 2.3A will be sold at an Inventory Purchase Price equal to the Standard Cost in Column 4 multiplied by the Valuation % in Column 5. Nautilus will retain ownership of Spare Parts relating to TreadClimber, EV916 and Clubtrack products and will not be sold or transferred to Buyer at the Closing.

(iii) Finished Goods (Part A): The sale of Finished Goods will be conducted as provided in Section 2.8 of the Agreement.

3. Determination of Purchase Price:

(a) Purchase Price. The parties agree that before the Closing occurs, the amount of the Inventory Purchase Price will be determined, agreed and stated as a fixed amount using (1) the information contained in the Physical Inventory Report and (2) the methodology set forth in this Schedule 2.3 and Table 2.3A. The sum of the portions of the Purchase Price allocated to the Tangible Personal Property and the Inventory Purchase Price, respectively, shall be the Purchase Price. The Purchase Price is subject to adjustment pursuant to Section 3(b) below.

(b) Adjusted Purchase Price. The aggregate Purchase Price (the "Adjusted Purchase Price") actually payable by Buyer shall be the sum of the amounts determined pursuant to Sections 2(a) and 2(b) above, minus a warranty liability offset in the amount of One Million Two Hundred Thousand Dollars ($1,200,000) granted Buyer for assuming certain warranty liabilities for Fitness Products previously sold by Nautilus The $1,200,000 credit shall be

allocated among the Tangible Personal Property, the Raw Materials, and the Spare Parts in the same proportions as the Purchase Price is allocated to these items on Exhibit D to the Agreement.

4. Payment of Adjusted Purchase Price. The Adjusted Purchase Price shall be paid as follows:

(a) Cash Payment. Buyer shall pay Three Hundred Thousand U.S. Dollars ($300,000) in cash to Nautilus at the Closing. On or before June 10, 2010, Buyer shall pay Nautilus an additional Three Hundred Thousand Dollars ($300,000) in cash. These payments shall be allocated to the portion of the Adjusted Purchase Price allocated to the Tangible Personal Property. The balance of the Adjusted Purchase Price allocated to the Tangible Personal Property shall be added to the principal balance of the Note (as defined below).

(b) Secured Promissory Note. The balance of the Adjusted Purchase Price shall be paid as provided below in this Section 4(b).

(i) Finished Goods. Buyer shall pay for the Finished Goods included in the Inventory as provided in Section 2.8 of the Agreement.

(ii) Raw Materials and Spare Parts. Buyer shall pay the unpaid portion of the Adjusted Purchase Price allocated to the Tangible Personal Property and the portion of the Adjusted Inventory Purchase Price allocable to Raw Materials and Spare Parts pursuant to the provisions of a certain Secured Promissory Note (the “Note”). The principal amount of the Note shall be equal to the sum of such amounts. The Note shall be substantially in the form attached hereto as Attachment A-2. The Note will be secured by a security interest created pursuant to a certain Security Agreement, which shall be substantially in the form attached hereto as Attachment A-3. The Note shall not bear interest, except as provided therein. The principal balance of the Note shall be payable in eighteen (18) equal monthly installments of principal, beginning on June 10, 2010.

THIS NOTE (THE "NOTE") HAS BEEN ACQUIRED FOR INVESTMENT PURPOSES ONLY AND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER ANY APPLICABLE STATE SECURITIES LAWS. THIS NOTE MAY NOT BE SOLD OR OTHERWISE TRANSFERRED OR PLEDGED, EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR SUCH APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO EXEMPTIONS THEREFROM.

THIS NOTE IS SUBJECT TO THE TERMS AND CONDITIONS OF THE SECURITY AGREEMENT BY AND BETWEEN MED-FIT SYSTEMS, INC. AND NAUTILUS, INC., DATED AS OF FEBRUARY 19, 2010, AS AMENDED FROM TIME TO TIME, AND IS ENTITLED TO THE BENEFITS THEREOF.

MED-FIT SYSTEMS, INC.

SECURED PROMISSORY NOTE

Vancouver, Washington
$2,234,825.00 February 19, 2010

FOR VALUE RECEIVED, the undersigned, Med-Fit Systems, Inc., a California corporation (together with successor thereto by way of merger, consolidation, sale or otherwise, the **"Debtor**"), hereby promises to pay to the order of Nautilus, Inc., a Washington corporation, or its successors or assigns (the **"Holder**"), the principal sum of Two Million Two Hundred Thirty Four Thousand Eight Hundred and Twenty Five U.S. Dollars ($2,234,825.00) (the **"Principal**") in lawful money of the United States of America, together with interest on the unpaid principal balance from time to time outstanding hereunder, on the terms and conditions as follows:

Section 1. Purchase Agreement.

This Note is being issued pursuant to the Asset Purchase Agreement dated as of February 18, 2010 (the "**Purchase Agreement**") by and between the Debtor and the Holder. Capitalized terms used and not otherwise defined herein have the meanings ascribed thereto in the Purchase Agreement.

Section 2. Interest.

No interest shall be due if payments are timely made pursuant to Section 3 hereof and the Debtor fulfills all of its obligations under this Note, the Security Agreement (as defined below), and the Purchase Agreement. PROVIDED, that if Debtor makes more than three (3) payments that are more than ten (10) days after the due date set forth in Section 3 below, then, subject to Section 13 hereof, interest on the unpaid balance of the principal amount of this Note shall accrue at the rate of six percent (6%) per annum (computed on the basis of a 360-day year and the actual number of days elapsed) (the **"Interest Rate**") from the date on which the first of such three late payments was due until the date of payment. IT IS PROVIDED FURTHER, that, in the event that Nautilus subordinates the security interest securing this

Note in accordance with Section 2.3 of the Purchase Agreement, interest on the unpaid balance of the principal amount of this Note shall accrue at the Interest Rate from the date of such subordination. IT IS PROVIDED FURTHER, that, subject to Section 13 hereof, interest on the unpaid balance of the principal amount of the Note shall accrue at the rate of eighteen percent (18%) per annum (computed on the basis of a 360-day year and the actual number of days elapsed) (the "**Penalty Rate**") from the date such payment was due until repayment if any payment is made more than thirty (30) days beyond the due date set forth in Section 3 hereof. Holder shall give Debtor ten (10) days notice and the opportunity to cure before implementing the Penalty Rate.

Section 3. Payment.

Payment of Principal and, if applicable under Section 2 hereof, any interest owing under the Interest Rate or Penalty Rate, shall be made in eighteen (18) equal monthly installments, due the 10th day of each month, in the amount of One Hundred Twenty Four Thousand One Hundred Fifty Six and 94/100 U.S. Dollars ($124,156.94) per payment, plus any applicable interest. The first installment shall be due on June 10, 2010. This Note may be prepaid, in whole or in part, at any time prior to the Maturity Date at the election of the Debtor. Any partial payments of indebtedness represented by this Note shall be applied first to interest accrued to the date of prepayment, then to the payment of any other amounts (except Principal) at the time unpaid hereunder, and finally to the payment of Principal. Payments and prepayments of Principal and applicable interest on this Note shall be payable by wire transfer of immediately available funds to the account of the Holder or by certified or official bank check payable to the Holder mailed to the Holder at the address of the Holder as set forth on the records of the Debtor or such other address as shall be designated in writing by the Holder to the Debtor.

Section 4. Security Agreement.

This Note is subject to the terms and conditions of that certain Security Agreement dated as of the date hereof, by and between the Holder and the Debtor (the "**Security Agreement**"), and each holder of this Note, by his, her or its acceptance hereof, is entitled to the rights and benefits of, and agrees to be bound by, the Security Agreement.

Section 5. Defenses.

The obligations of the Debtor under this Note shall not be subject to reduction, limitation, impairment, termination, defense, set-off, counterclaim or recoupment for any reason.

Section 6. Events of Default.

The occurrence of any of the following events shall be deemed to constitute an "**Event of Default**" hereunder:

(i) any material breach of the Security Agreement by the Debtor which is not cured within ten (10) business days after notice of default from Holder; provided however, that Debtor's breach of the covenant contained in Section 5(c) of the Security Agreement regarding the unauthorized removal of Collateral shall be deemed to be an incurable default;

(ii) any payment under Section 3 becoming more than sixty (60) days overdue;

(iii) any sale, exchange, conveyance or other disposition of the capital stock of the Debtor in which more than fifty percent (50%) of the voting power of the Debtor shifts to

persons or entities who are not stockholders (or affiliates thereof) immediately prior to the first of such transactions (a "**Change of Control**"), or any merger, consolidation, reorganization or similar transaction that results in a Change of Control of the Debtor, or a sale of all or substantially of the assets of the Debtor;

(iv) any representation or warranty made by the Debtor in the Purchase Agreement or any document related to the underlying transaction shall prove to have been incorrect in any material respect when made;

(v) the failure of the Debtor to perform any covenant or agreement in any material respect set forth in the Purchase Agreement or any document related to the underlying transaction;

(vi) the entry of a judgment, order or decree against the Debtor with respect to, any encumbrance against, the making of any levy, seizure or attachment of, or the occurrence of any action that results in the forfeiture of, a material portion of the Collateral (as defined in the Security Agreement); and

(vii) any Liquidation Event.

As used herein, "**Liquidation Event**" means the occurrence or institution by or against the Debtor of (A) any bankruptcy, reorganization, receivership or insolvency proceeding, (B) any appointment of a receiver or custodian for all or a substantial portion of the Debtor's property, (C) any assignment for the benefit of, or composition or arrangement with, the creditors of the Debtor (whether or not pursuant to bankruptcy or other insolvency laws), (D) any dissolution, liquidation, or other marshalling of the assets and liabilities of the Debtor, (E) the merger or consolidation of the Debtor with or into another entity or (F) the sale of all or substantially all of the Debtor's assets in a single or series of related transactions.

Section 7. The Holder's Rights on Default.

Upon the occurrence and during the continuation of any Event of Default, the Holder may: (i) declare the entire unpaid principal of this Note and any accrued interest thereon due and payable immediately and (ii) take any and all other actions available to a secured creditor under the Washington Uniform Commercial Code (or any other applicable state Uniform Commercial Code) and all other rights available at law or in equity, including, without limitation, those set forth in the Security Agreement, to collect and otherwise enforce this Note. If there shall occur any Liquidation Event, the entire unpaid principal and accrued but unpaid interest on this Note shall automatically become due and payable, without any requirement by the Holder to give notice, present this Note, make demand, protest or give other notice of any kind of character, all of which are hereby expressly waived, anything herein to the contrary notwithstanding.

Section 8. Exchange or Replacement of Notes.

(a) The Holder may, at its option, in person or by duly authorized attorney, surrender this Note for exchange, at the principal business office of the Debtor, and receive in exchange therefor, a new Note in the same principal amount as the unpaid principal amount of this Note and subject to interest under the same terms as this Note, each such new Note to be dated as of the date of this Note and to be in such principal amount as remains unpaid and payable to such person or persons, or order, as the Holder may designate in writing.

ATTACHMENT A-1

(b) Upon receipt by the Debtor of evidence satisfactory to it of the loss, theft, destruction, or mutilation of this Note, and (in case of loss, theft or destruction) of an indemnity reasonably satisfactory to it, and upon surrender and cancellation of this Note, if mutilated, the Debtor will deliver a new Note of like tenor in lieu of this Note. Any Note delivered in accordance with the provisions of this Section 7 shall be dated as of the date of this Note.

Section 9. Attorneys' and Collection Fees.

Should the indebtedness evidenced by this Note or any part hereof be collected at law or in equity or in bankruptcy, receivership or other court proceedings, or this Note be placed in the hands of attorneys for collection, the Debtor agrees to pay, in addition to Principal and any interest due and payable hereon, all costs of collection, including reasonable attorneys' fees and expenses, incurred by the Holder in collecting or enforcing this Note, together with interest on such amounts following an Event of Default unless prohibited by law.

Section 10. Waivers.

The Debtor hereby waives presentment, demand for payment, notice of dishonor, notice of protest and all other notices or demands in connection with the delivery, acceptance, performance or default of this Note. No delay by the Holder in exercising any power or right hereunder shall operate as a waiver of any power or right, nor shall any single or partial exercise of any power or right preclude other or further exercise thereof, or the exercise of any other power or right hereunder or otherwise; and no waiver whatsoever or modification of the terms hereof shall be valid unless set forth in writing by the Holder and then only to the extent set forth therein.

Section 11. Amendments and Waivers.

No provision of this Note may be amended or waived except under the amendment and waiver conditions specified in the Purchase Agreement.

Section 12. Governing Law.

This Note (including any claim or controversy arising out of or relating to this Note) shall be governed by and construed in accordance with the laws of the State of Washington, without regard to conflict of law principles that would result in the application of any law other than the laws of the State of Washington.

Section 13. Usury.

All agreements between the Debtor and the Holder are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of the maturity of this Note or otherwise, shall the amount paid or agreed to be paid to the Holder for the use or forbearance of the indebtedness represented by this Note exceed the maximum amount permissible under applicable law. In this regard, it is expressly agreed that it is the intent of the Debtor and the Holder, in the execution, delivery and acceptance of this Note, to contract in strict compliance with the laws of the State of Washington. If, under any circumstances whatsoever, performance or fulfillment of any provision of this Note, the Security Agreement or the Purchase Agreement at the time such provision is to be performed or fulfilled shall involve exceeding the limit of validity prescribed by applicable law, then the obligation to be so performed or fulfilled shall be reduced automatically to the limits of such validity.

ATTACHMENT A-1

Section 14. Notices.

The terms and provisions of Section 10.7 of the Purchase Agreement are expressly incorporated into this Note.

(Signature on following page)

ATTACHMENT A-1

IN WITNESS WHEREOF, the Debtor has duly executed and delivered this Note as a document under seal as of the date first written above.

MED-FIT SYSTEMS, INC.

FOR EXHIBIT PURPOSES ONLY,
NO SIGNATURE REQUIRED

By: _____

Name: _____

Title: _____

ATTACHMENT A-1

ATTACHMENT A-2

THIS SECURITY AGREEMENT, dated as of February 19, 2010 (this "**Agreement**"), is by and between MED-FIT SYSTEMS, INC., a California corporation (the "**Debtor**"), and NAUTILUS, INC., a Washington corporation (the "**Secured Party**").

W I T N E S S E T H:

WHEREAS, on or about the date hereof, the Debtor and the Secured Party have entered into an Asset Purchase Agreement (the "**Purchase Agreement**"), pursuant to which the Debtor has agreed to execute a note and a security agreement;

WHEREAS, on or about the date hereof, the Debtor has issued to the Secured Party a Secured Promissory Note in the amount of $2,234,825 (as the same may be amended or restated from time to time, the "**Note**"); and

WHEREAS, the Secured Party's receipt of the Note was subject to the condition, among others, that the Debtor shall execute and deliver this Agreement and grant the security interest hereinafter described.

NOW THEREFORE, in consideration of the willingness of the Secured Party, subject to the terms and conditions set forth herein, to accept the Note, and for other good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, it is hereby agreed, with the intent to be legally bound, as follows:

1. Defined Terms. Except as otherwise provided herein, all capitalized terms shall have the meanings ascribed to them in the Note.

2. Security Interest. As security for the Secured Obligations described in Section 3 hereof, Debtor hereby grants, assigns, and pledges to the Secured Party a security interest in and lien on all of Debtor's right, title and interest, whether now owned or existing or hereafter acquired or arising, in and to the following, together with any and all additions thereto and replacements therefor and proceeds and products thereof (hereinafter referred to collectively as the "**Collateral**"):

(a) all raw materials, work in progress, and aftermarket parts inventory located at the factory and warehouse located at 709 Powerhouse Road, Independence, VA 24348 (the "**Warehouse**") that was acquired by Debtor pursuant to the Purchase Agreement; it being agreed that inventory acquired by Debtor after the Closing (as defined in the Purchase Agreement) shall not be included in the Collateral;

(b) all equipment located at the Warehouse;

(c) all books and records pertaining to any of the Collateral; and

(d) all accessions to, substitutions for and replacements, Proceeds, Supporting Obligations and products of any of the foregoing and, to the extent not otherwise included, all payments under insurance, or any indemnity, warranty or guaranty payable by reason of loss or damage or otherwise in respect of any of the foregoing.

Unless otherwise defined herein, terms defined in Articles 8 and 9 of the Uniform Commercial Code as enacted and in effect from time to time in the State of Washington (the "**UCC**") are used in this Agreement as such terms are defined in such Article 8 or 9 (including without limitation, Documents, Instruments, Proceeds and Supporting Obligations).

3. **Secured Obligations**. The security interest hereby granted shall secure the due and punctual payment and performance of the following liabilities and obligations of the Debtor (herein called the "**Secured Obligations**"):

(a) Principal of and interest on the Note (including, without limitation, any interest accruing after the commencement of any proceeding under the federal bankruptcy laws, as now or hereafter constituted, or any other applicable domestic or foreign federal or state bankruptcy, insolvency or similar law, whether or not any such interest is allowed or allowable as an enforceable claim in any such proceeding); and

(b) Any and all other obligations and indebtedness of the Debtor to the Secured Party under the Note or this Security Agreement or under any other note, instrument or agreement executed and delivered by the Debtor in connection therewith, all as amended from time to time, whether such obligations and indebtedness be direct or indirect, absolute or contingent, due or to become due or now existing or hereafter arising.

4. Perfection Certificate. The Debtor has delivered to the Secured Party a Perfection Certificate in the form appended hereto as Schedule I. The Debtor represents that the completed Perfection Certificate delivered to the Secured Party is true, complete and correct in all material respects and the facts contained in such certificate are accurate in all material respects. The Debtor shall promptly supplement the Perfection Certificate to reflect any information hereafter obtained by the Debtor that would require a correction or addition to the Perfection Certificate.

5. Special Warranties and Covenants of the Debtor. The Debtor hereby warrants and covenants to the Secured Party that:

(a) Schedule I attached hereto accurately sets forth the following information: (i) the exact legal name of the Debtor; (ii) the type of organization of the Debtor; (iii) the jurisdiction of organization of the Debtor; and (iv) as of the date hereof, the chief executive office of the Debtor. The Debtor will not change (x) its type of organization, jurisdiction of organization or other legal structure, without first obtaining any necessary consents or approvals under the Note or any agreement among the Debtor and any of its shareholders and providing the Secured Party with at least thirty (30) days' prior written notice of such change or (y) its chief executive office from the location set forth in the respective Schedule I, or make any change in the Debtor's name or mailing address, without first providing the Secured Party with at least thirty (30) days' prior written notice of such change.

(b) Debtor is the owner of its Collateral free from any lien, security interest or encumbrance, except as described herein and in the Purchase Agreement, and the Debtor will defend its Collateral against all claims and demands of all persons at any time claiming the same or any interest therein.

(c) Except as otherwise consented to in writing by the Secured Party, the Debtor shall not remove Collateral from the Warehouse unless such removal is for the purposes of delivering finished inventory to third party customers or fulfilling Debtor's orders in the ordinary course of business, nor will the Debtor create, incur or permit to exist any mortgage, lien, charge, encumbrance or security interest whatsoever with respect to any Collateral; provided, that Debtor may grant a security interest in the Collateral to a senior working capital line of credit lender that provides financing to Debtor for the conduct of the Business (as defined in the Purchase Agreement). In the event that Debtor grants such a security interest, Secured Party agrees to subordinate its lien on the Collateral to the lien securing the lender that extends the senior working capital line of credit on customary and commercially reasonable terms and conditions.

(d) The Debtor keeps and maintains all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, and maintains insurance, with financially sound and reputable insurance companies, as may be required by law and such other insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations. Furthermore, (i) all general liability and other liability policies with respect to the Debtor shall name the Secured Party as an additional insured thereunder as its interests may appear, and all casualty insurance policies of the Debtor shall contain a loss payable clause or endorsement, satisfactory in form and substance to the Secured Party that names the Secured Party as the loss payee thereunder, (ii) all policies of insurance shall provide for at least thirty (30) days prior written notice to the Secured Party of any modifications or cancellation of such policy and (iii) following the occurrence and during the continuance of an Event of Default, the Secured Party may at its option discharge any taxes, liens, security interests or other encumbrances to which any Collateral is at any time subject, and the Debtor agrees to reimburse the Secured Party on demand for any payments or expenses incurred by the Secured Party or the other Secured Party pursuant to the foregoing authorization and any unreimbursed amounts shall constitute Secured Obligations for all purposes hereof.

(e) No consent of any third party is required for any transfer by the Debtor to the Secured Party, or from the Secured Party to any third party, of any Collateral following an Event of Default.

(f) The Debtor will promptly execute and deliver to the Secured Party such financing statements, certificates and other documents or instruments as may be reasonably necessary to enable the Secured Party to perfect or from time to time renew the security interest granted hereby, including, without limitation, such financing statements, certificates and other documents as may be reasonably necessary to perfect a security interest in any additional Collateral hereafter acquired by the Debtor or in any replacements or proceeds thereof. The

Debtor authorizes and appoints the Secured Party, in case of need, to execute such financing statements, certificates and other documents pertaining to the Secured Party's security interest in the Collateral in its stead if the Debtor fails to so execute such documents after the Secured Party's request, with full power of substitution, as the Debtor's attorney in fact.

(g) The Debtor agrees that the Secured Party may, at any time and from time to time, file in any jurisdiction financing statements and amendments thereto that contain any information required by Article 9 of the UCC (including Part 5 thereof) for the sufficiency or filing office acceptance of any financing statement or amendment, including whether the Debtor is an organization, the type of organization and any organization identification number issued to the Debtor. The Debtor agrees to furnish any such information to the Secured Party promptly upon request.

(h) The Debtor agrees that it will join with the Secured Party in executing and, at its own expense, will file and refile, or permit the Secured Party to file and refile such financing statements, continuation statements and other documents in such offices as the Secured Party may reasonably deem necessary or appropriate in order to perfect and preserve the rights and interests granted to the Secured Party hereunder.

(i) The records concerning all Collateral of the Debtor are and will be kept (and all billing and collection activities conducted by each the Debtor will at all times take place) at the address shown in Schedule I as the chief executive office of the Debtor or as otherwise set forth in the Perfection Certificate, and shall be available for inspection by the Secured Party at any time during normal business hours with ten (10) days notice.

(j) If any Collateral of the Debtor is at any time in the possession of a bailee, the Debtor shall promptly notify the Secured Party and, if requested by the Secured Party, the Debtor shall obtain an acknowledgment, in form and substance reasonably satisfactory to Secured Party, of any bailee having possession of any of the Collateral that such bailee holds such Collateral for the Secured Party and that such bailee shall act upon the instructions of the Secured Party, without further consent of the Debtor.

(k) The Debtor will furnish to the Secured Party such accurate statements and amended schedules further identifying and describing the Collateral and such other materials evidencing or reports pertaining to the Collateral, including, without limitation to the generality of the foregoing, accurate records of all Collateral not sold, as the Secured Party may from time to time reasonably request, all in reasonable detail.

(l) The Debtor shall afford the Secured Party access to the Collateral for the purpose of inspecting the Collateral and verifying the accuracy of the Debtor's records at any time during normal business hours with ten (10) days notice.

(m) The Debtor shall at any time and from time to time execute and deliver, or cause to be executed and delivered, such other agreements, instruments, certificates and documents and take, or cause to be taken, such other actions as the Secured Party may request to insure the continued protection, perfection and priority of the Secured Party's security interest in any of the Collateral.

6. Events of Default. The occurrence of any Event of Default under and as defined in the Note shall be deemed to constitute an "**Event of Default**" hereunder.

7. Rights and Remedies of Secured Party. Upon the occurrence and during the continuance of any Event of Default, the Secured Party shall have the following rights and remedies:

(a) All rights and remedies provided by law, including, without limitation, those provided by the UCC;

(b) All rights and remedies provided in this Agreement; and

(c) All rights and remedies provided in the Note or any other agreement, document or instrument pertaining to the Secured Obligations.

8. Right of Secured Party to Dispose of Collateral, etc. Upon the occurrence and during the continuance of any Event of Default, but subject to the provisions of the UCC or other applicable law, the Secured Party shall have the right to take possession of the Collateral and, in addition thereto, the right to enter upon any premises on which the Collateral or any part thereof may be situated and remove the same therefrom in a commercially reasonable manner. The Secured Party may require the Debtor to make the Collateral (to the extent the same is moveable) available to the Secured Party at a place to be designated by the Secured Party that is reasonably convenient to both parties or transfer any information related to the Collateral to the Secured Party by electronic medium. Unless the Collateral is perishable, subject to a rapid decline in value or is of a type customarily sold on a recognized market, the Secured Party will give the Debtor at least ten (10) days' prior written notice in accordance with Section 14 hereof of the time and place of any public sale thereof or of the time after which any private sale or any other intended disposition thereof is to be made. Any such notice shall be deemed to meet any requirement hereunder or under any applicable law (including the UCC) that reasonable notification be given of the time and place of such sale or other disposition. The Secured Party may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.

9. Proceeds of Collateral. After deducting all reasonable costs and expenses of collection, storage, custody, sale or other disposition and delivery (including legal costs and reasonable attorneys' fees) and all reasonable other charges against the Collateral, the residue of the proceeds of any such sale or disposition shall be applied to the payment of the Secured Obligations by the Secured Party in accordance with the terms of the Note and any surplus shall be returned to the Debtor or to any person or party lawfully entitled thereto (including, if

applicable, any subordinated creditors of the Debtor). In the event the proceeds of any sale, lease or other disposition of the Collateral hereunder are insufficient to pay all of the Secured Obligations in full, the Debtor will be liable for the deficiency, together with interest thereon at the maximum rate provided in the Note, and the reasonable cost and expenses of collection of such deficiency, including (to the extent permitted by law), without limitation, reasonable attorneys' fees, expenses and disbursements.

10. Waivers, etc. The Debtor hereby waives presentment, demand, notice, protest and, except as is otherwise provided herein or in the Note, all other demands and notices in connection with this Agreement or the enforcement of the Secured Party's rights hereunder or in connection with any Secured Obligations or any Collateral; consents to and waives notice of the granting of renewals, extensions of time for payment or other indulgences to the Debtor or to any account debtor in respect of any account receivable or to any other third party, or substitution, release or surrender of any Collateral, the addition or release of persons primarily or secondarily liable on any Secured Obligation or on any account receivable or other Collateral, the acceptance of partial payments on any Secured Obligation or on any account receivable or other Collateral and/or the settlement or compromise thereof. No delay or omission on the part of the Secured Party or the Secured Party in exercising any right hereunder shall operate as a waiver of such right or of any other right hereunder. Any waiver of any such right on any one occasion shall not be construed as a bar to or waiver of any such right on any future occasion. The Debtor's waivers under this section have been made voluntarily, intelligently and knowingly and after the Debtor has been apprised and counseled by its attorneys as to the nature thereof and its possible alternative rights.

11. Termination; Assignment, etc. When all obligations of the Debtor owing to the Secured Party under the Note have been paid or performed in full, this Agreement and the security interest in the Collateral created hereby shall automatically terminate without any further action by the Debtor or Secured Party. In such event, the Secured Party agrees to execute appropriate releases of liens on the Collateral upon the request of the Debtor and at the Debtor's expense, and to authorize the Debtor to file terminations of the liens and security interests granted hereby. No waiver by the Secured Party or by any other holder of Secured Obligations of any default shall be effective unless in writing, nor operate as a waiver of any other default or of the same default on a future occasion. In the event of a sale or assignment of part or all of the Secured Obligations by the Secured Party, the Secured Party may assign or transfer its respective rights and interest under this Agreement in whole or in part to the purchaser or purchasers of such Secured Obligations, whereupon such purchaser or purchasers shall become vested with all of the powers, rights and obligations of the Secured Party hereunder.

12. Reinstatement. Notwithstanding the provisions of Section 11 hereof, this Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any amount received by the Secured Party in respect of the Secured Obligations is rescinded or must otherwise be restored or returned by any Secured Party upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Debtor or upon the appointment of any intervener or conservator of, or trustee or similar official for the Debtor or any substantial part of any of its properties, or otherwise, all as though such payments had not been made.

13. Governmental Approval. Prior to or, where permitted, upon the exercise by the Secured Party of any power, right, privilege or remedy pursuant to this Agreement that requires any consent, approval, registration, qualification or authorization of any governmental authority or instrumentality, the Debtor will execute and deliver, or will cause the execution and delivery of, all applications, certificates, instruments and other documents and papers that the Debtor may be required to obtain for such governmental consent, approval, registration, qualification or authorization.

14. Notices. The terms and provisions of Section 10.7 of the Purchase Agreement are expressly incorporated into this Agreement.

15. Miscellaneous. This Agreement shall inure to the benefit of and be binding upon the Secured Party and the Debtor and their respective successors and assigns. In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

16. Governing Law; Jurisdiction; Waiver of Jury Trial. This Agreement (including any claim or controversy arising out of or relating to this Agreement) shall be governed by and construed in accordance with the laws of the State of Washington, without regard to conflict of law principles that would result in the application of any law other than the laws of the State of Washington. Each party, to the extent that it may lawfully do so, hereby consents to service of process, and to be sued, in any state or federal court located in the State of Washington, as well as to the jurisdiction of all courts to which an appeal may be taken from such courts, for the purpose of any suit, action or other proceeding arising out of any of its obligations hereunder or with respect to the transactions contemplated hereby, and expressly waives any and all objections it may have as to venue in any such courts. Each party further agrees that a summons and complaint commencing an action or proceeding in any of such courts shall be properly served and shall confer personal jurisdiction if served personally or by certified mail to it in accordance with Section 14 hereof or as otherwise provided under the laws of Washington. Nothing in this Agreement shall affect any right any party may otherwise have to bring an action or proceeding relating to this Agreement against any other party or its properties in the courts of any jurisdiction. EACH PARTY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY SUIT, ACTION OR OTHER PROCEEDING INSTITUTED BY OR AGAINST SUCH PARTY IN RESPECT OF ITS OBLIGATIONS HEREUNDER OR THE TRANSACTIONS CONTEMPLATED HEREBY.

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IN WITNESS WHEREOF, the parties have executed this Security Agreement as a sealed instrument as of the date first above written.

DEBTOR:

MED-FIT SYSTEMS, INC.

FOR EXHIBIT PURPOSES ONLY,
NO SIGNATURE REQUIRED

By: _____
Name: _____
Title: _____

SECURED PARTY:

NAUTILUS, INC.

FOR EXHIBIT PURPOSES ONLY,
NO SIGNATURE REQUIRED

By: _____
Name: _____
Title: _____

SCHEDULE I

PERFECTION CERTIFICATE

The undersigned, Dean Sbragia, the Chief Financial Officer of **Med-Fit Systems, Inc.**, a California corporation (the "**Company**"), hereby certifies to **Nautilus, Inc.**, as Secured Party (the "**Secured Party**"), as follows:

1. Name.

(a) The exact legal name of the Company as that name appears in its organizational documents is as follows:

MED-FIT SYSTEMS, INC.

(b) The following is a list of all other names (including trade names or similar appellations) used by the Company, or any other business or organization to which the Company became the successor by merger, consolidation, acquisition, change in form, nature or jurisdiction of organization or otherwise, now or at any time during the past five years, and in the case of any such business or organization, any chief executive office or other principal place of address used thereby during such period to the extent known to the Company:

(c) The following is the Company's federal employer identification number:

(d) The following is the Company's state-issued identification number, if any:

C1734037

2. Current Locations.

(a) The following is the jurisdiction of organization of the Company:

State of California

(b) The chief executive offices of the Company are located at the following address:

543 E. Alvarado Street, Fallbrook, California 92028

(c) The following are all other places of business of the Company:

(i) In the United States of America:

543 E. Alvarado Street, Fallbrook, California 92028

(ii) Outside the United States of America:

None

3. Unusual Transactions. All of the property and assets of the Company pledged to the Secured Party as Collateral has been originated by the Company (or their respective predecessor entities) in the ordinary course of business or consist of goods which have been acquired by the Company (or their respective predecessor entities) in the ordinary course from a person in the business of selling goods of that kind.

4. UCC Filings. The Secured Party is hereby authorized to file a financing statement on Form UCC-1 in form and containing a description of the Collateral acceptable to the Secured Party in the UCC filing office in each jurisdiction identified in §2 hereof.

IN WITNESS WHEREOF, I have hereunto signed this Certificate as of this day of February, 2010.

MED-FIT SYSTEMS, INC.

FOR EXHIBIT PURPOSES ONLY,
NO SIGNATURE REQUIRED

By: _____

Name: _____

Title: _____

COMMERCIAL LICENSE AGREEMENT

THIS LICENSE AGREEMENT (hereinafter "License" or "Agreement") is by and between Med-Fit Systems, Inc. a California corporation ("Buyer") and Nautilus, Inc., a Washington corporation ("Nautilus") (collectively the "Parties"). This License is an exhibit to an Asset Purchase Agreement (the "APA") entered into on the same date between the Parties.

This Agreement shall be effective as of February 18, 2010 ("the **Effective Date**").

The Parties agree as follows:

1. Definitions and List of Schedules

1.1. Unless expressly defined otherwise herein, any term defined in the Asset Purchase Agreement shall have the same meaning in this Agreement.

1.2. "**Accessories**" shall mean products for use with Fitness Products. By way of example, but not of limitation, Accessories shall include benches for weight training, stands for supporting weights, mats, flooring, data storage for tracking workouts, interfaces, media players, televisions, entertainment and training software, and similar.

1.3. "**Affiliate**" shall have the meaning set forth in rule 12b-2 of the regulations promulgated under the Securities Exchange Act in force as of the effective date of this License.

1.4. "**Asset Purchase Agreement**" or "**APA**" shall mean the agreement entered into between the Parties to which this Agreement is an exhibit.

1.5. "**Cardio Products**" shall mean products intended to improve cardiovascular fitness, primarily through aerobic conditioning. By way of example, but not of limitation, Cardio Products shall include treadmills, stationary cycles (upright and recumbent), elliptical machines, steppers, and all products that attach to, or physically interface with, treadmills, stationary cycles, elliptical machines, and steppers. Cardio Products typically use motors/generators in their operation and electrical controls for controlling its operation. A multipurpose machine or combined strength/cardio product shall be deemed

a Cardio Product. Any fitness product, other than accessories, that cannot clearly be categorized as a Strength Product shall be deemed a Cardio Product. **Cardio Products shall not include TREADCLIMBER® Products.**

1.6. "**Cardio Products Licenses**" shall mean the licenses listed in § 2 that license use of Nautilus Marks, Commercial Marks, Nautilus Patents, Commercial Patents or Other Commercial IP on Cardio Products.

1.7. "**Commercial Branded**" shall mean goods bearing or displaying a Commercial Mark.

1.8. "**Commercial Channel**" shall mean bona fide sales of Fitness Products and Accessories to institutional, commercial, and professional entities that are not Affiliates of Buyer and that provide access to the products to multiple users (i.e., the products are available for use by club members, employees, contractors, etc.). Commercial Channel entities include fitness centers, gyms, health clubs, studios, hotels, resorts, schools, military, commercial fitness, medical and senior/long term care dealers and facilities, and corporate employee centers that provide the fitness equipment for use by numerous persons. The Commercial Channel includes Specialty Fitness Retailers, as defined below. The Commercial Channel does not include and explicitly excludes all other sales or distributions of Fitness Products, including but not limited to sales and other distributions to: (a) end users (non-commercial users, typically home use) and resellers, such as retailers and online and direct resellers; and/or (b) any entity where there is reason to know that such entity is selling or distributing to end users and/or resellers (except as used equipment following normal use in the entity's facility). The Commercial Channel is further defined as Fitness Products sold at or above the applicable Minimum Invoice Price (for purposes of differentiating Commercial Fitness Products from products sold in the Retail Channel and the Direct Channel).

1.9. "**Commercial Marks**" shall mean the trademarks listed in Schedule B (comprising trademarks for Fitness Products and Accessories sold in the Commercial Channel). The Commercial Marks and related goodwill will be assigned to Buyer at the time specified in § 2.22 provided the conditions to assignment set out in said section are met.

1.10. "**Commercial Patents**" shall mean patents and applications listed in Schedule D that exclusively read on Fitness Products currently offered in the Commercial Channel. Commercial Patents shall include patents and applications relating to a design and development project known to the Parties as Manhattan ("Manhattan Patents") and all patents that relate back to a Manhattan Patent for priority. The Commercial Patents will be assigned to Buyer at the time specified in § 2.22, provided the conditions to assignment set out in said section are met.

1.10.1. Nautilus shall file a patent application directed to the inventions of the Manhattan project within 90 days of the Effective Date and revise the Schedule D when the application receives a serial number. A place holder shall appear on Schedule D as "Manhattan Patents."

1.11. "**Competitor**" shall mean an entity that sells, offers to sell, or distributes Fitness Products in the Retail Channel or Direct Channel. A contract manufacturer that manufactures on specification and sells only to a reseller is not a Competitor. On information, as of the Effective Date, the following entities are Competitors: the entities doing business as ICON Health & Fitness, Inc., Amer Sports (includes Precor whether or not affiliated with Amer), Johnson Fitness Co. (includes Matrix, Vision, and Horizon whether or not affiliated with Johnson), Brunswick Corporate (including Life Fitness whether or not affiliated with Brunswick), Cybex International, Inc., and Technogym SpA and all entities own or controlled by those entities. Nautilus may designate additional entities as Competitors at the time Buyer desires to assign this Agreement, provided such additional entities sell, offer to sell, or distribute Fitness Products in the Retail Channel or the Direct Channel.

1.12. "**Confidential Information**" shall mean (i) proprietary information that one party (the "Disclosing Party") discloses to the other party (the "Receiving Party"); (ii) information marked or designated by the Disclosing Party as confidential; and (iii) information, whether or not in written form and whether or not designated as confidential, that is known by the Receiving Party to be treated by the Disclosing Party as confidential or which, given the nature of the information or the circumstances surrounding its disclosure, would be understood by a reasonable person as being

confidential or proprietary. Confidential Information shall not include: (i) information that is publicly available at the time of disclosure by the Disclosing Party to the Receiving Party or its Representatives; (ii) information that becomes publicly available other than through actions of the Receiving Party or any of its Representatives in violation of this Agreement; (iii) information already known to the Receiving Party as documented by written records that predate the disclosure; (iv) information from the Disclosing Party that becomes owned by the Receiving Party; (v) information rightfully obtained from third parties and not subject to any obligation of confidentiality to the Disclosing Party; (vi) information independently developed by the Receiving Party without use of, reference to, or reliance on the Disclosing Party's Confidential Information; and (vii) any information following the expiration of five (5) years from the date of the first disclosure thereof to the Receiving Party.

1.13. "**Direct Channel**" shall mean bona fide sales of Fitness Products and Accessories directly to customers (end users) who are not in the Commercial Channel or Retail Channel, such as to individuals who will use or gift the products, and who will not make the products available to additional users in a commercial, business, government, or group setting.

1.14. "**Discontinued Products**" shall mean end of life products that were distributed or sold by Buyer as Fitness Products bearing a Nautilus Mark or Commercial Mark for at least 12 months and are in inventory or WIP and are (a) discontinued with no comparable product offering planned for at least 12 months or (b) substantially modified such that an average consumer would visually see a difference between a Discontinued Product and its modified version.

1.15. "**Fitness Products**" shall mean Strength Products and Cardio Products and does not include products having a primary intended function of enabling users to play sports (e.g., tennis racquets, bats, gloves, and similar) or to be used in transportation (e.g., bicycles, skateboards, and etc.).

1.16. "**Gross Sales**" "Gross Sales" shall mean the total invoice price of all Nautilus Branded and Commercial Branded Fitness Products and Accessories, and all related charges of any type whether separately invoiced (including, but not limited to, shipping charges, taxes, and delivery charges) and whether the referenced products are sold, leased or otherwise distributed.

1.17. "**Licensed IP**" shall mean the intellectual property rights licensed to Buyer pursuant to this Agreement, consisting of the Licensed Marks, the Licensed Patents, and the Other Commercial IP. The scope of the Licensed IP may change over time, as provided elsewhere in this Agreement.

1.18. "**Licensed Marks**" shall mean Nautilus Marks and the Commercial Marks collectively.

1.19. "**Licensed Patents**" shall mean the Nautilus Patents and Commercial Patents collectively.

1.20. "**Marketing Collateral**" shall mean all tangible materials and items, except for Fitness Products, bearing a Nautilus Mark or Commercial Mark and distributed by Buyer primarily to induce sales or promote brand awareness. Marketing Collateral includes but is not limited to brochures, flyers, manuals, guides, clothing, novelty items, online content, etc. that bear a Licensed Mark and are distributed to promote the brand or products.

1.21. "**Minimum Invoice Price**" shall mean the lowest price invoiced by Buyer to a customer within the Commercial Channel for Cardio Products. Thus, for example, the Minimum Invoice Price of a treadmill sold with a television and media player is the invoiced price of the sale minus the average invoice price for the television and media player sold separately. The Minimum Invoice Price for Cardio Products is shown in the following table. The Minimum Invoice Price does not apply to Strength Products due to the nature of category. The Minimum Invoice Price shall change in proportion to the CPI-U as described in § 3.2. In the event this clause is challenged by a Government agency as anti-competitive or a violation of anti-trust laws or regulations, then this clause and all references to Minimum Invoice Price shall be deemed severed from this Agreement as of the Effective Date.

Cardio Product	Minimum Invoice Price Calendar Year 2010	
Treadmill	US$	2700
Elliptical Machine	US$	2100
Upright Cycle	US$	2100
Recumbent Cycle	US$	1700
Other Cardio Products	US$	2000

1.22. "**Nautilus Branded**" shall mean goods bearing or displaying a Nautilus Mark.

1.23. "**Nautilus Marks**" that shall mean the NAUTILUS trademarks listed in Schedule A (comprising NAUTILUS, all compound marks that include NAUTILUS, the cam logo, NAUTILUS ONE, NAUTILUS NITRO and common law marks that include NAUTILUS). As set forth below, Nautilus Marks shall be licensed to Buyer and Nautilus shall retain ownerships and all other rights pertaining thereto.

1.24. "**Nautilus Patents**" shall mean patents and applications owned by Nautilus and relating to Fitness Products and Accessories in the Commercial Channel and listed in Schedule C. Nautilus Patents does not include patents relating to TreadClimber® Products.

1.25. "**Net Sales**" means Gross Sales less: (a) returns of Fitness Products and Accessories actually received by Buyer; (b) refunds actually paid by Buyer to customers and cancellation of orders from Buyer by customers for Fitness Products and Accessories; (c) local, State and federal sales, VAT, and use and excise taxes required to be charged by Buyer for sales of Fitness Products and Accessories, if separately stated on an invoice; and (d) freight charges and delivery fees, if separately stated on an invoice, and provided that any such separately stated freight charges and delivery fees do not exceed one hundred and ten (110) percent of the actual costs incurred by Buyer for freight and delivery.

1.26. "**Other Commercial IP**" shall mean Nautilus copyrights, trade secrets, and know-how in existence prior to the Effective Date and used by Nautilus in connection with distribution, marketing, sales, and support of Nautilus goods in the Commercial Channel and including Technical Assets.

1.27. "**Retail Channel**" shall mean bona fide sales of Fitness Products and Accessories to a third party reseller for resale to end users. Such resellers include resellers with a physical store and online resellers and resellers employing any means of direct marketing. The Retail Channel includes specialty fitness retailers.

1.28. "**Specialty Fitness Retailers**" shall mean retailers selling fitness equipment and fitness accessories and the sales of fitness equipment and accessories constitutes at least 90% of the retailers total sales. By way of example only, and not of limitation, Specialty Fitness Retailers does not include Dick's Sporting Goods, Cabelas, Sports Authority, or other retailers having greater than 10% sales of non-fitness equipment.

1.29. "**Strength Products**" shall mean products intended to condition muscles, primarily through anaerobic conditioning. By way of example, but not of limitation, Strength Products shall include weight stations such as Nautilus One®, Nautilus Nitro®, Nitro Plus, and Studio, and free-weight stations, Freedom Trainer™, Gravitron®, and XPLOAD stations and machines. Strength Products do not use motors or electrical controls for their operation, but motors/electric controls may be used, for example, in selecting weights or reporting user results.

1.30. "**Strength Products and Accessories Licenses**" shall mean the licenses specified below that license use of Nautilus Marks, Commercial Marks, Nautilus Patents, Commercial Patents or Other Commercial IP on Strength Products and Accessories.

1.31. "**Successor-in-Interest**" or "**Successor**" shall mean any third party that acquires substantially all the stock or assets of Buyer pertaining to Buyer's Fitness Products business.

1.32. "Technical Assets" shall have the meaning as defined in the APA.

1.33. "**TreadClimber Products**" shall mean single-user fitness machines having dual treadles or dual treadmills supported by a frame.

1.34. Attached Schedules:

Schedule A: Nautilus Marks
Schedule B: Commercial Marks
Schedule C: Nautilus Patents

Schedule D: Commercial Patents
Schedule E: Trademark Usage Guide
Schedule F: Quality Control Provisions
Schedule G: Electronic Payment Instructions

2. License Grants

2.1. All licenses granted herein are subject to all the terms of this Agreement, including § 2.19.

Cardio Products Licenses

2.2. Nautilus hereby grants to Buyer a non-exclusive license to use the **Nautilus Marks** in the Commercial Channel on Cardio Products sold at a price meeting or exceeding the Minimum Invoice Price.

2.3. Nautilus hereby grants to Buyer a non-exclusive license to use the **Commercial Marks** in the Commercial Channel on Cardio Products sold at a price meeting or exceeding the Minimum Invoice Price.

2.4. Nautilus hereby grants Buyer a non-exclusive license to the **Nautilus Patents** to make, have made, use, sell, offer to sell, and import Nautilus Branded and Commercial Branded Cardio Products in the Commercial Channel.

2.5. Nautilus hereby grants Buyer a non-exclusive license to the **Commercial Patents** to make, have made, use, sell, offer to sell, and import Nautilus Branded and Commercial Branded Cardio Products in the Commercial Channel.

2.6. Nautilus hereby grants to Buyer a non-exclusive license to use the Nautilus Marks and the Commercial Marks in the Commercial Channel on **Marketing Collateral** associated with the commerce of Cardio Products.

2.7. Nautilus hereby grants Buyer a non-exclusive license to the **Other Commercial IP** to use, sell, offer to sell, import, reproduce, and make derivate works relating to Nautilus Branded and Commercial Branded Cardio Products in the Commercial Channel.

2.8. For the avoidance of doubt, the licenses to the Nautilus Patents and the Commercial Patents (prior to assignment) extend to Nautilus Branded and Commercial Branded goods only.

2.9. The Cardio Products Licenses shall be worldwide, non-sublicensable (except to Affiliates of Buyer), and royalty bearing. The Cardio Products Licenses may be assigned to a Successor-in-Interest in accordance with the terms below.

Strength Products and Accessories Licenses:

2.10. Nautilus hereby grants to Buyer a non-exclusive license to use the **Nautilus Marks** in the Commercial Channel on Strength Products and Accessories.

2.11. Nautilus hereby grants to Buyer a non-exclusive license to use the **Commercial Marks** in the Commercial Channel on Strength Products and Accessories.

2.12. Nautilus hereby grants Buyer a non-exclusive license to the **Nautilus Patents** to make, have made, use, sell, offer to sell, and import Nautilus Branded and Commercial Branded Strength Products and Accessories in the Commercial Channel.

2.13. Nautilus hereby grants Buyer a non-exclusive license to the **Commercial Patents** to make, have made, use, sell, offer to sell, and import Nautilus Branded and Commercial Branded Strength Products in the Commercial Channel.

2.14. Nautilus hereby grants to Buyer a non-exclusive license to use the Nautilus Marks and the Commercial Marks in the Commercial Channel on **Marketing Collateral** associated with the commerce of Strength Products and Accessories.

2.15. Nautilus hereby grants Buyer a non-exclusive license to the **Other Commercial IP** to use, sell, offer to sell, import, reproduce, and make derivate works relating to Nautilus Branded and Commercial Branded Strength Products and Accessories in the Commercial Channel.

2.16. For the avoidance of doubt, the licenses to the Nautilus Patents and the Commercial Patents (prior to assignment) extend to Nautilus Branded and/or Commercial Branded goods only.

2.17. The Strength Products and Accessories Licenses shall be worldwide, non-sublicensable (except to Affiliates of Buyer), and royalty bearing. The Strength Products and Accessories Licenses may be assigned to a Successor-in-Interest in accordance with the terms below.

2.18. The licenses granted herein notwithstanding, Buyer shall not use the Licensed Marks on or in connection with Cardio Products sold at a price less than the Minimum Invoice Price, and Buyer shall not incorporate the Nautilus Patents in Cardio Products sold at a price lower than the Minimum Invoice Price or on products other than Nautilus Branded goods or Commercial Branded goods. Buyer may use the Licensed Marks on Strength Products and Accessories sold in the Commercial Channel regardless of invoice price.

Covenant, Other Licenses, and Assignment

2.19. Nautilus Covenants:

2.19.1. Except as stated below, while this License is in effect Nautilus hereby covenants that it shall not grant a license to any third party under the Nautilus Marks or the Commercial Marks for use in the Commercial Channel, except that Nautilus may license third parties under the Nautilus Marks for Cardio Products in the Commerial Channel after Buyer's license to the Nautilus Marks on Cardio Products terminates.

2.19.2. While this License is in effect, Nautilus hereby covenants that it shall not use the Nautilus Marks, Commercial Marks, Nautilus Patents, or Commercial Patents to sell or offer to sell Strength Products in the Commercial Channel in competition with Buyer's products, except that Nautilus shall have no restrictions within the Specialty Fitness Retailers portion of the Commercial Channel.

2.19.3. Nautilus hereby covenants that it shall not use the Nautilus Marks, Commercial Marks, Nautilus Patents, or Commercial Patents to sell or offer to sell Cardio Products in the Commercial Channel in competition with Buyer's products during the term of Buyer's license to use the Nautilus Marks, except that Nautilus may use the Nautilus Marks and other trademarks in the Commercial Channel on Treadclimber Products and Nautilus may license third parties to sell or distribute in the Commercial Channel Treadclimber Products.

2.19.4. Nautilus covenants that it shall not use the Commercial Marks for any purpose so long as this Agreement is in effect and Nautilus shall not use the Commercial Marks after assignment of the Commercial Marks.

2.19.5. An exception to the above Nautilus Covenants is that Nautilus may, in its sole discretion, license any third party any Nautilus owned intellectual property right, including the Nautilus Patents, in connection with the resolution of a bona fide dispute including litigation, settlement, arbitration, or mediation.

2.20. Extended Patent License to Nautilus Patents: When Buyer transitions the Cardio Products from Nautilus Branded Products to another trademark, Buyer may elect to use the Nautilus Patents under the Extended Patent License granted below and Buyer agrees to the royalty terms of § 3.6.1 if Buyer avails itself of the Extended Patent License.

2.20.1. Effective January 1, 2016 and upon election by Buyer, Nautilus hereby grants Buyer a non-exclusive license to the **Nautilus Patents** to make, have made, use, sell, offer to sell, and import Cardio Products for sale in the Commercial Channel.

2.21. Discontinued Products: Nautilus hereby grants to Buyer a license to use the Nautilus Marks and Commercial Marks in the Commercial Channel on Discontinued Products. This license shall be world-wide, non-exclusive, non-sublicensable (except to Affiliates of Buyer), and non-assignable, except to a Successor-in-Interest.

2.22. Assignments: Upon written notice by Buyer and total royalty payments by Buyer to Nautilus of US$2.0 Million or January 1, 2012, whichever occurs later, NAUTILUS shall:

(i) Assign to Buyer the Commercial Patents listed in Schedule D; and

(ii) Assign to Buyer the Commercial Marks listed in Schedule B and associated goodwill.

2.22.1. After assignment of the Commercial Patents and Commercial Trademarks to Buyer, Buyer shall have full title to the Commercial Patents and Commercial Trademarks and the licenses pertaining to Commercial Patents and Commercial Trademarks shall expire.

2.22.2. The assignment to Buyer shall include a license grant of sufficient scope by Buyer to Nautilus of all the patent rights, to enable Nautilus to fully exploit the assigned patent rights for all Nautilus activities in the Retail Channel and Direct Channel. The license grant by Buyer to Nautilus of the Manhattan Patents shall be exclusive to Nautilus in the Retail and Direct Channels.

2.23. Covenant Not To Sue: While this License is in effect Nautilus hereby covenants not to sue Buyer for infringement of any Nautilus owned or licensed intellectual property rights not licensed herein for Buyer's manufacture, distribution, sale, offer to sell, use in commerce, importation, display, reproduction, or derivative works of Fitness Products, Accessories, and Marketing Collateral in the Commercial Channel only.

2.23.1. **"Fitness Products," and by extension this Covenant, do not include the TreadClimber Products or intellectual property rights thereto.**

2.23.2. This Covenant is personal to Buyer and is not transferable or assignable without the express written permission of Nautilus. This Covenant shall be null and void and shall have no effect in the event that Buyer is or becomes a competitor of Nautilus in the Retail or Direct Channels.

2.24. For the avoidance of doubt, the Parties agree that all inventions, works, trade secrets, and know-how created by Buyer after the Effective Date shall be the property of Buyer and Nautilus shall have rights therein only as expressly stated in this Agreement; further, Buyer shall own its rights in derivative works and inventions it creates after the Effective Date even if the underlying work or invention is Licensed IP.

2.25. Nautilus hereby assigns to Buyer, in connection with this sale of the commercial business, all of Nautilus' rights and interest in the License Agreement dated 1 Oct. 2002 between Quinton, Inc. and Nautilus, Inc. and Buyer agrees to assume all rights and obligations of the License Agreement and Buyer shall indemnify Nautilus for all actions of Buyer in connection therewith.

3. Royalty

3.1. For the Licenses granted herein, Buyer shall pay to Nautilus a running royalty according to the following schedule. Royalty calculations are made on a calendar year basis. Royalty payments shall be quarterly. Each quarterly payment shall be the higher of the Minimum Royalty specified for the period or the running royalty calculated as a percent of Net Sales for the quarter. Buyer shall submit a report with each royalty payment as specified below.

3.2. The Minimum Royalty and Minimum Invoice Price shall change annually based on the annual U.S. CPI-U index. The Minimum Royalty and Minimum Invoice Price shall change in direct proportion to the percent change in the CPI index between the current year and the previous year, provided however that the amount of any change in the Minimum Royalty and the Minimum Invoice Price shall not exceed 4.0% per annum. The following example illustrates the computation of percent change:

CPI for current year	136.0
Less CPI for previous year	129.9
Equals index point change	6.1
Divided by previous year CPI	129.9
Equals	0.047
Result multiplied by 100	0.047 x 100
Equals percent change	4.7

Thus, for example, if the previous year Minimum Royalty was $300K per year and the CPI-U is as shown above, then the Minimum Royalty for the current year shall increase by 4.0% (because the actual change in the CPI is greater than the maximum percent change of 4%) or $12,000 to $312K per year (payable as $78,000 per quarter). For the avoidance of doubt, the Minimum Royalty is paid only when the actual percent royalty on Net Sales for a quarter is less than the Minimum Royalty for the same quarter.

The Minimum Royalty stated throughout this Agreement is for calendar year 2010. All Minimum Royalty amounts shall be adjusted under this section even those that begin later such as those specific in the Renewal and Transition Terms, below.

3.3. The **Initial Term**: CYs 2010—2013 (all products)

3.3.1. Royalty shall be calculated on Net Sales of Nautilus Branded and Commercial Branded Strength Products, Accessories, and Cardio Products

3.3.2. On Net Sales up to $20M, no royalty calculated, except Minimum Royalty still applicable.

3.3.3. On Net Sales over $20M, Buyer shall pay Nautilus a royalty equal to 2% of those Net Sales or the Minimum Royalty, whichever is greater.

3.3.4. The Minimum Royalty during Initial Term shall be $75K/qtr., adjusted per § 3.2.

3.3.5. The Initial Term shall cover the calendar years 2010 to 2013, inclusive.

3.4. The **Strength Renewal Term** (for Nautilus Branded Strength Products and Accessories only)

3.4.1. Royalty shall be calculated on Net Sales of Nautilus Branded (and Commercial Branded if not assigned) Strength Products and Accessories.

3.4.2. Buyer shall pay Nautilus a royalty equal to 2% of Net Sales or the Minimum Royalty, whichever is greater in CY 2014 and CY 2015 and Buyer shall pay Nautilus a royalty equal to 5% of Net Sales or the Minimum Royalty, whichever is greater beginning CY 2016 and thereafter.

3.4.3. The Minimum Royalty for the Strength Renewal Term shall be $125K/qtr., adjusted per § 3.2.

3.4.4. The Strength Renewal Term shall begin 1/1/2014 and terminate upon termination of this Agreement.

3.5. The **Cardio Transition Term** (for Cardio Products only)

3.5.1. The Cardio Transition Term shall begin 1/1/2014 and terminate on 12/31/2015.

3.5.2. Royalty shall be calculated on Net Sales of Nautilus Branded (and Commercial Branded if not assigned) Cardio Products.

3.5.3. Buyer shall pay Nautilus a royalty equal to 2% of all Net Sales or the Minimum Royalty, whichever is greater.

3.5.4. Minimum Royalty for the Cardio Renewal Term shall be $75K/qtr., adjusted per § 3.2.

3.6. The **Extended Patent Term** (for Cardio Products Only)

3.6.1. In the event Buyer avails itself of the Extended Patent Term of § 2.20, then Buyer shall pay Nautilus a royalty equal to 2% of all Net Sales of those Cardio Products incorporating an invention of a Licensed Patent.

3.6.2. There is no Minimum Royalty obligation for the Extended Patent Term license.

The following table provides examples of the royalty payments under different terms and sales events (this table is for clarification only, the above terms govern the royalty calculation):

Year	Term	Annual Net Sales	Royalty Due
2010	Initial	Strength & Access. 18M	$75K/qtr
		Cardio $15M	(min. royalty)
2011	Initial	Strength & Access. $25M	$500K/yr
		Cardio $20M	Payable qtr, when earned

3.7. Pass Through Royalty: Buyer shall reimburse Nautilus for all royalty payments made by Nautilus to any third party based on goods sold by Buyer not to exceed 7% of the invoice price of a product. That is, where Buyer sells a good that incurs an obligation for Nautilus to pay a royalty to a non-affiliated party, then Buyer shall reimburse Nautilus for that royalty payment upon invoice and proof of payment by Nautilus. The amount of the pass through royalties referenced in this §3.7 is included in Nautilus's standard cost of Fitness Products disclosed to Buyer pursuant to the APA.

3.8. Methods of Payments to Nautilus: All payments under this Agreement to Nautilus shall be made in U.S. Dollars and made by electronic payment as set out in Schedule G to this License. Buyer shall not be permitted to pay money in escrow or to any entity other than Nautilus, unless pursuant to written permission from Nautilus or a final court order that is not subject to appeal.

3.9. Reports and Records: Buyer shall keep and preserve accurate records of all of its operations within the scope of this Agreement. With each payment by Buyer to Nautilus, and for the Calendar Quarter for which a payment is being paid, Buyer shall provide to Nautilus a report containing sufficient information to allow Nautilus to calculate and confirm the amount of Royalty paid, including at least the Gross Sales, Net Sales, and returns by product number (preferably SKU identifiers), Royalty calculations, Royalty due, and a Quality Control Report as specified in Schedule F during the applicable Calendar Quarter. Nautilus and its agents (e.g., accountants) shall have the right to inspect and copy such records at reasonable times during normal business hours.

3.10. Costs of Inspection and Copying: The cost of any inspection and copying of records shall be borne by Nautilus unless a discrepancy is discovered in Nautilus' favor in an amount that is greater than five (5) percent of the Royalty due versus the Royalty paid, in which case such costs shall be paid by Buyer.

3.11. Record Retention: Buyer and Nautilus are not required to retain any records relating to this License Agreement for longer than five (5) years from the date of their creation.

3.12. Currency: All amounts set forth in this Agreement are in U.S. dollars.

3.13. Payment Schedule. The Royalty will accrue upon the earlier of the invoice date, or the shipping date for the goods by Buyer. The amounts set forth in this section are payable quarterly from Buyer to Nautilus within thirty (30) days after each calendar year quarter end on March 31st, June 30th, September 30th, and December 31st. The quarterly royalty payments shall accompany the required reports of Section 3.9.

4. Term and Termination

4.1. Term of Licenses:

4.1.1. Initial Term: the Initial Term of the Licenses shall be for the four calendar years from the effective date of the License, inclusive. That is, the Initial Term shall cover the calendar years 2010, 2011, 2012, and 2013.

4.1.2. Strength Products & Accessories: At the end of the Initial Term, and beginning on January 1, 2014, the Licenses for the Strength Products and Accessories shall automatically renew and remain in effect indefinitely unless terminated.

4.1.3. Cardio Products: At the end of the Initial Term and beginning on January 1, 2014, the Licenses for the Cardio Products shall automatically renew for an additional term of two (2) years. Buyer shall have such additional term of two (2) years to transition from selling goods under the Nautilus Marks to selling goods under a mark other than a Nautilus Mark and not confusingly similar to a Nautilus Mark. Buyer may transition to a Commercial Mark. Accordingly, the Licenses for the Cardio Products shall terminate on Dec. 31, 2015, and Buyer may elect to accept the Extended Patent Term of §§ 2.20 and 3.6.

4.2. Termination For Cause:

4.2.1. Nautilus may terminate the licenses granted herein upon the following events:

(a) Buyer's registration or attempt to register a trademark or domain name confusingly similar to a Nautilus owned registered or common law trademark, after written notice to Buyer and Buyer's failure to cure (e.g., abandon the registration) within 10 business days after receipt of notice;

(b) Buyer's failure to pay royalties after written notice to Buyer and Buyer's failure to cure within 30 business days after receipt of notice;

(c) Upon a third incidence within any rolling five year period of Buyer's late payment of royalties owing to Nautilus more than 30 days after a due date, without notice by Nautilus;

(d) Upon any lawsuit or counterclaim or administrative action by Buyer against Nautilus alleging patent infringement or challenging or contesting in any way the validity or enforceability of any of the Licensed Patents, the patent licenses granted herein shall automatically and immediately terminate;

(e) Upon any lawsuit or counterclaim or administrative action by Buyer against Nautilus alleging trademark infringement or challenging or contesting in any way the validity or enforceability of any of the Licensed Marks, the trademark licenses granted herein shall automatically and immediately terminate;

(f) Upon material breach of any term of this Agreement by Buyer after written notice to Buyer and Buyer's failure to cure within 30 days after receipt of notice;

(g) Upon any improper assignment or sublicense by Buyer of the rights granted herein after written notice to Buyer and Buyer's failure to cure within 30 business days after receipt of notice;

(h) In the event Buyer ceases to operate or ceases to conduct business in the Fitness Products for a period of six consecutive months;

(i) In the event Nautilus provides proper written notice to Buyer of material breach five times within a rolling five year period, even if Buyer cures the breach within the cure period; or

(j) In the event that Buyer fails to make a timely payment as required by Section 3 of the Med-Fit Systems, Inc. Secured Promissory Note, and if such payment is not thereafter made within an additional thirty calendar days, Nautilus may give Buyer notice of breach and Buyer's failure to make such payment within seven business days of its receipt of the notice shall automatically terminate this License Agreement and Buyer must immediately cease all use of the Licensed IP.

4.2.2. Buyer may terminate the licenses granted herein upon the following events:

(a) Upon material breach of any term of this Agreement by Nautilus, after written notice to Nautilus and Nautilus' failure to cure within 30 days after receipt of notice;

(b) Upon any improper assignment or sublicense by Nautilus of the rights granted herein after written notice to Nautilus and Nautilus' failure to cure within 30 business days after receipt of notice;

(c) In the event Nautilus ceases to operate for six consecutive months; or

(d) In the event Buyer provides proper written notice to Nautilus of material breach five times within a rolling five year period, even if Nautilus cures the breach within the cure period.

4.3. Bankruptcy / Insolvency: The Licenses granted herein shall terminate immediately without notice to Buyer if (a) an Order for Relief is entered under Title 11 of the United States Code against Buyer by any Bankruptcy Court possessing jurisdiction over Buyer or Buyer's assets; (b) Buyer is insolvent, either on a balance sheet test or the inability to pay its debts as they become due; (c) Buyer shall file or have filed against it a petition for the appointment of a receiver or trustee for all or substantially all of its assets and such appointment shall not be vacated or set aside within thirty (30) days from the date of such appointment; or, (d) Buyer shall make an assignment for the benefit of

creditors. The Licenses granted herein shall not be assignable by any bankruptcy trustee or bankruptcy estate, trustee, receiver, assignee for the benefit of creditors, secured party or other person or entity taking possession of Buyer's assets under any of the events set forth in this paragraph. Buyer, or its successor in any such proceeding, shall not oppose any efforts by Nautilus to reclaim the licenses or to oppose the lifting of any stay imposed by the Court or Statute to reclaim the License and rights thereunder and, Buyer shall not take any actions inconsistent with the termination provided for herein.

4.4. Abandonment: if Buyer abandons use of the Nautilus Marks and ceases all use of the Nautilus Marks for a consecutive period of three years, Nautilus may terminate the licenses as to the Nautilus Marks.

5. Quality Control and Use of Licensed Marks:

5.1. The Licensed Marks are an important asset to Nautilus and all uses of the Licensed Marks by Buyer shall inure to the sole benefit of Nautilus. Buyer shall at all times use the Nautilus Marks properly and only for the sale of Fitness Products and Accessories that meet the Quality Control standards herein. Buyer shall establish procedures to insure that all goods sold bearing a Nautilus Mark or Commercial Mark adhere to Nautilus' minimum quality standards. Generally, goods that conform to the quality of goods manufactured and sold by as of the effective date shall conform to the quality standards.

5.2. Buyer shall only sell goods that comply with EN or ASTM standards for studio/commercial or institutional goods, respectively.

5.3. Buyer shall comply with Consumer Product Safety Commission rules and regulations. Buyer shall have a customer complaint monitoring and reporting process.

5.4. Buyer shall use and display the Nautilus Marks and Commercial Marks in conformance with the Trademark Usage Guidelines, Schedule E, which dictate appearance and association of the trademarks as applied to the goods. Buyer shall not create new stylized versions of the Nautilus Marks and shall not create new composite marks that include a Nautilus Mark. Buyer shall comply with revisions to the Trademark Usage Guidelines with sufficient notice; that is, Nautilus may update the marks and Buyer shall only use updated versions after reasonable time for conversion and sale of any inventory having earlier versions of the same.

5.5. Buyer shall submit to a Nautilus representative samples of all new marketing materials (collateral), uses of the licensed marks, and marketing campaigns that include the Nautilus Marks to Nautilus for approval. Where Buyer deviates from previously approved usage of a Licensed Mark or proposes new uses of a Licensed Mark, Buyer shall obtain from Nautilus pre-approval of any and all new proposed usages of the Licensed Marks, whether in advertising, promotional materials, or otherwise. Nautilus shall have a review period of fourteen (14) days from the receipt by Nautilus from Buyer of advertising and/or promotional materials submitted for approval by Buyer to either approve or deny approval of such materials. If Written Notice of the approval or denial of approval of such materials is not provided to Buyer before the end of the fourteen (14) day review period, the submitted materials shall be deemed approved. Any Written Notice by Nautilus denying approval of the submitted materials shall provide the reasons for the disapproval and the disapproved materials shall not be used by Buyer. Buyer may correct and resubmit any disapproved materials for approval, which submission will restart the fourteen (14) day review period. Any disagreement by the Parties as to whether materials should be approved shall be subject to the dispute resolution procedures of §8 of this License.

5.6. Buyer confirms and acknowledges that, as between the parties, Nautilus owns all rights in and to the Nautilus Marks, and prior to assignment, to the Commercial Marks. Buyer agrees to not use any of the Licensed Marks, or any marks confusingly similar to the Licensed Marks, for any purpose, whether in advertising, promotional materials or otherwise, except as expressly permitted by this License.

5.7. Any and all uses of the Licensed Marks by Buyer shall be only as permitted by this License, and then only for goods and services that meet Nautilus Quality Standards as set forth in Schedule F to this License. Nautilus may make reasonable modifications to Nautilus Quality Standards from time to time provided that such modifications benefit customers and/or users. Buyer shall comply with Nautilus Quality Standards and with all modifications to Nautilus Quality Standards, but shall have three (3) months to implement any such modifications to Nautilus Quality Standards unless such modifications relate to product safety, which Buyer shall immediately implement.

5.8. Buyer shall not in any way challenge or interfere with Nautilus' rights in the Licensed Marks or assist anyone else in doing so. Buyer shall not register or attempt to register any of the Licensed Marks or any confusingly similar marks in any country.

5.9. Trade Names: Buyer shall not adopt or use a trade name, company identity, doing-business-as name, or any name or identity of its business entity that includes or is confusingly similar to a Nautilus Mark.

6. Indemnification:

6.1. Buyer shall fully indemnify Nautilus for all allegations, administrative investigations, proceedings, and actions, and lawsuits that seek to enjoin Nautilus, obtain damages from Nautilus, or that require Nautilus to comply with any official request or order, when based on an action, or a failure to act, by Buyer. Buyer shall give notice to Nautilus upon its reasonable knowledge or apprehension of such action, proceeding, or lawsuit at Buyer's earliest opportunity.

7. Marking:

7.1. Buyer shall mark patent numbers on goods incorporating inventions claimed in a licensed patent. Nautilus may provide Buyer with notice of Nautilus owned patents that read on Buyer's products and Buyer shall include such patent marking in a timely manner, not to exceed three months. Buyer shall not be required to mark products manufactured as of the effective date of this Agreement.

7.2. Buyer shall use appropriate trademark designations (e.g., ®, ™) in connection with all Licensed Marks and as directed by Nautilus.

8. Dispute Resolution:

8.1. All disputes, except disputes pertaining to payments of royalties shall be resolved according to the following procedure:

8.1.1. When a dispute arises, the aggrieved party shall provide written notice of the grievance(s) (alleged breach, etc.) to the other party and specify the grounds therefore. The notified party shall acknowledge receipt within 5 business days and within 30 business days notify the aggrieved party whether it intends to cure the grievance or if it disputes the grievance.

8.1.2. If the dispute remains after response, then within 15 days a senior manager from each party shall meet in person and endeavor to resolve the grievance(s).

8.1.3. If the managers are unable to resolve the grievance, then either party may require non-binding arbitration to be conducted in accordance with the rules of the AAA and must be completed within 45 days of the management meeting.

8.1.4. If neither party requires arbitration, or after arbitration, either party may seek redress in the courts. Venue and jurisdiction shall be either state or federal court in Washington. The non-breaching party shall recover its attorney's fees from the breaching party. If neither party is a breaching party, each party shall bear its own fees and costs.

8.2. All disputes involving royalties, payments, or monies due shall be resolved according to the following procedure:

8.2.1. The aggrieved party shall provide written notice to the other party and the other party shall cure the breach or provide notice it disputes the grievance within twenty (20) business days. The parties may agree on a payment schedule and so long as payments are made in accordance with the agreed upon schedule, no breach shall be deemed to have occurred.

8.2.2. If the parties cannot agree on a schedule for repayment or otherwise dispute the amounts due or time payment is due, then either party may seek redress in the courts. Venue and jurisdiction shall be either state or federal court in Washington. The non-breaching party shall recover its attorney's fees from the breaching party. If neither party is a breaching party, each party shall bear its own fees and costs.

9. Domain Names:

9.1. Nautilus shall cooperate with Buyer to direct internet traffic seeking information of commercial products to a website designated by Buyer.

9.2. Buyer shall not register or attempt to register any domain name that is in whole or in part the same as or confusingly similar to a Licensed Mark.

10. Registration, Filings and Enforcement.

10.1. Registrations and Filings. Nautilus, in its sole discretion, has the option to, but is not required to: (i) file additional applications to register marks in the United States and/or in any other country or trademark registration jurisdiction; (ii) maintain any registration for any one or more of the Licensed Marks in any country; (iii) file to register copyrights in the United States in the name of Nautilus as owner for any one or more copyrighted works; and/or (iv) file any U.S. Patent Application, and/or maintain a patent or pending application for any one or more inventions. Buyer shall cooperate with Nautilus, at Buyer's expense, and as requested by Nautilus, by providing information concerning the use of marks and specimens of use so as to assist Nautilus to maintain registrations.

10.2. Enforcement. Nautilus has the sole right and option, at Nautilus' sole discretion, to take any or no action against violators or alleged violators of any of the subject matter licensed by this License and/or relating thereto. Buyer has no right to and shall not threaten to initiate or take any action relating to the Licensed Marks, Licensed Patents, and/or to any other subject matter or rights relating to this License.

10.3. Possible Enforcement by Buyer:

10.3.1. If Buyer discovers that any of the Licensed Patents and/or Licensed Marks are infringed, Buyer shall timely communicate the details of the infringement to Nautilus. Nautilus shall thereupon have the right, but not the obligation, to take whatever action it deems necessary, including the filing of lawsuits, to protect the rights of the Parties to this License and to terminate such infringement. Buyer shall provide reasonable assistance to Nautilus at Buyer's expense, if Nautilus takes any such action, but all expenses of Nautilus shall be borne by Nautilus. If Nautilus recovers any damages or compensation for any action it takes hereunder, Nautilus shall retain 100% of such damages after reimbursement of Buyer's expenses incurred in assisting Nautilus in this action.

10.3.2. Nautilus shall have ninety (90) days from the receipt of such details of infringement from Buyer to decide, in its sole discretion, whether to take any action to stop such infringement. Nautilus shall provide Written Notice of Nautilus' decision to Buyer before the end of such ninety (90) day time period.

10.3.3. If Nautilus decides not to file any action (or to discontinue any action if initially undertaken by Nautilus), Buyer shall also have the right, but not the obligation, to take any such action to stop the infringement, in which case Nautilus shall provide reasonable assistance to Buyer at Nautilus' expense so long as Nautilus is not a party (by joinder or otherwise) to any action, but all of Buyer's expenses shall be borne by Buyer. If Nautilus decides not to file any action, and/or to discontinue any action if initially undertaken by Nautilus, and Buyer decides to take such action and/or to continue any action that Nautilus decides to discontinue, then Buyer shall provide Written Notice to Nautilus of Buyer's decision and, if Nautilus is a party (by joinder or otherwise) to such action, then Buyer shall bear all of Nautilus' expenses of participation in such action incurred from the time Buyer decides to take such action and/or continue such action, including, but not limited to, subsequently incurred attorney's fees through and including trial and upon appeal In such event Buyer will retain 100% of damages recovered after reimbursement of Nautilus' expenses incurred in assisting Buyer in this action.

10.3.4. The Party pursuing the action shall be entitled to control the action; provided, however, no settlement shall be entered into without the written consent of Nautilus, which consent shall not be unreasonably withheld. Nautilus is not required to consent to any settlement that grants an alleged infringer a license under any one or more of the Licensed Patents and/or any one or more of the Licensed Trademarks; and/or that allows an infringer to continue to use a mark that is in Nautilus' sole determination confusingly similar to a Licensed Mark.

11. **Written Notice.** Any Written Notice that is required under this License shall be in writing and shall be deemed delivered upon actual delivery to the other party in the case of hand delivery, which includes delivery by a recognized courier (such as FedEx), or upon deposit thereof in the United States mail by certified mail return receipt requested (provided the address for notice is in the United States), with postage thereon fully prepaid, addressed as follows:

To Nautilus:
Nautilus, Inc.
Attention: Legal Department
16400 SE Nautilus Drive
Vancouver, WA 98683

To Buyer:
Med-Fit Systems, Inc.
Attn: Dean Sbragia
543 E. Alvarado St.
Fallbrook, CA 92028
email: medfit@aol.com

With a copy to:

w|r Law Group
Attn: William Reavey
5330 Carroll Canyon Rd., Suite 210
San Diego, CA 92121
email: wreavey@thewrlaw.com

12. **Confidentiality and Unauthorized Disclosure.**

12.1. Nondisclosure. The Receiving Party agrees that it will not disclose Confidential Information to any third party, directly or indirectly, under any circumstances or by any means, without the Disclosing Party's prior written consent. Subject to the foregoing prohibitions, Buyer may exploit engineering and design information concerning Fitness Products and Accessories in the Commercial Channel as Buyer deems appropriate.

12.2. Nonuse. The Receiving Party further agrees that it will not use Confidential Information except as may be necessary to perform its obligations and/or exercise its rights under this License.

12.3. Protection. Notwithstanding anything contained in this License to the contrary, the Receiving Party may disclose Confidential Information to its employees, representatives and other agents ("Representatives") strictly on a need-to-know basis. The Receiving Party and its affiliates and their respective employees, agents, representatives and subcontractors who receive or have access to Confidential Information agree to take all reasonable precautions to protect the confidentiality of Confidential Information.

12.4. Compelled Disclosure. If the Receiving Party becomes legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or similar process, or applicable law or regulation) to disclose any Confidential Information, the Receiving Party shall (unless prohibited by such demand or process) give the Disclosing Party prompt written notice of the requirement before releasing the information so that the Disclosing Party may seek a protective order or other appropriate remedy and/or waive compliance with the terms of the Agreement. The Receiving Party shall cooperate with the Disclosing Party to obtain a protective order. If a protective order or other remedy is not obtained, or the Disclosing Party waives compliance with the terms of this § 12, the Receiving Party shall provide only that limited portion of the Confidential Information that is legally required and shall exercise best efforts to obtain assurance that confidential treatment will be accorded the information. Upon request of the Disclosing Party, the Receiving Party shall provide an opinion of counsel to the Disclosing Party to the effect that the Receiving Party is legally compelled to disclose the information.

13. **Disclaimer.** ALL RIGHTS LICENSED BY NAUTILUS ARE LICENSED "AS IS" AND WITHOUT ANY WARRANTY OF ANY KIND. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NAUTILUS HEREBY DISCLAIMS ALL WARRANTIES, EXPRESS AND/OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND/OR WARRANTIES AGAINST INFRINGEMENT. THE MAXIMUM LIABILITY OF NAUTILUS TO BUYER RELATING TO THIS AGREEMENT SHALL BE NO GREATER THAN THE TOTAL OF ANY ROYALTY

ACTUALLY PAID BY BUYER TO NAUTILUS DURING THE TWELVE MONTH TIME PERIOD IMMEDIATELY PRECEEDING THE DATE A CLAIM IS MADE AGAINST NAUTILUS BY BUYER.

14. **Export Restrictions.** Buyer agrees to comply with all applicable international and national laws that apply to products, including U.S. Export Administration Regulations, as well as End-User, End-Use and Destination restrictions issued by the United States and other governments. Nothing in the preceding sentence shall be construed to grant Buyer any rights in any manner for any purpose not expressly recited by this License.

15. **Court and Law.** This Agreement shall be interpreted in accordance with and governed by the substantive and procedural laws of the State of Washington, without regard to its choice-of-law principles. The parties hereby irrevocably consent to the exclusive jurisdiction of the courts of the State of Washington, Clark County, or of a U.S. District Court for the Western District of Washington, USA in connection with any dispute relating to this License Agreement and/or to any alleged breach of this License Agreement. Each party hereby irrevocably waives any objection that the party may now or hereafter have regarding this choice of forum.

16. **Successors and Assigns.**

16.1. This Agreement may be assigned in its entirety to an assignee that is not a Competitor so long as (i) the assignee agrees to all the terms of this Agreement in writing to Nautilus, (ii) the assignor is not in material breach at the time of assignment, and (iii) the parties are not in dispute resolution or litigation at the time of assignment.

16.2. The Agreement may be assigned to an assignee that is a Competitor so long as (i) the assignee agrees to all the terms of this Agreement and the below amendments, in writing to Nautilus, (ii) the assignor is not in breach at the time of assignment, and (iii) the parties are not in dispute resolution or litigation at the time of assignment. Upon assignment to a Competitor, the Agreement shall be modified as follows:

16.2.1. The licenses to the Nautilus Marks shall terminate;

16.2.2. The licenses to the Commercial Marks shall terminate if those Marks are not yet assigned to Buyer;

16.2.3. The royalty rate for the licenses to the Nautilus Patents shall increase to 5% of Net Sales of Fitness Products incorporating the invention of a Nautilus Patent.

16.3. Upon assignment of this Agreement to any party, in addition to the modifications specified above, the licenses to Other Intellectual Property of §§ 2.7 and 2.15 and the covenant-not-to-sue under "any Nautilus owned or licensed intellectual property rights" of § 2.23 shall terminate.

16.4. This Agreement shall terminate in the event that Buyer or any assignee uses any Licensed IP to sell or offer to sell products in the Retail or Direct Channels without the express written consent of Nautilus.

17. General Provisions.

17.1. Nautilus warrants it owns or is licensed to grant the rights, licenses, covenants, and future assignments granted in this Agreement.

17.2. **Entire Agreement.** The Asset Purchase Agreement, License, and the attached Schedules contain the entire agreement of the parties relating to licensing of intellectual property rights from Nautilus to Buyer, and supersedes all existing agreements and all other oral, written or other communications between the parties relating to its subject matter.

17.3. **Modifications and Amendments:** This License Agreement cannot be modified except in a writing signed by all of the parties and that expressly recites that the writing is an amendment to or a modification of this License Agreement.

17.4. **Compliance with Laws:** Buyer shall at all times comply with all applicable laws, statutes, rules, regulations and ordinances, including without limitation those governing wages, hours, desegregation, employment discrimination, health and safety, and equal opportunity laws and regulations to the extent that they are applicable.

17.5. **Nonwaiver**. No failure on the part of Buyer or Nautilus to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise by Buyer or Nautilus of any right hereunder preclude any further exercise thereof of such right or of any other right.

17.6. **Severability**. Any provision of this Agreement that is prohibited or rendered unenforceable by any law shall be ineffective only to the extent of the prohibition or unenforceability without invalidating the remaining provisions of this Agreement.

17.7. **Force Majeure**. Neither party shall be liable for delays due to any cause beyond the control and without the fault or negligence of the Party incurring the delay, including, to the extent it satisfies the above description, any fire, unusual weather conditions, riot, act of God, act of the public enemy, death or incapacity of an individual who is to perform work, or other similar event. However, both Parties agree to seek to mitigate the potential impact of any such delay. The Party incurring the delay shall within thirty (30) business days from the beginning of the delay, notify the other Party in writing of the causes of the delay and its probable extent. The notification of delay shall not be the basis for a request for additional compensation. In the event of any such delay, any required completion date may be extended by a reasonable period not exceeding the time actually lost by reason of the delay.

17.8. **No Other Representations**. Buyer and Nautilus hereby acknowledge that they have not been induced to enter into this License by any representation or warranty not set forth in this License or the Asset Purchase Agreement.

17.9. **Headings**. The headings and subheadings of this License are intended for convenience of reference only and shall not be used to interpret this License or affect the construction of this License.

17.10. **Construction**. Words importing the singular include the plural, words importing any gender include every gender and words importing persons include entities, corporate and otherwise; and (in each case) vice versa. Whenever the terms “including” or “include” are used in this License in connection with a single item or a list of items within a particular classification (whether or not the term is followed by the phrase “but not limited to” or words of similar effect) that reference shall be interpreted to be illustrative only, and shall not be interpreted as a limitation on, or an exclusive enumeration of the items within that classification.

17.11. **Survival**. The terms, provisions and representations contained in this License Agreement shall survive any termination or expiration of this License Agreement to the extent that such survival is necessary to give effect to their full meaning and intent. Without limiting the foregoing, the parties expressly agree that the following Sections (including all sub-parts, unless a specific sub-part is specified) of this License shall survive termination and expiration of this License: § 1; § 3 for Royalties on Net Sales prior to termination and the completion of unfinished goods §§5, 6, 7, 8; §10; §§11 12, 13, 14, 15, and §16.

17.12. **Third Party Beneficiaries**. This License is intended solely for the benefit of the parties hereto. Except as expressly set forth in the License, nothing in the License shall be construed to create any liability to or any benefit for any person not a party to this License.

17.13. **Counterparts**. This License Agreement may be executed in any number of counterparts, which together will constitute one instrument.

17.14. **Independent Contractors**. Buyer and Nautilus are independent contractors and are not the agent(s) of one another for any purpose. Neither Buyer nor Nautilus shall have any authority to bind or obligate one another.

17.15. **Ethical Conduct**. Buyer and Nautilus shall use the highest ethical standards in their business activities and shall each not do anything to bring the other into an unfavorable light.

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17.16. **Determining Time Periods**. Time periods for Written Notice under this Agreement, such as a time period for taking action upon Written Notice, shall not count the day the Written Notice is effective and shall end at midnight Vancouver, Washington time of the last day of the time period.

In agreement hereto the parties have signed below.

Med-Fit Systems, Inc. **(Buyer)**	**Nautilus, Inc.** **(Nautilus)**
/s/ Dean Sbragia	/s/ Kenneth L. Fish
Signature	Signature
Dean Sbragia	Kenneth L. Fish
Printed Name	Printed Name
President	CFO
Title	Title
February 19, 2009	February 19, 2009
Date	Date

LEASE

BETWEEN

NAUTILUS, INC.,
a Washington corporation,

AS LANDLORD

and

MED-FIT SYSTEMS, INC.,
a California corporation,

AS TENANT

for

709 POWERHOUSE ROAD, INDEPENDENCE, VIRGINIA 24348

SUMMARY OF BASIC LEASE INFORMATION

This SUMMARY OF BASIC LEASE INFORMATION (the "Lease Summary") is hereby incorporated into and made a part of the attached Lease (this Lease Summary and the Lease to be known collectively as the "Lease"). In the event of a conflict between the terms of this Lease Summary and the Lease, the terms of the Lease shall prevail. Any capitalized terms used in this Lease Summary and not otherwise defined in this Lease Summary shall have the meanings ascribed to them in the Lease.

1.	**Date**:	February 19, 2010
2.	**Landlord**:	Nautilus, Inc., a Washington corporation
3.	**Address of Landlord**:	Nautilus, Inc. 10400 SE Nautilus Drive Vancouver, Washington 98683 Attention: Chief Financial Officer Phone and telecopy: 360-859-5913
4.	**Tenant**:	Med-Fit Systems, Inc. a California corporation
5.	**Address of Tenant**:	Med-Fit Systems, Inc. 543 E. Alvarado St. Fallbrook, CA 92028 E-mail: medfit@aol.com Attention: Dean Sbragia
6.	**Premises**:	The term "Premises" means the Property (as defined below), the Buildings (as defined below), and appurtenant improvements located on the Property. The term "Property" means the land described in the legal description attached hereto as Exhibit A. The Property contains approximately 56 acres of land.
7.	**Buildings**:	The four buildings located on the Property (each, a "Building" and collectively, the "Buildings").
8.	**Term**.	
	(a) Lease Term:	The period between the Commencement Date (as defined below) and December 31, 2012, subject to earlier termination as provided in the Lease. The Lease Term may be extended pursuant to Section 13.6(g)
	(b) Commencement Date:	The "Closing Date" as such term is defined in that certain Asset Purchase Agreement dated February 19, 2010 between Landlord and Tenant (the "APA").
	(c) Expiration Date:	December 31, 2012 (unless extended pursuant to Section 13.6(g)).
9.	**Base Rent**:	$5,000 per month through August 31, 2010, and $40,000 per month thereafter, subject however, to an adjustment to $22,000 per month pursuant to Sections 13.6(f) or 13.6(g).

10.	**Additional Rent**.	All Premises Operating Costs.
11.	**Security Deposit**:	$5,000.00 until August 31, 2010, and $40,000.00 as of September 1, 2010, (but subject to change pursuant to Section 13.6(f) or Section 13.6(g)), which amount (reduced by any amount that Landlord uses or applies in accordance with Article 5) will be applied to the rent due for the last month in the Lease Term.
12.	**Permitted Use**:	General office/warehouse/manufacturing use.
13.	**Addenda and Exhibits**:	The addenda and exhibits listed below are incorporated by reference in this Lease. Exhibit A Legal Description of the Premises Exhibit B Construction

[SIGNATURE PAGE FOLLOWS]

Landlord and Tenant hereby agree to the foregoing terms of this Lease Summary.

LANDLORD:

NAUTILUS, INC.
a Washington corporation

By: /s/ Kenneth L. Fish
Printed Name: Kenneth L. Fish
Title: CFO
Date: February 22, 2010

TENANT:

MED-FIT SYSTEMS, INC.,
a California corporation

By: /s/ Dean Sbragia
Printed Name: Dean Sbragia
Title: President
Date: 2/22/10

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LEASE

THIS LEASE (the "Lease") is made February 19, 2010, by and between NAUTILUS, INC. a Washington corporation ("Landlord"), and, MED-FIT SYSTEMS, INC. a California corporation ("Tenant"), with reference to the following facts and circumstances:

A. As noted in the Lease Summary, Landlord and Tenant are parties to the APA, which provides that Landlord and Tenant will enter into this Lease as art of the transactions contemplated in the APA.

B. Landlord is the owner of the Premises, as defined in the Lease Summary.

C. Once this Lease becomes effective, Tenant will use the Premises to operate the Commercial Fitness Business that Landlord conducted in the Premises before the Closing (as defined in the APA).

D. The parties desire to enter into this Lease, all on the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the foregoing facts and circumstances, the mutual covenants and promises contained herein and after good and valuable consideration, the receipt and sufficiency of which are acknowledged by each of the parties, the parties do hereby agree to the following:

ARTICLE 1
LEASE OF PREMISES

1.1 Demising Clause. Subject to all the terms and conditions of this Lease, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, the Premises for the Term and in consideration of Tenant's payment of the Rent.

1.2 Term. The Term shall be as specified in the Lease Summary, unless the parties agree to extend the Term or the Lease is earlier terminated. It is agreed that Tenant shall have the right to terminate this Lease without penalty at any time during the Term upon Tenant's purchase of the Premises pursuant to Article 13 below.

ARTICLE 2
DEFINITIONS

Terms that begin with initial capital letters are defined terms that shall have the meanings given in the APA, the Lease Summary, or this Article of the Lease.

2.1 Additional Rent. All amounts, costs and expenses that Tenant assumes, agrees or is otherwise obligated to pay to Landlord under this Lease other than Base Rent. The Premises Operating Costs are part of the Additional Rent.

2.2 Affiliate. An entity that is controlled by, controls, or is under common control with a party. "Control" shall mean the ownership, directly or indirectly, of at least fifty-one percent (51%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, of at least fifty-one percent (51%) of the voting interest in any entity.

2.3 Bankruptcy Code. Title 11 of the United States Code, as amended from time to time.

2.4 Business Days. Days other than Saturdays, Sundays and Holidays. If any item must be accomplished or delivered hereunder on a day that is not a Business Day, it shall be timely to accomplish or deliver the same on the next following Business Day.

2.5 Commencement Date. As set forth on the Lease Summary.

2.6 Environmental Laws. All Laws regulating or controlling Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. 9601, et seq.; the Hazardous Material Transportation Act, 49 U.S.C. 1801 et seq.; and the Resource Conservation and Recovery Act, 42 U.S.C. 6901 et seq.

2.7 Expiration Date. As set forth on the Lease Summary, unless the Lease is otherwise sooner terminated in accordance with its provisions.

2.8 Force Majeure. Strikes, labor disputes, lockouts, inability to obtain labor, materials, equipment, or reasonable substitutes therefor, acts of God, governmental restrictions, regulations, or controls, judicial orders, enemy or hostile government actions, civil commotion, war, terrorism (foreign or domestic), fire, accident, explosion, falling objects or other casualty, or other causes beyond the reasonable control of the party obligated to perform hereunder.

2.9 Hazardous Materials. Any hazardous waste or hazardous substance as defined in any Laws applicable to the Premises, including, without limitation, the Environmental Laws. "Hazardous Materials" shall also include asbestos or asbestos-containing materials, radon gas, petroleum or petroleum fractions, urea formaldehyde foam insulation, transformers containing levels of polychlorinated biphenyls greater than 50 parts per million, medical waste, biological materials (including without limitation blood and blood products), electromagnetic fields, mold and chemicals known to cause cancer or reproductive toxicity, whether or not defined as a hazardous waste or hazardous substance in any statute, ordinance, rule or regulation.

2.10 Holidays. All federally observed holidays, including New Year's Day, President's Day, Martin Luther King, Jr. Day, Memorial Day, Columbus Day, Independence Day, Labor Day, Veteran's Day, Thanksgiving Day and Christmas Day.

2.11 Interest Rate. The average prime loan rate published by the board of governors of the Federal Reserve System of the United States, as the same may change from time to time, plus four percent (4%) per annum, but not in excess of the maximum rate, if any, allowed by Law for the transaction on which interest is being calculated.

2.12 Landlord Related Parties. Landlord, Landlord's Affiliates, and the members, principals, beneficiaries, partners, trustees, shareholders, directors, officers, employees, mortgagees, investment managers, property managers, brokers, contractors, attorneys, and agents of Landlord and Landlord's Affiliates, and the successors of such parties.

2.13 Law or Laws. All federal, state, county and local governmental and municipal laws, statutes, ordinances, rules, regulations, requirements, codes, decrees, orders, and decisions by courts and cases, when the decisions are considered binding precedent in the State, and decisions of federal courts applying the Law of the State; including but not limited to The Americans With Disabilities Act of 1990 (42 U.S.C. § 12101 et seq.), and any regulations and guidelines promulgated thereunder, as all of the same may be amended and supplemented from time to time.

2.14 Lease Year. Each twelve (12) month period or portion thereof during the Term, commencing with the Commencement Date, without regard to calendar years.

2.15 Mortgagee. The holder of any mortgage or deed of trust encumbering any portion of the Premises.

2.16 Operating Costs. All costs incurred by Landlord in the ownership, management, maintenance, repair, replacement, improvement, alteration and operation of the Premises, including, without limitation, the following: a) utilities; b) supplies, tools, equipment and materials used in the operation, repair and maintenance of the Premises; c) insurance (including but not limited to public liability, property damage, earthquake, flood, pollution, terrorism and property insurance for the full replacement cost of the Buildings as required by Landlord or its lenders); d) landscaping; e) parking area repair, restoration, and maintenance, including, but not limited to, resurfacing, repainting, re-striping, and cleaning; f) reasonable reserves for covering uninsured damage and liability claims relating to the Premises, including, without limitation, deductible amounts (provided that if Landlord incurs an expense for which a reserve is held, Landlord shall apply the applicable reserves to the expense prior to including the balance of the expense in Operating Costs); g) fees, charges and other costs, including without limitation, reasonable consulting fees, legal fees and accounting fees, of all contractors engaged by Landlord or otherwise reasonably incurred by Landlord in connection with the management, operation, maintenance and of the Premises; h) compensation (including, without limitation, employment taxes and fringe benefits) of all persons who perform duties in connection with the operation, maintenance, repair, or overhaul of the Premises, and equipment, improvements, and facilities located on the Property; i) operation, repair, maintenance and replacement of the Buildings, including, without limitation, the cost to replace or retrofit as required by Laws; j) janitorial service, alarm and security service, window cleaning, trash removal; k) repair and

replacement of building standard surfaces, including but not limited to wall and floor coverings, ceiling tiles, window coverings and fixtures; l) maintenance and replacement of curbs and walkways; m) repair to and replacement of the roof; n) rental expenses for (or a reasonable depreciation allowance on) personal property used in maintenance, operation or repair of the Premises; o) licenses, certificates, permits and inspections and the cost of contesting the validity or applicability of any governmental enactments that may affect Operating Costs; p) any costs, expenditures, or charges (whether capitalized or not) required by any governmental or quasi-governmental authority; and q) amortization of capital expenses (including, without limitation, financing costs) (A) that are required under any Law, or (B) that are in Landlord's opinion necessary to maintain the Premises, or any portion thereof, in good condition and repair; provided that such cost shall be amortized (including interest on the unamortized cost) over its useful life as Landlord shall reasonably determine. Notwithstanding the foregoing, for purposes of this Lease, Operating Costs shall not include:

2.16.1 Utilities or services sold to Tenant or others for which Landlord is entitled to and actually receives reimbursement (other than through any operating cost reimbursement provision similar to the provisions set forth in this Lease);

2.16.2 Depreciation and amortization, except on materials, small tools and supplies purchased by Landlord to enable Landlord to supply services Landlord might otherwise contract for with a third party, where such depreciation and amortization would otherwise have been included in the charge for such third party services, all as determined in accordance with sound real estate management principles;

2.16.3 Overhead or any profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for services in or in connection with the Buildings to the extent the same exceeds the cost of such services that could be obtained from equally qualified third parties on a competitive basis or at market rates;

2.16.4 Except as otherwise specifically provided in this Section, interest on debt or amortization on any mortgages, other charges, costs and expenses payable under any mortgage, if any, and costs for financing and refinancing the Premises;

2.16.5 Ground rents;

2.16.6 Rentals and other related expenses incurred in leasing equipment, the cost of which would otherwise be excluded capital expenses hereunder, except equipment used in case of emergency;

2.16.7 Electrical power for which Tenant directly contracts with and pays an electrical service company;

2.16.8 Marketing costs, including leasing commissions, attorneys' fees in connection with the negotiation and preparation of letters, deal memos, letters of intent, leases, subleases and/or assignments, space planning costs, and other costs and expenses incurred in connection with lease, sublease or assignment negotiations and transactions with prospective tenants of the Premises or any of the Buildings, including attorneys' fees and other costs and expenditures incurred in connection with disputes with such prospective tenants;

2.16.9 Costs covered by insurance, to the extent of the insurance proceeds actually received by Landlord;

2.16.10 Costs covered by warranties, to the extent of the amount actually paid under the warranty;

2.16.11 Any service provided directly to and paid directly by the tenant; and

2.16.12 Wages and benefits of any employee who does not devote substantially all of his or her employed time to the Buildings unless such wages and benefits are prorated to reflect time spent on operating and managing the Building vis-a-vis time spent on matters unrelated to operating and managing the Buildings.

2.17 Permitted Transfer. The transfer of ownership interests in a publicly traded entity, a transfer in connection with a sale of substantially all of the assets of Tenant as a going concern, a merger or consolidation of Tenant with another entity, and an assignment or subletting of all of the Premises to an Affiliate of Tenant, where (a) the transferee assumes, in full, the obligations of Tenant under this Lease; (b) Tenant remains fully liable under this Lease; (c) the use of the Premises remains unchanged; (d) after such transaction is effected, the tangible net worth of the tenant

hereunder is equal to or greater than the tangible net worth of Tenant as of the date of this Lease; (e) Landlord shall have received an executed copy of all documentation effecting such transfer on or before its effective date; and (f) the same is not a subterfuge by Tenant to avoid its obligations under this Lease.

2.18 Pre-Existing Conditions. The mold visible in Buildings known as #2 and #3.

2.19 Premises Operating Costs. Operating Costs and Taxes.

2.20 Rent. Base Rent and Additional Rent.

2.21 State. The state in which the Premises are located.

2.22 Taxes. Any form of real property taxes or governmental assessment on the Premises, whether special or general, ordinary or extraordinary; rental levy or tax (other than inheritance, income or estate taxes); improvement bonds; and/or license fees imposed upon or levied against any legal or equitable interest of Landlord in the Premise, Landlord's right to other income therefrom, and/or Landlord's business of leasing, by any authority having the direct or indirect power to tax and where the funds are generated with reference to the Premises and where the proceeds so generated are to be applied by the city, county or other local taxing authority of a jurisdiction within which the Premises are located.

2.23 **[INTENTIONALLY DELETED]**

2.24 Tenant Related Parties. Tenant, its Affiliates, agents, contractors, subcontractors, employees, invitees, subtenants, transferees, and any other party claiming by, through or under Tenant.

2.25 Tenant's Property. All Tangible Personal Property (as defined in the APA) located at the Premises on the Commencement Date and all movable partitions, business and trade fixtures, machinery and equipment, communications equipment, and office equipment located in the Premises and acquired by or for the account of Tenant after the Commencement Date, without expense to Landlord, that can be removed without damage to the Premises, and all furniture, furnishings, and other articles of movable personal property owned by Tenant and located in the Premises.

2.26 Term. As set forth on the Lease Summary, as the same may be extended from time to time.

2.27 Transfer. An assignment, mortgage, pledge, hypothecation, encumbrance, lien or other transfer of this Lease or any interest hereunder, a transfer by operation of law, a sublease of the Premises or any part thereof, or the use of the Premises by any party other than Tenant and its employees. "Transfer" shall also include (a) if Tenant is a partnership or limited liability company, the withdrawal or change, voluntary, involuntary or by operation of law, of twenty-five percent (25%) or more of the partners or members, or transfer of twenty-five percent (25%) or more of partnership or membership interests, within a twelve (12)-month period, or the dissolution of the partnership or company without immediate reconstitution thereof, (b) if Tenant is a closely held corporation (i.e., whose stock is not publicly held and not traded through an exchange or over the counter), the dissolution, merger, consolidation or other reorganization of Tenant, the sale or other transfer of more than an aggregate of twenty-five percent (25%) of the voting shares of Tenant (other than to immediate family members by reason of gift or death), within a twelve (12)-month period; and (c) the sale, mortgage, hypothecation or pledge of more than an aggregate of twenty-five percent (25%) of the value of the unencumbered assets of Tenant within a twelve (12) month period.

2.28 Transferee. Any person or entity to whom or which any Transfer is made.

ARTICLE 3
PREMISES AND DELIVERY OF POSSESSION

3.1 Delivery of Possession. Landlord shall deliver possession of Premises on the Commencement Date. If, for any reason, Landlord is delayed by an Event of Force Majeure in delivering possession of or on the Premises to Tenant, Landlord shall not be subject to any liability for such failure, and the validity of this Lease shall not be impaired, but (except in the case of Tenant Delays) the Commencement Date shall be extended for the period of such delay.

3.2 Commencement Date. **[INTENTIONALLY DELETED]**

ARTICLE 4
RENT

Tenant agrees to pay to Landlord all Rent payable hereunder, without set-off or deduction, in lawful money of the United States of America. Tenant shall pay the Rent as follows:

4.1 Base Rent. Tenant shall pay to Landlord the Base Rent without notice or demand, in installments due and payable in advance on the first (1st) day of each calendar month during the Term. Along with and in addition to each monthly Base Rent payment under the Lease, Tenant shall pay to Landlord any sales or privilege tax required under applicable Law. In the event of any fractional calendar month, Tenant shall pay for each day in such partial month a rental equal to 1/30 of the Base Rent. Concurrent with the execution of this Lease, Tenant will deliver to Landlord the first month's Base Rent.

4.2 Tenant's Payment of Premises Operating Costs. In addition to the Base Rent and all other payments due under this Lease, Tenant shall pay Premises Operating Costs promptly upon (and in no event later than 10 business days after) receiving a statement from Landlord describing the nature and amount of any Premises Operating Costs incurred by Landlord. Tenant shall have the right to demand that Landlord provide Tenant with copies of any business records of Landlord maintained in the ordinary course of its business in connection with any Premises Operating Costs. (As provided in Sections 10.2 and 10A.1, the parties intend that Tenant will pay certain Premises Operating Costs directly to the persons providing goods and services for the repair and maintenance of the Premises or the taxing authority, as the case may be.)

4.2.1 Landlord's Records. Landlord shall maintain records regarding Premises Operating Costs incurred and paid by Landlord. Tenant or its representative shall have the right to examine such records upon reasonable prior notice specifying which records Tenant desires to examine, during normal business hours at the place or places where such records are normally kept.

4.3 Other Taxes Payable by Tenant. In addition to the Base Rent and any other charges to be paid by Tenant hereunder, Tenant shall, as an element of Rent, reimburse Landlord upon demand for any and all Taxes paid by Landlord as a result of Tenant's failure to satisfy its obligation (as provided in Article 10A) timely to pay Taxes.

4.4 Place of Payment. All Rent shall be paid at the office of Landlord set forth on the Lease Summary or at such other place as Landlord may designate.

4.5 Interest and Late Charges. If Tenant fails to pay any Rent when due, after giving effect to any applicable grace periods, the unpaid amounts shall bear interest at the Interest Rate. Tenant acknowledges that the late payment of any Rent will cause Landlord to incur costs and expenses not contemplated under this Lease, including, without limitation, administrative and collection costs and processing and accounting expenses, the exact amount of which is extremely difficult to ascertain. Therefore, in addition to interest, if any such payment is not received by Landlord within five (5) business days from when due, Tenant shall pay Landlord a late charge equal to five percent (5%) of such payment, plus any reasonable attorneys' fees incurred by Landlord by reason of Tenant's failure to pay Rent when due. Landlord and Tenant agree that this late charge represents a reasonable estimate of such costs and expenses and is fair compensation to Landlord for loss resulting from Tenant's nonpayment. The late charge shall be deemed Additional Rent and the right to require it shall be in addition to all of Landlord's other rights and remedies hereunder or at law and shall not be construed as liquidated damages for any default of Tenant or as limiting Landlord's remedies in any manner. In addition, any check returned by the bank for any reason will be considered late and will be subject to all late charges, plus a Fifty Dollar ($50.00) fee. After two (2) returned checks in any twelve (12) month period, Landlord will have the right to receive payment by wire transfer, cashier's check, or money order. Nothing contained herein shall be construed as to compel Landlord to accept any payment of Rent in arrears or late charges should Landlord elect to apply its rights and remedies available under this Lease or at law or in equity in the event of a Default.

ARTICLE 5
SECURITY DEPOSIT

Upon Tenant's execution of this Lease, Tenant shall deposit with Landlord $5,000.00, and no later than September 1, 2010, shall deposit an additional $35,000.00, as the Security Deposit, as shown on the Lease Summary (subject to a reduction to $17,000.00, in the amount of the additional deposit if Section 13.6(f) or 13.6(g) apply). The Security Deposit shall serve as security for the prompt, full, and faithful performance by Tenant of its obligations under this

Lease. In the event that Tenant is in Default hereunder, Landlord may use or apply the whole or any part of the Security Deposit for the payment of Tenant's obligations hereunder. The use or application of the Security Deposit or any portion thereof shall not prevent Landlord from exercising any other right or remedy provided hereunder or under any Law and shall not be construed as liquidated damages. In the event the Security Deposit is reduced by such use or application, Tenant shall deposit with Landlord, within ten (10) days after notice, an amount sufficient to restore the full amount of the Security Deposit. Landlord shall not be required to keep the Security Deposit separate from Landlord's general funds or pay interest on the Security Deposit. Provided Tenant has performed all of its obligations under this Lease, the amount of the Security Deposit shall be applied by Landlord to the monthly payment due for Base Rent for the last month of the Lease Term. If the Lease Term shall be extended at any increased rate of Rent, the Security Deposit shall thereupon be proportionately increased. No trust or fiduciary relationship is created herein between Landlord and Tenant with respect to the Security Deposit. If Landlord transfers the Premises during the Term, Landlord may pay the Security Deposit to Landlord's successor-in-interest. Tenant waives the provisions of any Laws now in force or that become in force after the date of execution of this Lease, that limit the costs, expenses or damages for which Landlord may use a security deposit, including any provisions of such Laws providing that Landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of Rent, to repair damage caused by Tenant, or to clean the Premises. Landlord and Tenant agree that Landlord may, in addition, claim those sums reasonably necessary to compensate Landlord for any other foreseeable or unforeseeable loss or damage caused by the acts or omissions of Tenant or any Tenant Related Party.

ARTICLE 6
USE

6.1 Permitted Use. Tenant shall use the Premises solely for the Permitted Use as shown on the Lease Summary, and for no other purpose without Landlord's consent. Tenant shall comply with all recorded covenants, conditions, and restrictions, and the provisions of all ground or underlying leases, now or hereafter affecting the Premises. Tenant shall not (a) cause, maintain or permit any nuisance arising out of Tenant's use or occupancy of the Premises; or (b) commit or suffer to be committed any waste in or upon the Premises.

6.2 Compliance with Law. Tenant has been provided an opportunity to inspect the Premises to a degree sufficient to determine whether or not the same, in their condition as of the date hereof, violate any applicable Law. Tenant further acknowledges and agrees that, except as may otherwise be specifically provided in this Lease, Landlord has made no representation or warranty as to whether the Premises conform to the requirements of Law. Tenant shall be responsible for compliance of the Premises with applicable Law and shall bear all costs necessary to maintain the Premises in compliance with Law, including, without limitation, structural work, if any. Tenant shall also be responsible for the cost of any alterations to the Premises necessitated by any change in use of the Premises; provided, however any such change must be within the Permitted use. Tenant shall not use or occupy the Premises in violation of any Law or the certificate of occupancy issued for the Buildings and shall, upon notice from Landlord, immediately discontinue any use of the Premises that is declared by any governmental authority having jurisdiction to be a violation of Law or the certificate of occupancy. A judgment of any court of competent jurisdiction or the admission by Tenant in any action or proceeding against Tenant that Tenant has violated any such Laws in the use of the Premises shall be deemed to be a conclusive determination of that fact as between Landlord and Tenant. Should any obligation be imposed by Law, then Tenant agrees, at its sole cost and expense, to comply promptly with such obligations to the extent the same relate to the Premises or Tenant's use of the Premises.

6.3 Effect on Landlord's Insurance. Tenant shall not do or permit to be done anything that will invalidate or increase the cost of any property coverage, or other insurance policy covering the Premises, including the Buildings, and any property located therein. Tenant shall promptly, upon demand, reimburse Landlord for any additional premium charged for such policy by reason of Tenant's failure to comply with the provisions of this Section.

ARTICLE 7
HAZARDOUS MATERIALS

7.1 Indemnity. Tenant shall indemnify, defend and hold harmless all Landlord Related Parties from and against all claims, suits, demands, response costs, contribution costs, liabilities, losses, or damages (including, without limitation, reasonable attorneys' fees), directly or indirectly arising out of the existence, use generation, migration, storage, transportation, release, threatened release, or disposal of Hazardous Materials in, on, or under the Premises, or in the groundwater under the Premises and the migration or transportation of Hazardous Materials to or from the Premises, or the groundwater underlying the Premises, to the extent that any of the foregoing is caused by any Tenant Related Parties. This indemnity extends to the costs incurred by any Landlord Related Party to investigate, remediate, monitor,

treat, repair, clean-up, dispose of, or remove such Hazardous Materials in order to comply with the Environmental Laws; provided that if Tenant is not otherwise in Default, Landlord shall give Tenant not less than thirty (30) days' advance notice of Landlord's intention to incur such costs. For the avoidance of doubt, Tenant shall not be responsible for any Hazardous Materials that were released or discharged on the Premises before the Commencement Date.

7.2 Restriction on Hazardous Materials. Tenant shall not permit any Tenant Related Parties to use, generate, manufacture, store, transport, release, threaten release, or dispose of Hazardous Materials, other than de minimus amounts of customary office and cleaning supplies in compliance with applicable Environmental Laws, in, on, or about the Premises, or transport Hazardous Materials from the Premises unless Tenant shall have received Landlord's prior consent therefor, which Landlord may revoke at any time, and shall not cause or permit the release or disposal of Hazardous Materials from the Premises except in compliance with applicable Environmental Laws. Tenant shall promptly deliver notice to Landlord if Tenant obtains knowledge sufficient to infer that Hazardous Materials are located on the Premises that are not in compliance with applicable Environmental Laws or if any third party, including without limitation, any governmental agency, claims a significant disposal of Hazardous Materials occurred on the Premises or is being or has been released from the Premises.

7.3 Investigation of Contamination. Upon reasonable written request of Landlord, Tenant, through its appropriately qualified and licensed professional engineers, and at Tenant's cost, shall thoroughly investigate suspected Hazardous Materials contamination of the Premises that would arguably come within the scope of Tenant's indemnification and hold harmless obligations as set forth above. Tenant, using duly licensed and insured contractors approved by Landlord, shall promptly commence and diligently complete the removal, repair, clean-up, and detoxification of any Hazardous Materials from the Premises as may be required by applicable Environmental Laws that comes within the scope of Tenant's indemnification and hold harmless obligations as set forth above. The provisions of this Article shall survive the expiration or earlier termination of this Lease.

7.4 Landlord Consent. If, during the Term, Tenant contemplates utilizing Hazardous Materials (or subleasing or assigning this Lease to a subtenant or assignee who utilizes Hazardous Materials), other than de minimus amounts of customary office and cleaning supplies in compliance with applicable Environmental Laws, Tenant shall obtain the prior written consent of Landlord. As a condition of granting such consent, Landlord may require, among other things, that **a)** such substances be of the type customarily used in offices and be used and maintained only in such quantities as are reasonably necessary for the Permitted Use and in strict accordance with applicable Environmental Laws and manufacturer instructions therefor; **b)** such substances shall not be disposed of, released or discharged on the Premises and shall be transported to and from the Premises in compliance with all applicable Environmental Laws and as Landlord shall reasonably require; **c)** any remaining such substances shall be completely, properly and lawfully removed from the Premises upon expiration or earlier termination of this Lease; and **d)** Tenant carry environmental insurance acceptable to Landlord, meeting the requirements of Sections 18.2 and 18.3, and naming Landlord as an additional insured. If any applicable Environmental Law or other ordinance requires that any such substances be disposed of separately from ordinary trash, Tenant shall make arrangements, at Tenant's expense, for such disposal directly with a qualified and licensed disposal company at a lawful disposal site and shall ensure that such disposal occurs frequently enough to prevent unnecessary storage of such substances on the Premises. At such times as Landlord may reasonably request, Tenant shall provide Landlord with a written list identifying any Hazardous Materials then used, stored or maintained upon the Premises, the use and approximate quantity of each such material, a copy of any Material Safety Data Sheet ("MSDS") issued by the manufacturer thereof, written information concerning the removal, transportation, and disposal of the same, and such other information as Landlord may reasonably require or as may be required by Environmental Laws. Landlord, at its option, and at Tenant's expense, may cause an engineer selected by Landlord, to review (1) Tenant's operations including, without limitation, materials used, generated, stored, disposed, and manufactured in Tenant's business; and (2) Tenant's compliance with terms of this Section. Tenant shall provide the engineer with such information reasonably requested by the engineer to complete the review. The first such review may occur prior to or shortly following the commencement of the Term. Thereafter, such review shall not occur more frequently than once each year unless cause exists for some other review schedule.

ARTICLE 8
SERVICES AND UTILITIES

8.1 Utilities. Tenant shall obtain and pay for all water, gas, electricity, heat, telephone, sewer, sprinkler charges and other utilities and services used at the Premises ("Utilities"), together with all taxes, penalties, surcharges, and maintenance charges pertaining thereto.

8.2 Furnishing of Premises Services. Tenant shall obtain and pay for any and all services provided to the Premises (collectively, "Premises Services"). The definition of Operating Costs shall not imply that Landlord is responsible for any Premises Services.

8.3 Interruption in Services. Unless caused by the gross negligence or willful misconduct of Landlord, Landlord shall not be in default hereunder nor be liable for any damages directly or indirectly resulting from, nor shall the Rent be abated, for any interruption of or diminution in the quality or quantity of Utilities or Premises Services, when the same is occasioned, in whole or in part, by **a)** repairs, replacements, or improvements; **b)** by inability to secure or limitation, curtailment, or rationing of, or restrictions on, use of electricity, gas, water, or other form of energy serving the Premises; **c)** by any accident or casualty; **d)** by act or Default by Tenant or other parties; or **e)** by Force Majeure. Landlord shall not be liable under any circumstances for a loss of or injury to property or business, however occurring, through or in connection with or incidental to failure of Utilities or failure to furnish any Premises Services. No failure, delay or diminution in Utilities or Premises Services shall ever be deemed to constitute an eviction or disturbance of Tenant's use and possession of the Premises or relieve Tenant from paying Rent or performing any of its obligations under this Lease. Furthermore, Landlord shall not be liable under any circumstances for loss of, or injury to, property or for injury to, or interference with, Tenant's business, including, without limitation, loss of profits, however occurring, through or in connection with or incidental to a failure of Utilities or any failure to furnish any of the Premises Services.

8.4 Safety and Security Devices, Services, and Programs. The parties acknowledge that safety and security devices, services, and programs provided by Landlord, if any, while intended to deter crime and ensure safety, may not in given instances prevent theft or other criminal acts or ensure safety of persons or property. The risk that any safety or security device, service, or program may not be effective, or may malfunction, or be circumvented by a criminal, is assumed by Tenant with respect to Tenant's property and interests; and Tenant shall obtain insurance coverage to the extent Tenant desires protection against such criminal acts and other losses. Tenant agrees to cooperate in any reasonable safety or security program developed by Landlord or required by Law.

8.5 Government Energy or Utility Controls. In the event of imposition of any government controls, rules, regulations, or restrictions on the use or consumption of energy or other utilities during the Term, both Landlord and Tenant shall be bound thereby, and the same shall not constitute a constructive eviction of Tenant. In the event of a difference in interpretation by Landlord and Tenant of any such controls, Landlord's interpretation shall prevail, and Landlord shall have the right to enforce compliance therewith, including, without limitation, the right of entry into the Premises to effect compliance.

ARTICLE 9
CONDITION OF THE PREMISES

9.1 "As Is" Condition. Subject to Section 9.2 below, Tenant acknowledges that Tenant is leasing the Premises on an "as is, where is" basis. Tenant's taking possession of the Premises shall be deemed conclusive evidence that, as of the date of taking possession, the Premises were in good order and satisfactory condition. No promise of Landlord to alter, remodel, repair, or improve the Premises and no representation, express or implied, respecting any matter or thing relating to the Premises or this Lease (including, without limitation, the condition thereof) have been made to Tenant by Landlord.

9.2 Landlord's Retained Responsibilities. Notwithstanding anything in Section 9.1 above to the contrary, it is agreed that Landlord shall be solely responsible for correcting or remediating, to the reasonable satisfaction of Tenant, the following matter (the "Pre-Existing Conditions") affecting the physical condition of the Premises that existed as of the Closing: Any mold that exists in Buildings known as #2 and #3. Landlord shall complete the work necessary to correct or remediate such mold no later than thirty (30) days after the Commencement Date.

ARTICLE 10
REPAIRS AND MAINTENANCE.

10.1 Landlord's Obligations. This Lease is intended to be a triple net lease. Accordingly, Landlord's shall have no repair or maintenance obligations. Landlord reserves the right to contract for repair and maintenance required to keep the Premises in their condition on the Commencement Date on behalf of Tenant if Tenant fails to keep the Premises in such condition and the costs thereby incurred by Landlord shall be treated as Operating Costs and be an element of Additional Rent.

10.2 Tenant's Obligations. Tenant, at Tenant's sole expense, shall maintain, repair and replace all portions of the Premises in good order, condition, and repair, including without limitation, the following: (a) all HVAC, plumbing, electrical, sewerage and mechanical systems serving the Buildings; (b) all fixtures, interior walls, floors, carpets, draperies, window coverings, and ceilings; (c) all windows, doors, entrances, and plate glass; and (d) any fire detection or extinguisher equipment that Landlord does not maintain. Tenant shall also maintain the lighting in the Premises (including replacement of bulbs and batteries). Tenant shall conduct quarterly tests on emergency lighting and provide Landlord a copy of each such test. Bulbs, ballasts and light fixtures shall be replaced whenever they fail. All bulbs, batteries, ballasts and fixtures of the lighting systems must be in working order upon lease termination. Tenant's obligations shall include all necessary repairs and replacements, ordinary a s well as extraordinary, foreseen as well as unforeseen. All such repairs and replacements shall be of first class quality and sufficient for the proper maintenance and operation of the Premises. Tenant shall keep and maintain the Premises safe, secure and clean, specifically including, but not by way of limitation, removal of waste and refuse matter. Tenant shall not permit anything to be done upon the Premises (and shall perform all maintenance and repairs thereto so as not) to invalidate, in whole or in part any warranties, or prevent the procurement of any insurance policies that may, at any time, be required under the provisions of this Lease. Tenant shall not obstruct or permit the obstruction of any parking area, adjoining street or sidewalk. Notwithstanding the foregoing, Tenant shall not be obligated to improve the condition of the Premises on the Commencement Date.

10.3 Additional Maintenance Obligations. Without limiting the generality of the foregoing, Tenant agrees as follows:

10.3.1 If the Premises have a septic sewer system, Tenant agrees to indemnify, defend (with counsel approved by Landlord) and hold harmless Landlord against any and all loss, liability, cost, expense, claim or damage asserted or claimed against Landlord or incurred by Landlord relating to the septic sewer system of the improvements and water leaking from leach fields. Tenant will furnish to Landlord, on an annual basis, evidence reasonably satisfactory to Landlord that the septic tanks have been properly pumped and that the leach field is functioning properly.

10.3.2 Tenant shall enter into a maintenance contract or contracts, in form and substance and with a firm reasonably satisfactory to Landlord and with Landlord's prior consent, for the maintenance and regular repair of the mechanical systems, including but not limited to the heating, ventilating and air conditioning systems, including exhaust fans. Said maintenance contract shall provide, at a minimum, for quarterly inspections and services. Landlord, at its election, may enter into such contract and charge Tenant for the cost thereof.

10.3.3 Tenant shall be responsible for the maintenance and upkeep of the entire fire sprinkler system. Tenant shall conduct quarterly flow checks on the sprinkler system. In addition, Tenant shall be responsible for fire pump inspection and testing on an annual basis.

10.3.4 Tenant shall keep and maintain written reports of the maintenance and repair to the mechanical systems, and the fire sprinkler system and forward copies of each inspection report to Landlord within ten (10) days of each inspection. Tenant shall also provide information and backup for major repairs to any building systems, including any warranties on the work, that occurred at any time during the Term.

10.3.5 Tenant shall maintain the lighting in the Premises (including replacement of bulbs and batteries). Tenant shall conduct quarterly tests will be conducted on emergency lighting and provide Landlord a copy of each such test. Bulbs, ballasts and light fixtures shall be replaced whenever they fail. All bulbs, batteries, ballasts and fixtures of the lighting systems must be in working order upon lease termination.

10.3.6 Tenant shall maintain roll-up doors in good condition, including but not limited to repair of major dents and replacement of missing rollers and step plates.

10.3.7 Tenant will lubricate all dock levelers, adjust springs and remove debris from pits at least semi-annually. Side seals will be replaced if damaged.

10.4 Damage by Tenant. Except for ordinary wear and tear, Tenant shall promptly reimburse Landlord for any costs that Landlord may incur in making repairs and alterations in and to the Premises, including, without limitation, the buildings and their systems and equipment, where the need for such repairs or alterations is caused by any of the following: **a)** Tenant's use or occupancy of the Premises in a fashion that contravenes any provision of this Lease; **b)** the installation, removal, use, or operation of Tenant's Property; **c)** the moving of Tenant's Property into or out of any Building; **d)** any tortious act, omission, misuse, or negligence of any Tenant Related Parties; or **e)** any breach by Tenant of its obligations under Section 10.2.

ARTICLE 10A
TAXES

10A.1 Tenant's Responsibility. Tenant shall be obligated (i) to pay all Taxes no later than the date after which any interest or penalties could accrue and (ii) to provide Landlord, no later than one business day after Tenant has paid any Taxes, reasonable evidence to confirm that such payment has been made.

10A.2 Landlord's Responsibility. Landlord will send any written notices or statements regarding Taxes to Tenant as soon as practicable after Landlord's receipt of same so that Tenant will be able to make payments due before any date on which interest or penalties could begin to accrue.

10A.3 Landlord's Right to Satisfy Tenant's Obligation. If Tenant fails timely to provide Landlord with reasonable evidence of payment of any Taxes due in accordance with Section 10A.1 above, Landlord shall have the right to pay such Taxes (together with accrued interest and penalties) and to demand reimbursement from Tenant in accordance with Section 4.2 above.

ARTICLE 11
ALTERATIONS AND ADDITIONS

11.1 Tenant's Alterations. Tenant shall not make any additions, alterations, or improvements to the Premises without the prior consent of Landlord, which consent shall be requested by Tenant at least thirty (30) days prior to the commencement of any work and which consent shall not be unreasonably withheld or delayed by Landlord. Landlord's consent may be conditioned, among other things, on Tenant's removing any such additions, alterations, or improvements at the Expiration Date and restoring the Premises to the same condition as on the Commencement Date. All additions, alterations, and improvements shall be **a)** made in a good and workmanlike manner using only good grades of materials; **b)** performed by properly qualified and licensed personnel approved by Landlord; and **c)** diligently prosecuted to completion. Notwithstanding the foregoing, Tenant shall have the right during the Term to make additions, alterations, or improvements as Tenant may reasonably deem desirable or necessary, following ten (10) days' notice to Landlord, but without Landlord's consent, provided that such work (i) is of a non-structural nature; (ii) is not visible from outside of the Premises; (iii) does not affect any system serving the Premises; (iv) does not, in the aggregate, exceed $5,000 for alterations other than floor and wall covering in any twelve (12) month period; and (v) does not require any license, permit or approval under applicable Law.

11.2 Payment and Indemnification. Tenant shall pay the costs of any work done on the Premises by or on behalf of Tenant and shall keep the Premises free and clear of liens of any kind. Tenant shall indemnify, defend against, and keep Landlord free and harmless from all claims, demands, liability, loss, damage, costs, reasonable attorneys' fees, and any other expense incurred on account of claims by any person performing work or furnishing materials or supplies for Tenant or any person claiming under Tenant, including but not limited to resolution of any jurisdictional or other labor disputes.

11.3 Notices and Liens. Tenant agrees not to suffer or permit any lien of any mechanic or materialman to be placed or filed against the Premises. In case any such lien shall be filed, Tenant shall satisfy and release such lien of record within twenty (20) days (or such shorter period as may be required by any Mortgagee) after the earlier to occur of (a) receipt of notice thereof from Landlord; or (b) Tenant's actual knowledge or notice of such lien filing. If Tenant shall fail to have such lien satisfied and released of record as provided herein, Landlord may, on behalf of Tenant, without being responsible for making any investigation as to the validity of such lien and without limiting or affecting any other remedies Landlord may have, pay the same and Tenant shall reimburse Landlord on demand for such amount together with any other reasonable costs of Landlord, including, without limitation, reasonable attorneys' fees. Notwithstanding the foregoing, Tenant shall have the right to contest any such lien claim diligently and in good faith, and during such contest shall not be obligated to pay such lien claim, provided that Tenant is not in breach of any of its obligations under this Lease and provided, Tenant, at its sole cost and expense, bonds the lien, or transfers the lien from the Property to a bond, thereby freeing the Property from any claim of lien. Notwithstanding any such contest or title insurance, Tenant shall pay any such claim in full within five (5) days following the entry of an unstayed judgment or order of sale. All materialmen, contractors, artisans, mechanics, laborers and any other person now or thereafter furnishing any labor, services, materials, supplies or equipment to Tenant with respect to Premises or any portion thereof, are hereby charged with notice that they must look exclusively to Tenant to obtain payment for the same. Notice is hereby given that

Landlord shall not be liable for any labor, services, materials, supplies, skill, machinery, fixtures or equipment furnished to or to be furnished to Tenant upon credit and that no mechanic's lien or any other lien for any such labor, services, materials, supplies, machinery, fixtures or equipment shall attach to or effect the state or interest of Landlord in and to the Premises, or any portion thereof. Before the actual commencement of any work for which a claim or lien may be filed, Tenant shall give Landlord notice of the intended commencement date a sufficient time before that date to enable Landlord to post notices of nonresponsibility or any other notices that Landlord deems necessary for the protection of Landlord's interest in the Premises, and Landlord shall have the right to enter the Premises and post such notices at any reasonable time.

11.4 Construction Requirements. Any work performed on the Premises (including, without limitation, the Buildings) by Tenant or Tenant's contractor in connection with improvements shall be subject to the General Conditions set forth in Exhibit B, including, without limitation, the insurance requirements relating to Tenant's contractors.

ARTICLE 12
CERTAIN RIGHTS RESERVED BY LANDLORD

Landlord reserves the following rights, exercisable without liability to Tenant for (a) damage or injury to property, person, or business; (b) causing an actual or constructive eviction from the Premises; or (c) disturbing Tenant's use, possession, or beneficial and quiet enjoyment of the Premises:

12.1 Keys. To have passkeys to the Premises and all doors within the Premises, excluding Tenant's vaults and safes.

12.2 Inspection and Entry. Landlord may enter the Premises on reasonable prior notice to Tenant (except in the event of an emergency, in which case no notice shall be required) (a) to inspect the Premises; (b) to show the Premises to any Mortgagee or to others having an interest in the Premises or Landlord; (c) during the existence of a Default; (d) during the last six (6) months of the Term, to show the Premises to prospective tenants or potential purchasers of the Premises; (e) to make inspections, repairs, alterations, additions, or improvements to the Premises including, without limitation, the Buildings) to the extent that Tenant is not obligated to do so under the Lease or is obligated but has failed to do so; and (f) to take all steps as may be necessary or desirable for the safety, protection, maintenance, or preservation of the Premises or Landlord's interest therein, or as may be necessary in order to comply with Laws.

ARTICLE 13
OPTION TO PURCHASE

Tenant (and any person including, without limitation, Grayson County, to which Tenant may assign the Option, as defined below) shall have the option and right to purchase the Premises ("Option") during the period between the Commencement Date and August 31, 2010, (the "Option Term"). (The holder of the Option, being the Tenant or its assignee of the Option, is hereinafter referred to as "Option Holder.") Option Holder may exercise Option by giving Landlord written notice of exercise at any time during the Option Term but no later than 45 days prior to the end of Option Term. On the closing of the purchase of the Premises pursuant to the exercise and performance of Option by Option Holder (the "Option Closing"), the Lease and any rights not then accrued under the Lease shall terminate. The terms and conditions on which Option Holder may purchase the Premises are as follows:

13.1 Purchase Price. The purchase price for the Premises shall be Two Million Two Hundred Thousand Dollars ($2,200,000.00). If Option Holder is Tenant, the amount of the Security Deposit may, at the election of Tenant, be applied to payment of purchase price, in which event Landlord will retain the Security Deposit and it will not be applied to Rent. The purchase price shall be paid all in cash at the Option Closing. The Option Closing shall be conducted through a mutually acceptable escrow company as provided in Section 13.6 below.

13.2 Costs of Sale. Option Holder shall pay all costs of sale, regardless of local custom, except that Option Holder shall not be responsible for any of the following closing costs, all of which shall be the sole responsibility of Landlord: costs to remove title exceptions that are not Permitted Exceptions under Section 13.3 below, the tax imposed on the grantor on a deed by the Commonwealth of Virginia, Landlord's attorneys' fees, and real estate taxes and assessments accrued and unpaid through the date of Closing and attributable to the period before the Commencement Date.

13.3 Title. At the Option Closing, title of Option Holder to the Premises shall be insurable under an owner's standard title insurance policy subject only to those assessments, restrictions, easements, covenants, and reservations of record existing on the date of this Lease that do not materially and adversely affect the use of the Premises in the ordinary course of Tenant's business or the value of the Premises (provided, however, that Landlord will use commercially reasonable efforts to resolve objections to the state of title raised by Option Holder's lender providing financing to Option Holder for the purchase of the Premises) as well as any matters arising by, through, or under Tenant ("Permitted Exceptions"). Title shall be conveyed by Landlord by a general warranty deed with English covenants of title subject to Permitted Exceptions. In no event shall Permitted Exceptions include monetary liens or encumbrances created or permitted by Landlord. Promptly after Option Holder becomes aware of any title exception or exceptions that are not Permitted Exceptions, Option Holder shall give notice of such exception(s) to Landlord and Landlord shall promptly use its best efforts to correct whatever encumbrance, easement, or other adverse effect on title created the title exception(s) but only if Landlord caused or permitted such encumbrance, easement, or other adverse effect.

13.4 Deadline to Close. Closing shall occur no later than 45 days after the notice of exercise is given; provided, however, that if an encumbrance has arisen that is not a Permitted Exception and if such encumbrance can not be removed through escrow procedures at Closing, then the deadline for the Option Closing shall be automatically extended for such reasonable period of time as is needed to remove the new title exception, provided that such extension shall not exceed thirty (30) calendar days.

13.5 Place of Closing. The purchase of the Premises shall be closed through an escrow agent at an office in Virginia of the title company that will issue the owner's title insurance policy to Option Holder. If Landlord shall have paid Taxes relating to any period on or after the Commencement Date or Tenant shall have said Taxes relating to any period before the Commencement Date, then Taxes shall be appropriately prorated as of the Commencement Date.

13.6 Contingency for Remediation of Hazardous Materials. If any lender from which Option Holder intends to obtain funding for payment of the purchase price of the Premises or if Grayson County (if it becomes Option Holder) determines that there has been one or more releases or discharges of Hazardous Materials on the Premises and requires that the presence of Hazardous Materials be remediated as a condition of funding (or, in the case of Grayson County, as a condition of the Option Closing being consummated) and if presence of Hazardous Materials on the Premises results from one or more releases or discharges occurring before the Commencement Date, then the following provisions apply:

(a) Option Holder will promptly provide Landlord with copies of all documents and communications in its possession concerning the presence of Hazardous Materials and shall obtain and transmit to Landlord any survey, test reports, and/or other documentation regarding such Hazardous Materials in the possession of lender.

(b) As soon as reasonably practical after Landlord receives the information from Option Holder pursuant to (a) above, Landlord will obtain at least two estimates from reputable engineering or other companies experienced in carrying out remediation projects and determine whether Landlord can cause the remediation to be completed at a cost not to exceed $220,000.00

(c) If Landlord determines that it can cause remediation to be completed at a cost not to exceed $220,000.00 and provided that Option Holder provides assurances reasonably acceptable to Landlord that Option Holder will and can proceed to complete the Option Closing promptly after remediation has occurred, then Landlord will use reasonable commercial efforts to cause the remediation to be carried out and completed expeditiously.

(d) If Landlord cannot obtain a contract with a reputable engineering or other company experienced in remediation to remediate to the extent required by the lender, or Grayson County if it is the Option Holder, at a cost not to exceed $220,000.00, then Option Holder may elect, no later than 30 days after Landlord so informs the Option Holder, to (i) carry out the Option Closing at a purchase price for the Premises of $1,980,000.00; (ii) provide financial assurances reasonably satisfactory to Landlord that the Option Holder will pay any costs of remediation in excess of $220,000.00, in which case Landlord will proceed to use reasonable commercial efforts to cause the remediation to be carried out and completed expeditiously (subject to receipt of assurances reasonably acceptable to Landlord that Option Holder will and can proceed to complete the Option Closing promptly after remediation has occurred); or (iii) allow the Option Term to expire without exercising the Option or, if the Option has been exercised, give notice to Landlord that Option Holder rescinds its exercise of the Option.

(e) If remediation occurs pursuant to this Section 13.6, then the Option Closing shall occur no later than 10 business days after the remediation is completed to the reasonable satisfaction of the lender (or Grayson County, if it is the Option Holder).

(f) If any period of remediation extends beyond the end of the Option Term, then the Base Rent between the end of the Option Term and the Option Closing shall be $22,000.00 per month per month and the security deposit shall be $22,000.00 during such period.

(g) If Option Holder elects to exercise its right under Section 13.6(d)(iii) above, then the Base Rent from the end of the Option Term to the termination of this Lease shall be $22,000.00, the security deposit shall be $22,000.00 after the end of the Option Term, and the Term of this Lease shall be extended to December 31, 2014.

(h) Notwithstanding any provisions in the APA, this Section 13.6 shall apply to and govern the subject matter of contingency for remediation of Hazardous Materials.

ARTICLE 14
TRANSFERS

Except as provided in this Article, Tenant shall not, without the prior consent of Landlord, make any Transfer.

14.1 Notice. Tenant shall notify Landlord of any proposed Transfer (a "Transfer Notice"). The date of the proposed Transfer must be not less than forty-five (45) days or more than one hundred eighty (180) days after the date of the Transfer Notice. The Transfer Notice shall include **a)** the proposed effective date of the Transfer; **b)** all of the terms of the proposed Transfer and the consideration therefor, including, without limitation, a calculation of the Transfer Premium (as defined below); **c)** the name and address of the Transferee; **d)** current financial statements of the Transferee certified by an officer, partner or owner thereof; **e)** any other information that will enable Landlord to determine the financial responsibility, character, and reputation of the Transferee and the nature of such Transferee's business; and **f)** the proposed use of the Premises. Landlord shall respond to any properly delivered Transfer Notice within thirty (30) days.

14.2 Fees. Whether or not Landlord shall grant consent, Tenant shall pay Landlord concurrently with any request for consent, a $1,000 administrative review and processing fee, as well as any reasonable legal fees incurred by Landlord, within thirty (30) days after written request by Landlord.

14.3 Consent. Landlord's consent shall not be required for any Permitted Transfer. Landlord shall not unreasonably withhold or delay its consent to any other proposed Transfer. It shall be reasonable under this Lease and under any applicable Law for Landlord to withhold consent to any proposed Transfer where one or more of the following apply, without limitation as to other reasonable grounds for withholding consent:

14.3.1 The Transfer would be for less than the entire Premises.

14.3.2 The Transferee intends to use the Premises for purposes that are not permitted under this Lease.

14.3.3 The Transferee is either a governmental agency or instrumentality thereof.

14.3.4 The Transferee is not a party of reasonable financial worth or financial stability in light of the responsibilities involved under the Lease on the date consent is requested, as determined by Landlord.

14.3.5 The Transfer would cause a violation of another lease or any agreement to which Landlord is a party.

14.4 Completion of Transfer. If Landlord consents to any Transfer (and does not exercise any recapture rights Landlord may have under this Lease), Tenant may within six (6) months after Landlord's consent, enter into the approved Transfer, upon substantially the same terms and conditions as are set forth in the Transfer Notice. If there are any material changes in the terms and conditions from those specified in the Transfer Notice **a)** such that Landlord would initially have been entitled to refuse its consent to such Transfer; or **b)** that would cause the proposed Transfer to be more favorable to the Transferee than the terms set forth in the Transfer Notice, Tenant shall again submit the Transfer to Landlord for its approval and other action under this Article (including, without limitation, exercise any of recapture rights Landlord may have under this Lease).

14.5 [**INTENTIONALLY DELETED**]

14.6 [**INTENTIONALLY DELETED**]

14.7 Effect of Transfer. If Landlord consents to a Transfer, **a)** no terms or conditions of this Lease shall be deemed to have been waived or modified; **b)** such consent shall not be deemed consent to any further Transfer; **c)** no Transfer shall be valid, and no Transferee shall take possession of the Premises, until an executed counterpart of all documentation pertaining to the Transfer has been delivered to Landlord; and **d)** no Transfer shall relieve Tenant from primary liability under this Lease. The acceptance of Rent by Landlord from any party shall not be deemed to be a waiver of Landlord of any provision hereof. In the event of Default by a Transferee in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against such Transferee. Landlord may consent to subsequent assignments of the Lease or sublettings or amendments or modifications to the Lease by Transferees without notifying Tenant, and without obtaining its consent thereto, and any such actions shall not relieve Tenant of liability under this Lease. Any Transfer for which Landlord's consent is required but not obtained pursuant hereto shall constitute a Default under this Lease and shall be void.

14.8 Tenant Remedy for Landlord Refusal to Consent. Notwithstanding any provision of this Lease or any applicable Laws to the contrary, Landlord and Tenant hereby expressly agree that if a court of competent jurisdiction determines that Landlord unreasonably withheld consent to a proposed Transfer, then Tenant's sole and exclusive remedy for such breach by Landlord shall be limited to termination of this Lease as of the date of such court determination. Tenant hereby expressly waives the right to recover monetary damages of any kind whatsoever and attorney's fees incurred on account of any such breach.

ARTICLE 15
DESTRUCTION OR DAMAGE

15.1 Landlord Termination Rights. If the Premises are damaged by fire, earthquake, terrorism, act of war, act of God, the elements or other casualty, then Landlord may terminate this Lease upon notice given to Tenant within thirty (30) days after the date of such casualty, effective as of the date of the casualty if **a)** in Landlord's opinion, repairs necessary for Tenant's occupancy cannot be completed within one hundred twenty (120) days after the date of the casualty; **b)** the Premises are damaged during the final twelve (12) months of the Term, unless both parties agree on an extension of this Lease within ten (10) days following Tenant's receipt of Landlord's termination notice; **c)** the insurance proceeds available to Landlord are not sufficient to complete repair or restoration; **d)** Landlord's lender does not elect to make insurance proceeds available to Landlord for repair and restoration; or **e)** Tenant has vacated the Premises or is in Default under this Lease.

15.2 Repairs. If this Lease is not terminated as provided above, it shall continue in full force and effect, and Landlord shall promptly and diligently, subject to reasonable delays for insurance adjustment, and subject to all other terms of this Article, restore the base, shell, and core of the Buildings and the other portions of the Premises serving the Buildings. Such restoration shall be to substantially the same condition of such items as prior to the casualty, except for modifications **a)** required by Law; **b)** required by the holder of a mortgage on the Buildings, or the lessor of a ground or underlying lease with respect to the Property. No such modifications shall materially impair access to the Premises. Tenant shall be responsible, at its sole cost and expense, for the repair, restoration, and replacement of any leasehold improvements installed by Tenant (unless Landlord has elected to insure the same, in which case such repair shall be Landlord's responsibility to the extent Landlord receives proceeds from such insurance for such repair) and Tenant's Property. Landlord shall not be liable for any loss of business, inconvenience, or annoyance arising from any casualty or any repair or restoration of any portion of the Premises as a result of any damage from any casualty. Following Landlord's repair of the Premises, Tenant shall repair and restore any improvements installed by Tenant to substantially the same condition as prior to the casualty, except for modifications required by Law. All work by Tenant shall be subject to the conditions set forth in this Lease governing alterations and additions.

15.3 Tenant's Termination Rights. If Landlord does not elect to terminate this Lease pursuant to Landlord's termination right as provided above, and the repairs cannot be completed within one hundred twenty (120) days after the date of the casualty (the "Repair Period") as determined by an architect or contractor designated by Landlord, Tenant may elect, no earlier than sixty (60) days after the date of the casualty and not later than ninety (90) days after the date of such casualty, to terminate this Lease by notice to Landlord, effective as of the date specified in the notice, which date

shall not be less than thirty (30) days nor more than sixty (60) days after such notice. In addition, in the event that the Premises are destroyed or damaged to any substantial extent during the last twelve (12) months of the Term, then Tenant shall have the option to terminate this Lease by giving notice to Landlord within thirty (30) days after such casualty, in which event this Lease shall cease and terminate as of the date of such notice. Tenant shall also have the right to terminate this Lease if Landlord does not complete repairs within the Repair Period by thirty (30) days' notice to Landlord after the expiration of the Repair Period; provided however, if Landlord completes repair within such thirty (30) day period, such termination shall be nullified and this Lease shall continue in full force and effect.

15.4 Apportionment of Rent. Upon any termination of this Lease pursuant to this Article, Tenant shall pay the Rent, properly apportioned up to such date of termination, and both parties hereto shall thereafter be freed and discharged of all further obligations hereunder, except as provided for in provisions of this Lease that by their terms survive the expiration or earlier termination of this Lease.

15.5 Abatement. The Rent shall abate on an equitable basis to the extent Tenant's use of the Premises is impaired, commencing with the date of the casualty and continuing until completion of the repairs required of Landlord; provided that if the damage is due to the negligence or willful misconduct of any Tenant Related Party, Rent shall only abate to the extent the same is covered by rent loss insurance, if any, carried by Landlord.

15.6 Express Agreement. This Lease shall be considered an express agreement governing any case of damage to or destruction of the Premises by fire or other casualty; and any present or future Law that purports to govern the rights of Landlord and Tenant in such circumstances in the absence of express agreement is hereby waived by the parties and shall have no application.

ARTICLE 16
EMINENT DOMAIN

16.1 Entire Premises. If the whole of the Premises is lawfully taken by condemnation or in any other manner for any public or quasi-public purpose, this Lease shall terminate as of the earlier of the date of the date title vests or the date possession is given, and Rent shall be prorated to such date.

16.2 Partial Condemnation. If less than the whole of the Premises is so taken, this Lease shall be unaffected by such taking, except that (a) Tenant shall have the right to terminate this Lease by notice to Landlord given within ninety (90) days after the date of such taking if twenty-five percent (25%) or more of the Premises is taken and the remaining area of the Premises is not reasonably sufficient for Tenant to continue operation of its business; and (b) Landlord shall have the right to terminate this Lease by notice to Tenant given within ninety (90) days after the date of such taking. If either Landlord or Tenant so elects to terminate this Lease, this Lease shall terminate on the thirtieth (30th) day after either such notice. Rent shall be prorated to the date of such termination. If this Lease continues in force upon such partial taking, the Base Rent shall be equitably adjusted according to the remaining area of the Premises. Tenant's obligation to pay Premises Operating Costs shall not be affected by any such partial taking of the Premises.

16.3 Proceeds of Award. In the event of any taking, partial or whole, all of the proceeds of any award, judgment, or settlement payable by the condemning authority shall be the exclusive property of Landlord, whether awarded as compensation for the damages to Landlord's or Tenant's interest in the Premises and whether or not awarded as compensation for diminution in value of the leasehold or to the fee of the Premises, and Tenant hereby assigns to Landlord all of its right, title, and interest in any award, judgment, or settlement from the condemning authority. Tenant, however, shall have the right, to the extent that Landlord's award is not reduced or prejudiced, to claim from the condemning authority (but not from Landlord) such compensation as may be recoverable by Tenant in its own right for relocation expenses and damage to Tenant's Property.

16.4 Repairs. In the event of a partial taking of the Premises that does not result in a termination of this Lease, Landlord shall restore the remaining portion of the Premises as nearly as practicable to its condition prior to the condemnation or taking. Tenant shall be responsible at its sole cost and expense for the repair, restoration, and replacement of Tenant's Property.

ARTICLE 17
INDEMNIFICATION, WAIVER, RELEASE AND LIMITATION OF LIABILITY

17.1 Tenant's Indemnity. Except for any injury or damage to persons or property on the Premises that is proximately caused by or results proximately from the gross negligence or willful misconduct of Landlord, no Landlord Related Parties shall be liable for, and Tenant will and does hereby indemnify, defend and hold harmless the Landlord Related Parties against and from all liabilities, obligations, suits, damages, penalties, claims, costs, charges and expenses, including, without limitation, reasonable attorneys' fees and other professional fees (if and to the extent permitted by law), that may be imposed upon, incurred by, or asserted against Landlord or any of the Landlord Related Parties and arising, directly or indirectly, out of or in connection with Tenant's use, occupancy or maintenance of the Premises including, without limitation, any of the following: **a)** any work or thing done in, on or about the Premises or any part thereof by any Tenant Related Party; **b)** any injury or damage to any person or property; **c)** any failure on the part of Tenant to perform or comply with any of the covenants, agreements, terms or conditions contained in this Lease; and **d)** any negligent or otherwise tortious act or omission of any Tenant Related Party. At Landlord's request, Tenant shall, at Tenant's expense and by counsel selected by Landlord, defend Landlord in any action or proceeding arising from any such claim or liability and shall indemnify Landlord against all costs, reasonable attorneys' fees, expert witness fees, and any other expenses incurred in such action or proceeding.

17.2 Assumption of Risk. Tenant hereby assumes all risk of damage or injury to any person or property in, on, or about the Premises from any cause other than the gross negligence or willful misconduct of Landlord. Tenant, to the fullest extent permitted by law and as a material part of the consideration to Landlord for this Lease, hereby waives and releases all claims against any Landlord Related Parties with respect to all matters for which Landlord has disclaimed liability pursuant to the provisions of this Lease. Tenant agrees that, unless expressly provided herein, no Landlord Related Parties will be liable for any loss, injury, death, or damage to persons, property, or Tenant's business resulting from any of the following, regardless of whether the same is due to the active or passive negligence of any Landlord Related Party: **a)** theft; **b)** Force Majeure, order of governmental body or authority, fire, explosion, or falling objects; **c)** any accident or occurrence in the Premises caused by the Premises becoming out of repair or by the obstruction, breakage or defect in or failure of equipment, pipes, sprinklers, wiring, plumbing, heating, ventilation and air-conditioning or lighting fixtures of the Buildings or by broken glass or by the backing up of drains, or by gas, water, steam, electricity or oil leaking, escaping or flowing into or out of the Premises; **d)** construction, repair or alteration of the Premises, unless due to solely to the gross negligence or willful misconduct of Landlord; **e)** business interruption or loss of use of the Premises; **f)** any diminution or shutting off of light, air or view by any structure erected on any land adjacent to the Premises, even if Landlord is the adjacent land owner; **g)** mold or indoor air quality; **h)** any acts or omissions of any occupant of or visitor to the Premises; or **i)** any cause beyond Landlord's control. In no event shall Landlord be liable for indirect, consequential, or punitive damages, including, without limitation, any damages based on lost profits. None of the foregoing shall be considered a constructive eviction of Tenant, nor shall the same entitle Tenant to an abatement of Rent.

17.3 Waiver of Subrogation. Anything in this Lease to the contrary notwithstanding, Landlord and Tenant each hereby waives any and all rights of recovery, claim, action or cause of action against the other for any loss or damage to any property of Landlord or Tenant, arising from any cause that (a) would be insured against under the terms of any property insurance required to be carried hereunder; or (b) is insured against under the terms of any property insurance actually carried, regardless of whether the same is required hereunder. The foregoing waiver shall apply regardless of the cause or origin of such claim, including but not limited to the negligence of a party, or such party's agents, officers, employees or contractors. The foregoing waiver shall not apply if it would have the effect, but only to the extent of such effect, of invalidating any insurance coverage of Landlord or Tenant. The foregoing waiver shall also apply to any deductible, as if the same were a part of the insurance recovery.

17.4 Limitation of Landlord Liability. Neither Landlord nor any Landlord Related Party shall have any personal liability with respect to any of the provisions of the Lease, or the Premises. If Landlord is in breach or default with respect to Landlord's obligations under the Lease, Tenant shall look solely to the equity interest of Landlord in the Premises for the satisfaction of Tenant's remedies or judgments. No other real, personal, or mixed property of any Landlord Related Parties, wherever situated, shall be subject to levy to satisfy such judgment. Upon any Transfer of Landlord's interest in this Lease or in the Premises, the transferring Landlord shall have no liability or obligation for matters arising under this Lease from and after the date of such Transfer.

ARTICLE 18
TENANT'S INSURANCE

18.1 Required Coverage. As provided in Section 2.16 above, Landlord shall be responsible for insuring the Buildings and appurtenant improvements for the full replacement cost thereof against the risks covered by broad form property insurance. Tenant shall maintain the following coverages in the following amounts.

18.1.1 Commercial General Liability Insurance (or its equivalent) covering the insured against claims of bodily injury and death, personal injury and property damage arising out of Tenant's operations, assumed liabilities or use of the Premises, for limits of liability not less than Two Million and No/100 Dollars ($2,000,000.00) combined single limit per occurrence and Five Million and No/100 Dollars ($5,000,000.00) combined single limit annual aggregate.

18.1.2 Property Insurance covering (a) Tenant's Property, (b) any improvements and alterations made by Tenant or at Tenant's request. Such insurance shall be written on a "Causes of Loss – Special Form" basis (or its equivalent), for the full replacement cost (as shall be approved by Landlord) without deduction for depreciation, and shall include coverage for vandalism, malicious mischief and sprinkler leakage. The proceeds of such insurance shall be used for the repair or replacement of the property so insured. Upon termination of this Lease following a casualty as set forth herein the proceeds under (a) shall be paid to Tenant and the proceeds under (b) in excess of Tenant's unamortized cost associated therewith shall be paid to Landlord. Notwithstanding the foregoing, Landlord shall have the option at any time, upon three (3) months' notice to Tenant, to procure property insurance covering leasehold improvements on all the premises throughout the Buildings, and thereafter the premium of such policy shall be an element of Premises Operating Costs.

18.1.3 Business Income and Extra Expense insurance (or its equivalent) in such amounts as will reimburse Tenant for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent tenants or attributable to prevention of access to the Premises or to the Building as a result of such perils, for a period of not less than twelve (12) months.

18.1.4 Statutory worker's compensation, together with employer's liability coverage at limits of:

$500,000 Each Accident

$500,000 Each Employee by Disease

$500,000 Policy Limit by Disease

18.2 Form of Policies. The minimum limits of policies of insurance required of Tenant under this Lease shall in no event limit the liability of Tenant under this Lease. All liability insurance shall **a)** name Landlord, and, at Landlord's request, any Mortgagee, each as an additional insured, as their respective interests may appear; **b)** specifically cover the liability assumed by Tenant under this Lease, including, but not limited to, Tenant's indemnity obligations under this Lease; **c)** be issued by an insurance company having a rating of not less than A- IX in Best's Insurance Guide or that is otherwise acceptable to Landlord and licensed to do business in the State; **d)** be primary insurance as to all claims thereunder and provide that any insurance carried by Landlord shall be excess and non-contributing with any insurance requirement of Tenant; **e)** provide that said insurance shall not be canceled, expire or coverage reduced unless thirty (30) days' prior notice shall have been given to Landlord; and **f)** if Tenant has a tangible net worth of less than Ten Million and No/100 Dollars ($10,000,000.00), have a deductible not greater than Five Thousand and No/100 Dollars ($5,000.00).

18.3 Evidence of Insurance. Tenant shall deliver a copy of each paid-up policy (authenticated by the insurer) or other evidence of insurance reasonably satisfactory to Landlord, evidencing the existence and amount of each insurance policy required hereunder on or before the Commencement Date and at least thirty (30) days before the expiration dates of the applicable policies. Landlord may, at any time and from time to time, inspect or copy any insurance policies that this Lease requires Tenant to maintain. Tenant shall furnish Landlord with renewals or "binders" of each policy at least ten (10) days prior to the expiration thereof. Tenant agrees that, if Tenant does not obtain and maintain such insurance, Landlord may (but shall not be required to) after five (5) days' notice to Tenant during which time Tenant does not supply Landlord evidence of the required insurance, procure said insurance on Tenant's behalf and charge Tenant the premiums therefor, payable upon demand. Tenant shall have the right to provide the insurance required hereunder pursuant to blanket policies obtained by Tenant, provided such blanket policies afford coverage as required by this Lease.

18.4 Additional Insurance Obligations. Landlord may require (a) that Tenant obtain additional types of insurance, including but not limited to earthquake, sprinkler leakage by earthquake, environmental and terrorism insurance; to the extent such coverages are either (i) standard for similar properties in the same geographic area as the Property and are available at commercially reasonable rates, or (ii) are otherwise reasonably required by Landlord; and (b) from time to time, but not more frequently than once during the Term, increases in the policy limits for all insurance to be carried by Tenant as set forth herein, in order to reflect standard limits for similar properties.

18.5 Independent Obligations. Tenant acknowledges and agrees that Tenant's insurance obligations under this Lease are independent of Tenant's indemnity obligations, liabilities and duties under this Lease.

ARTICLE 19
DEFAULT

19.1 Tenant's Default. A "Default" shall mean the occurrence of any one or more of the following events:

19.1.1 Tenant's failure to pay any Rent when due, where such failure shall continue for a period of five (5) days after written notice thereof from Landlord to Tenant. In the event that Landlord serves Tenant with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes, such Notice to Pay Rent or Quit shall also constitute the notice required by this subsection.

19.1.2 Tenant fails to cure a material breach of its non-monetary obligations under this Lease within thirty (30) days after notice of default from Landlord; provided, however, that if the nature of the subject breach is such that it is curable but cannot be reasonably cured within said 30- day period, such 30-day period shall be extended for a reasonable additional period of time so long as Tenant commences to cure the subject breach within said 30-day period of time and thereafter diligently prosecutes the cure to completion;

19.1.3 Tenant fails to deliver any estoppel certificates or subordination agreements within the periods set forth in this Lease.

19.1.4 The levy of a writ of attachment or execution on this Lease or on any of Tenant's property.

19.1.5 Tenant's general assignment for the benefit of creditors or arrangement, composition, extension, or adjustment with its creditors.

19.1.6 Tenant becomes insolvent or bankrupt or admits in writing its inability to pay its debts as they mature.

19.1.7 Proceedings for the appointment of a trustee, custodian or receiver of Tenant or for all or a part of Tenant's property are filed by or against Tenant, and, if filed against Tenant involuntarily, are not dismissed within sixty (60) days of filing.

19.1.8 Proceedings in bankruptcy, or other proceedings for relief under any law for the relief of debtors, are instituted by or against Tenant, and, if instituted against Tenant involuntarily, are not dismissed within sixty (60) days of filing.

19.1.9 Tenant makes an anticipatory breach of this Lease. "Anticipatory breach" shall mean either (a) Tenant's repudiation of this Lease in writing; or (b) the combination of (i) Tenant's desertion or vacation of the Premises or removal of all or a substantial amount of Tenant's inventory, equipment, furniture and fixtures from the Premises; and (ii) Tenant's failure to pay any Rent under this Lease when due.

19.1.10 Tenant shall repeatedly fail to pay Rent when due or any other charges required to be paid, or shall repeatedly default in keeping, observing or performing any other covenant, agreement, condition or provision of this Lease, whether or not Tenant shall timely cure any such payment or other default. For the purposes of this subsection, the occurrence of similar defaults two (2) times during any twelve (12) month period shall constitute a repeated default.

Any notice periods provided for under this Section shall run concurrently with any statutory notice periods and any notice given hereunder may be given simultaneously with or incorporated into any such statutory notice.

19.2 Landlord's Default. If Landlord fails to perform any covenant, condition, or agreement contained in this Lease within thirty (30) days after receipt of notice from Tenant, or if such default cannot reasonably be cured within thirty (30) days, and if Landlord fails to commence to cure within such thirty (30) day period or to diligently prosecute the same to completion, then, subject to the other limitations set forth elsewhere in this Lease, Landlord shall be liable to Tenant for any damages sustained by Tenant as a result of Landlord's breach; provided, however, that in no event shall (a) Landlord be liable for indirect, consequential or punitive damages, including, without limitation, any damages based

on lost profits; or (b) Tenant have the right to terminate this Lease on account of a Landlord default. Tenant shall not have the right to withhold, reduce or offset any amount against any payments of Rent or any other charges due and payable under this Lease unless Tenant has obtained a final, non-appealable judgment against Landlord for the amount due.

ARTICLE 20
LANDLORD REMEDIES AND DAMAGES

20.1 Remedies. In the event of a Default, then in addition to any other rights or remedies Landlord may have at law or in equity, Landlord shall have the right, at Landlord's option, without further notice or demand of any kind, to do any or all of the following without prejudice to any other remedy that Landlord may have (but only as permitted to a landlord by applicable Law):

20.1.1 Terminate this Lease and Tenant's right to possession of the Premises by giving notice to Tenant. Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may re-enter the Premises and take possession thereof and expel or remove Tenant and any other party who may be occupying the Premises, or any part thereof, whereupon Tenant shall have no further claim to the Premises or under this Lease.

20.1.2 Continue this Lease in full force and effect, whether or not Tenant has vacated or abandoned the Premises, and sue upon and collect any unpaid Rent or other charges, that have or thereafter become due and payable.

20.1.3 Continue this Lease in effect, but terminate Tenant's right to possession of the Premises and re-enter the Premises and take possession thereof, whereupon Tenant shall have no further claim to the Premises without the same constituting an acceptance of surrender.

20.1.4 In the event of any re-entry or retaking of possession by Landlord, Landlord shall have the right, but not the obligation, (a) to expel or remove Tenant and any other party who may be occupying the Premises, or any part thereof; and (b) to remove all or any part of Tenant's or any other occupant's property on the Premises and to place such property in storage at a public warehouse at the expense and risk of Tenant.

20.1.5 Landlord may relet the Premises without thereby avoiding or terminating this Lease (if the same has not been previously terminated), and Tenant shall remain liable for any and all Rent and other charges and expenses hereunder. For the purpose of reletting, Landlord is authorized to make such repairs or alterations to the Premises as may be necessary in the sole discretion of Landlord for the purpose of such reletting, and if a sufficient sum is not realized from such reletting (after payment of all costs and expenses of such repairs, alterations and the expense of such reletting (including, without limitation, reasonable attorney and brokerage fees) and the collection of rent accruing therefrom) each month to equal the Rent, then Tenant shall pay such deficiency each month upon demand therefor. Actions to collect such amounts may be brought from time to time, on one or more occasions, without the necessity of Landlord's waiting until the expiration of the Term.

20.1.6 Without any further notice or demand, Landlord may enter upon the Premises, if necessary, without being liable for prosecution or claim for damages therefor, and do whatever Tenant is obligated to do under the terms of the Lease Tenant agrees to reimburse Landlord on demand for any reasonable expenses that Landlord may incur in effecting compliance with Tenant's obligations under the Lease. Tenant further agrees that Landlord shall not be liable for any damages resulting to Tenant from such action, unless caused by the gross negligence or willful misconduct of Landlord (but subject to the other limitations on Landlord's liability set forth in this Lease). Notwithstanding anything herein to the contrary, Landlord will have no obligation to cure any Default of Tenant.

20.1.7 Landlord shall at all times have the right, without prior demand or notice except as required by Law, to seek any declaratory, injunctive or other equitable relief, and specifically enforce this Lease, or restrain or enjoin a violation or breach of any provision hereof, without the necessity of proving the inadequacy of any legal remedy or irreparable harm.

20.1.8 Without notice to Tenant, Landlord may change or re-key all locks to entrances to the Premises, and Landlord shall have no obligation to give Tenant notice thereof or to provide Tenant with a key to the Premises.

20.1.9 The rights given to Landlord in this Article are cumulative and shall be in addition and supplemental to all other rights or remedies that Landlord may have under this Lease and under applicable Laws or in equity.

20.2 Damages. Should Landlord elect to terminate this Lease or Tenant's right to possession under the provisions above, Landlord may recover the following damages from Tenant:

20.2.1 Past Rent. The worth at the time of the award of any unpaid Rent that had been earned at the time of termination; plus

20.2.2 Rent Prior to Award. The worth at the time of the award of the unpaid Rent that would have been earned after termination, until the time of award; plus

20.2.3 Rent After Award. The worth at the time of the award of the amount by which the unpaid Rent for the balance of the term after the time of award exceeds the amount of the rental loss that Tenant proves could have been reasonably avoided, if any; plus

20.2.4 Proximately Caused Damages. Any other amount necessary to compensate Landlord for all detriment proximately caused by Tenant's failure to perform its obligations under this Lease or that in the ordinary course of things would be likely to result therefrom, including, but not limited to, any costs or expenses (including, without limitation, reasonable attorneys' fees), incurred by Landlord in (a) retaking possession of the Premises; (b) maintaining the Premises after Default; (c) preparing the Premises or any portion thereof for reletting to a new tenant, including, without limitation, any repairs or alterations, whether for the same or a different use; (d) reletting the Premises, including but not limited to, advertising expenses, brokers' commissions and fees; and (e) any special concessions made to obtain a new tenant.

20.2.5 Other Damages. At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by Law.

As used in subsections 20.2.1 and 20.2.2, the phrase "worth at the time of the award" shall be computed by adding interest on all such sums from the date when originally due at the Interest Rate. As used in subsection 20.2.3, the phrase "worth at the time of the award" shall be computed by discounting the sum in question at the Federal Reserve rate promulgated by the Federal Reserve office for the district in which the Premises are located, plus one percent (1%).

20.3 Rent after Termination. Tenant specifically acknowledges and agrees that Landlord shall have the right to continue to collect Rent after any termination (whether said termination occurs through eviction proceedings or as a result of some other early termination pursuant to this Lease) for the remainder of the Term, less any amounts collected by Landlord from the reletting of the Premises, but in no event shall Tenant be entitled to receive any excess of any such rents collected over the Rent.

20.4 No Termination. A termination of this Lease by Landlord or the recovery of possession of the Premises by Landlord or any voluntary or other surrender of this Lease by Tenant or a mutual cancellation thereof, shall not work a merger and shall at the option of Landlord, terminate all or any existing franchises or concessions, licenses, permits, subleases, subtenancies or the like between Tenant and any third party with respect to the Premises, or may, at the option of Landlord, operate as an assignment to Landlord of Tenant's interest in same.

20.5 Waiver of Demand. All demands for Rent and all other demands, notices and entries, whether provided for under common law or otherwise, that are not expressly required by the terms hereof, are hereby waived by Tenant.

20.6 Waiver of Redemption. Tenant hereby waives, relinquishes and releases for itself and for all those claiming under Tenant any right of occupancy of the Premises following termination of this Lease, and any right to redeem or reinstate this Lease by order or judgment of any court or by any legal process or writ under present or future Laws.

20.7 Deficiency. If it is necessary for Landlord to bring suit in order to collect any deficiency, Landlord shall have the right to allow such deficiencies to accumulate and to bring an action on several or all of the accrued deficiencies at one time. Any such suit shall not prejudice in any way the right of Landlord to bring a similar action for any subsequent deficiency or deficiencies.

20.8 Counterclaim. Tenant hereby waives any right to plead any counterclaim, offset or affirmative defense in any action or proceedings brought by Landlord against Tenant for possession of the Premises or otherwise, for the recovery of possession based upon the non-payment of Rent or any other Default. The foregoing shall not, however, be construed as a waiver of Tenant's right to assert any claim in a separate action brought by Tenant against Landlord. In the event Tenant must, because of applicable court rules or statutes, interpose any counterclaim or other claim against Landlord in such proceedings, Landlord and Tenant agree that, in addition to any other lawful remedy of Landlord, upon motion of Landlord, such counterclaim or other claim asserted by Tenant shall be severed from the proceedings instituted by Landlord (and, if necessary, transferred to a court of different jurisdiction), and the proceedings instituted by Landlord may proceed to final judgment separately and apart from and without consolidation with or reference to the status of any such counterclaim or any other claim asserted by Tenant.

20.9 Mitigation of Damages. Both Landlord and Tenant shall each use commercially reasonable efforts to mitigate any damages resulting from a default of the other party under this Lease; provided that any failure by Landlord to mitigate damages in accordance with the foregoing shall not give rise to any liability of Landlord for breach of this Lease, but shall only serve to reduce the recovery by Landlord by the amount of damages that Tenant proves could reasonably have been avoided. Subject to the foregoing, Landlord's obligation to mitigate damages after a Default shall be satisfied in full if Landlord undertakes to lease the Premises to another tenant (a "Substitute Tenant") in accordance with the following criteria:

20.9.1 Landlord shall have no obligation to solicit or entertain negotiations with any Substitute Tenant until Landlord obtains full and complete possession of the Premises including, without limitation, the final and unappealable legal right to relet the Premises free of any claim of Tenant.

20.9.2 Landlord shall not be obligated to lease the Premises to a Substitute Tenant for a rental amount less than the greater of (a) the current fair market rental then prevailing for similar uses in comparable buildings in the same market area as the Premises, and (b) the rental rate payable under this Lease.

20.9.3 Landlord shall not be obligated to enter into a lease with any Substitute Tenant whose use would:

1. Violate any restriction, covenant, or requirement contained in any other agreement to which Landlord is a party;
2. Be inconsistent with the Permitted Use.

20.9.4 Landlord shall not be obligated to enter into a lease with any Substitute Tenant that does not have, in Landlord's reasonable opinion, sufficient financial resources or operating experience to operate the Premises in a first-class manner.

20.9.5 Landlord shall not be required to expend any amount of money to alter, remodel, or otherwise make the Premises suitable for use by a Substitute Tenant unless:

1. Tenant pays any such sum to Landlord in advance of Landlord's execution of a lease with such Substitute Tenant (which payment shall not be in lieu of any damages or other sums to which Landlord may be entitled as a result of Tenant's Default); or
2. Landlord determines that any such expenditure is financially justified in connection with entering into any such lease.

20.10 Upon compliance with the above criteria regarding the releasing of the Premises after a Default, Landlord shall be deemed to have fully satisfied Landlord's obligation to mitigate damages under this Lease and under any Law, and Tenant waives and releases, to the fullest extent legally permissible, any right to assert in any action by Landlord to enforce the terms of this Lease, any defense, counterclaim, or rights of setoff or recoupment respecting the mitigation of damages by Landlord, unless and to the extent Landlord maliciously or in bad faith fails to act in accordance with the requirements of this Section. Until Landlord is able, through such efforts, to relet the Premises, Tenant must pay to Landlord, on or before the first day of each calendar month, the monthly Rent and any other charges provided in this Lease. No such reletting shall be construed as an election on the part of Landlord to terminate this Lease unless Landlord gives Tenant a notice of such intention. Notwithstanding any such reletting without termination, Landlord may at any time thereafter elect to terminate this Lease for such previous breach.

ARTICLE 21
BANKRUPTCY

21.1 In the event a petition is filed by or against Tenant under the Bankruptcy Code, Tenant, as debtor and debtor in possession, and any trustee who may be appointed agree to adequately protect Landlord as follows:

21.1.1 to pay monthly in advance on the first day of each month as reasonable compensation for use and occupancy of the Premises an amount equal to all Rent due pursuant to this Lease;

21.1.2 to perform each and every obligation of Tenant under this Lease until such time as this Lease is either rejected or assumed by order of a court of competent jurisdiction;

21.1.3 to determine within one hundred twenty (120) days after the filing of such petition whether to assume or reject this Lease;

21.1.4 to give Landlord at least thirty (30) days' prior notice, unless a shorter period is agreed to in writing by the parties, of any proceeding relating to any assumption of this Lease;

21.1.5 to give at least thirty (30) days' prior notice of any vacation or abandonment of the Premises, any such vacation or abandonment to be deemed a rejection of this Lease; and

21.1.6 to do all other things to benefit Landlord otherwise required under the Bankruptcy Code.

This Lease shall be deemed rejected in the event of the failure to comply with any of the above.

21.2 In order to provide Landlord with the assurance contemplated by the Bankruptcy Code, the following obligations must be fulfilled, in addition to any other reasonable obligations that Landlord may require, before any assumption of this Lease is effective: **a)** all monetary Defaults under this Lease must be cured within ten (10) days after the date of assumption; **b)** all other Defaults (other than those arising solely on account of the bankruptcy filing) must be cured within fifteen (15) days after the date of assumption; **c)** all actual monetary losses incurred by Landlord (including, but not limited to, reasonable attorneys' fees) must be paid to Landlord within ten (10) days after the date of assumption; and **d)** Landlord must receive within ten (10) days after the date of assumption a security deposit in the amount of six (6) months' Base Rent and an advance prepayment of three (3) months' Base Rent.

21.3 In the event this Lease is assumed in accordance with the requirements of the Bankruptcy Code and this Lease, and is subsequently assigned, then, in addition to any other reasonable obligations that Landlord may require and in order to provide Landlord with the assurances contemplated by the Bankruptcy Code, Landlord must be provided with (a) a financial statement of the proposed assignee prepared in accordance with generally accepted accounting principles consistently applied, though on a cash basis, which reveals a net worth in an amount sufficient, in Landlord's reasonable judgment, to assure the future performance by the proposed assignee of Tenant's obligations under this Lease; or (b) a written guaranty by one or more guarantors with financial ability sufficient to assure the future performance of Tenant's obligations under this Lease, such guaranty to be in form and content satisfactory to Landlord and to cover the performance of all of Tenant's obligations under the Lease.

21.4 Neither Tenant nor any trustee who may be appointed in the event of the filing of a petition under the Bankruptcy Code shall conduct or permit the conduct of any "fire," "bankruptcy," "going out of business" or auction sale in or from the Premises.

ARTICLE 22
LIEN FOR RENT

In consideration of the mutual benefits arising under this Lease, Tenant hereby grants to Landlord a lien and security interest on all property of Tenant now or hereafter placed in or upon the Premises, and such property shall be and remain subject to such lien and security interest of Landlord for payment of all Rent. The provisions of this Article relating to such lien and security interest shall constitute a security agreement under the Uniform Commercial Code in force in the

State (the "UCC") so that Landlord shall have and may enforce a security interest on all property of Tenant now or hereafter placed in or on the Premises, including, but not limited to, all fixtures, machinery, equipment, furnishings and other articles of personal property now or hereafter placed in or upon the Premises by Tenant. Landlord, as secured party, shall be entitled to all of the rights and remedies afforded a secured party under the UCC in addition to and cumulative of Landlord's liens and rights provided by law or by the other terms and provisions of this Lease, and Landlord shall have the right to file a Financing Statement reflecting such lien.

ARTICLE 23
HOLDING OVER

If after expiration of the Term, Tenant remains in possession of the Premises, Landlord may, at its option, serve notice upon Tenant that such hold-over constitutes either: (a) a month-to-month tenancy upon all the provisions of this Lease (except as to Term and Base Rent); or (b) a tenancy at sufferance. If Landlord does not give said notice, Tenant's hold-over shall create a tenancy at sufferance, subjecting Tenant to all the covenants and obligations of this Lease. In either event, the monthly installments of Base Rent shall be increased to one hundred fifty percent (150%) of the monthly installments of Base Rent in effect at the expiration of the Term. If a month-to-month tenancy is created, either party may terminate such tenancy by giving the other party at least thirty (30) days advance notice of the date of termination. In the case of a month-to-month tenancy or tenancy at sufferance, if Tenant shall hold over without the consent of Landlord after Landlord has given Tenant thirty (30) days prior written notice of termination, then Tenant shall also protect, defend, indemnify and hold Landlord harmless from all claims, losses, costs and expenses resulting from retention of possession by Tenant, including, without limiting the generality of the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender and any lost rents or profits to Landlord resulting therefrom. The provisions of this Article shall not constitute a waiver by Landlord of any right of re-entry as otherwise available to Landlord, nor shall receipt of any rent or any other act appearing to affirm the tenancy operate as a waiver of the right to terminate this Lease for a breach by Tenant hereof.

ARTICLE 24
SURRENDER OF PREMISES

24.1 Upon the expiration or earlier termination of this Lease, Tenant shall peaceably surrender the Premises to Landlord broom-clean and in the same condition as on the date Tenant took possession, except for (a) reasonable wear and tear; (b) loss by fire or other casualty; and (c) loss by condemnation. All fixtures, equipment, improvements, and appurtenances attached to or built into the Premises at the commencement of or during the Term, whether or not by or at the expense of Tenant, other than Tenant's Property, shall be and remain a part of the Premises, shall be the property of Landlord, and shall not be removed by Tenant, except as directed by Landlord. Tenant shall not be required to remove any leasehold improvements unless (i) such removal is necessary to ensure that the Premises comply with applicable code at the time of surrender, including but not limited to removal of wires located in risers and plenums without raceways or conduits; (ii) they were made without the consent of Landlord; or (iii) Landlord notified Tenant that removal would be required at the time Landlord approved Tenant's plans therefor. Tenant's Property shall be and shall remain the property of Tenant and may be removed by Tenant at any time during the Term; provided that, if any of Tenant's Property is removed, Tenant shall promptly repair any damage to the Premises resulting from such removal. Internal floor coating/concrete hardener shall be left in sealed condition, including, without limitation, any areas that may be damaged by removal of Tenant's fixtures. All interior walls should be left in good condition, and any holes from removal of Tenant's fixtures must be patched.

24.2 If Tenant abandons or surrenders the Premises or is dispossessed by process of law or otherwise, any of Tenant's Property left on the Premises shall be deemed abandoned, and, at Landlord's option, title shall pass to Landlord under this Lease as by a bill of sale. If Landlord elects to remove all or any part of such Tenant's Property, the reasonable cost of removal, storage and disposal of Tenant's Property, including, without limitation, repairing any damage to the Premises or Building caused by such removal, shall be paid by Tenant. On the Expiration Date, Tenant shall surrender all keys, parking cards and other means of entry to the Premises (including, without limitation, the Buildings) and shall inform Landlord of the combinations and access codes for any locks and safes located in the Premises. It is specifically agreed that any and all telephonic, coaxial, ethernet, or other computer, word processing, facsimile, or electronic wiring ("Telecom Wiring") and any other components of Tenant's Telecommunications System shall be removed at Tenant's cost at the expiration of the Term, unless Landlord has specifically requested in writing that the Telecom Wiring shall remain, whereupon the Telecom Wiring shall be surrendered with the Premises as Landlord's property.

ARTICLE 25
BROKERAGE FEES

Tenant warrants and represents that it has not dealt with any real estate broker or agent in connection with this Lease or its negotiation. Tenant shall indemnify, defend and hold Landlord harmless from any cost, expense, or liability, (including, without limitation, costs of suits and reasonable attorneys' fees) for any compensation, commission, or fees claimed by any other real estate broker or agent in connection with this Lease (including but not limited to any expansions of the Premises and renewals) or its negotiation.

ARTICLE 26
NOTICES

Any notice, demand, request, consent, covenant, approval or other communication to be given by one party to the other must be in writing and (except for statements and invoices to be given in the ordinary course hereunder, which may be sent by regular U.S. Mail) (a) delivered personally; (b) mailed by certified United States mail, postage prepaid, return receipt requested (except for statements and invoices to be given in the ordinary course hereunder, which may be sent by regular U.S. Mail); (c) sent by nationally recognized overnight courier; or (d) sent by telecopy and confirmed by one of the other methods set forth herein. The effective date of notice shall be (i) for any notice delivered in person, the date of delivery; (ii) for any notice by U.S. mail, three (3) days after the date of certification thereof; (iii) for any notice by overnight courier, the next Business Day after deposit with the courier; and (iv) for any notice by telecopy, the date of confirmation of receipt, if before 5:00 p.m. at the location delivered, or the next day if after 5:00 p.m. All notices shall be delivered or addressed to the parties at their respective addresses set forth on the Lease Summary. Either party may change the address at which it desires to receive notice upon giving notice of such request to the other party in the manner provided herein.

ARTICLE 27
SIGNAGE

[INTENTIONALLY DELETED]

ARTICLE 28
LENDER PROVISIONS

28.1 Subordination. After the Option Term, this Lease will be subject and subordinate to all future ground or underlying leases of the Property and to the lien of any mortgages, deed to secure debt, or trust deed, coming into force after the Option Term against the Property or the Buildings, if any, and to all renewals, extensions, modifications, consolidations and replacements thereof (collectively, "Mortgages"), and to all advances made or hereafter to be made upon the security of such Mortgages. Landlord covenants that during the Option Term, the Premises will not be subject to any ground or underlying leases of the Property or to any lien of any mortgage, deeds to secure debt, or trust deeds. Tenant covenants and agrees in the event any proceedings are brought for the foreclosure of any mortgage, deed to secure debt or trust deed, or if any ground or underlying lease is terminated, to attorn, without any deductions or set-offs whatsoever, to the purchaser upon any such foreclosure sale, or to the lessor of such ground or underlying lease, as the case may be (the "Purchaser"), if so requested to do so by the Purchaser, and to recognize the Purchaser as the lessor under this Lease. In no event shall Tenant have a right of offset against amounts due any Purchaser on account of any defaults by Landlord under this Lease that pre-date the time the Purchaser becomes the lessor hereunder, nor shall any Purchaser be liable for any such defaults by Landlord. Tenant shall, within ten (10) Business Days of request by Landlord, execute such further instruments or assurances as Landlord may reasonably deem necessary to evidence or confirm the subordination or superiority of this Lease to any Mortgages. Tenant waives the provisions of any current or future statute, rule or law that may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of Tenant hereunder in the event of any foreclosure proceeding or sale. Notwithstanding the provisions hereof, should any Mortgagee require that this Lease be prior rather than subordinate to its Mortgage, or require that Tenant attorn to any Purchaser, then in such event, this Lease shall become prior and superior to such Mortgage, or Tenant shall so attorn, upon notice to that effect to Tenant from such Mortgagee. The aforesaid superiority of this Lease to any Mortgage shall be self-operative upon the giving of such notice and no further documentation other than such notice shall be required to effectuate such superiority or attornment. In the event Landlord or such Mortgagee desires confirmation of such superiority or attornment, Tenant shall, promptly upon request therefor by Landlord or such Mortgagee, and without charge therefor, execute a document acknowledging such priority or attornment obligation to the Mortgagee as Landlord in the event of foreclosure or deed in lieu thereof or termination of a ground lease.

28.2 Estoppel Certificates. Within ten (10) days after written request from Landlord, Tenant shall execute and deliver to Landlord, or Landlord's designee, a written statement certifying (a) that this Lease is unmodified and in full force and effect or is in full force and effect as modified and stating the modifications; (b) the amount of Base Rent and the date to which Base Rent and Additional Rent have been paid in advance; (c) the amount of any security deposit with Landlord; (d) that Landlord is not in default hereunder or, if Landlord is claimed to be in default, stating the nature of any claimed default; and (e) such other matters as may be requested. Landlord and any purchaser, assignee, or Mortgagee may rely upon any such statement. Tenant's failure to execute and deliver such statement within the time required shall be conclusive against Tenant (1) that this Lease is in full force and effect and has not been modified except as represented by Landlord; (2) that there are no uncured defaults in Landlord's performance and that Tenant has no right of offset, counterclaim, or deduction against Rent; (3) not more than one (1) month's Rent has been paid in advance; and (4) as to the truth and accuracy of any other matters set forth in the statement as submitted to Tenant.

28.3 Notice and Cure Rights. Tenant agrees to notify any Mortgagee whose address has been furnished to Tenant, of any notice of default served by Tenant on Landlord. If Landlord fails to cure such default within the time provided for in this Lease, such Mortgagee shall have an additional thirty (30) days to cure such default; provided that, if such default cannot reasonably be cured within that thirty (30) day period, then such Mortgagee shall have such additional time to cure the default as is reasonably necessary under the circumstances.

28.4 Changes Requested by Mortgagee. Tenant shall not unreasonably withhold its consent to changes or amendments to this Lease requested by a Mortgagee, so long as such changes do not alter the basic business terms of this Lease or otherwise materially diminish any rights or materially increase any obligations of Tenant.

ARTICLE 29
MISCELLANEOUS

29.1 Quiet Enjoyment. Tenant, upon paying the Rent and performing all of its obligations under this Lease, shall peaceably and quietly enjoy the Premises, subject to the terms of this Lease and to any mortgage, deed of trust, lease, or other agreement to which this Lease may be subordinated.

29.2 [**INTENTIONALLY DELETED**]

29.3 Force Majeure. Any prevention, delay, or stoppage of work to be performed by Landlord or Tenant that is due to Force Majeure shall excuse performance of the work by that party for a period equal to the duration of that prevention, delay, or stoppage. Nothing in this Section 29.3 shall excuse or delay Tenant's obligation to pay Rent or other charges under this Lease.

29.4 Accord and Satisfaction; Allocation of Payment. No payment by Tenant or receipt by Landlord of a lesser amount than the Rent provided for in this Lease shall be deemed to be other than on account of the earliest due Rent; nor shall any endorsement or statement on any check or letter accompanying any check or payment as Rent be deemed an accord and satisfaction. Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of the Rent or pursue any other remedy provided for in this Lease. In connection with the foregoing, Landlord shall have the absolute right in its sole discretion to apply any payment received from Tenant to any account or other payment of Tenant then not current and due or delinquent.

29.5 Attorneys' and Other Fees. Should either party institute any action or proceeding to enforce or interpret this Lease or any provision hereof, for damages by reason of any alleged breach of this Lease or of any provision hereof, or for a declaration of rights hereunder, the prevailing party in any such action or proceeding shall be awarded from the other party all costs and expenses, including, without limitation, attorneys' and other fees, reasonably incurred in good faith by the prevailing party in connection with such action or proceeding. The term "attorneys' and other fees" shall mean and include reasonable attorneys' fees, accountants fees, expert witness fees and any and all consultants and other similar fees incurred in connection with the action or proceeding and preparations therefor. The term "action or proceeding" shall mean and include actions, proceedings, suits, arbitrations, appeals and other similar proceedings.

29.6 Construction. Headings at the beginning of each Article, Section and subsection are solely for the convenience of the parties only and in no way define, limit, or enlarge the scope or meaning of this Lease. Except as otherwise provided in this Lease, all exhibits referred to herein are attached hereto and are incorporated herein by this reference. This Lease shall not be construed as if either Landlord or Tenant had prepared it, but rather as if both Landlord and Tenant had prepared it.

29.7 Confidentiality. Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal, and space planning consultants or as required by Law. In addition to any other remedies to which Landlord may be entitled if Tenant breaches the foregoing covenant, Landlord shall have the right to increase the Rent to then current market rent for the Building.

29.8 Governing Law. This Lease shall be governed by, interpreted under, and construed and enforced in accordance with the Laws of the Commonwealth of Virginia applicable to agreements made and to be performed wholly within Virginia.

29.9 Consent. Unless otherwise expressly set forth herein, all consents and decisions required or permitted of Landlord hereunder shall be granted, withheld and made in Landlord's sole discretion; provided, however, that if Landlord does not reject or withhold a written request for consent or a decision made by Tenant to Landlord within 30 days of Landlord's receipt of such request, then Landlord shall be deemed to have approved such request. All consents and approvals required from Landlord hereunder shall be subject to the requirement that Landlord be reimbursed within fifteen (15) days of Landlord's written demand for attorneys' and consultants' fees and costs incurred in connection therewith. Tenant shall have no claim and hereby waives the right to any claim against Landlord for money damages by reason of any refusal, withholding, or delaying by Landlord of any consent, approval, statement, or satisfaction that Landlord has agreed shall be subject to a standard of reasonableness. In such event, Tenant's only remedy therefor shall be an action for specific performance, injunction, or declaratory judgment to enforce any right to such consent, approval, statement, or satisfaction.

29.10 Authority. [**INTENTIONALLY DELETED**]

29.11 Duplicate Originals; Counterparts. This Lease may be executed in any number of duplicate originals, all of which shall be of equal legal force and effect. Additionally, this Lease may be executed in counterparts, but shall become effective only after each party has executed a counterpart hereof; all said counterparts, when taken together, shall constitute the entire single agreement between the parties.

29.12 Further Assurances. Landlord and Tenant each agree to execute any and all other documents and to take any further actions reasonably necessary to consummate the transactions contemplated hereby.

29.13 [**INTENTIONALLY DELETED**]

29.14 Recording. Tenant shall not record this Lease without the prior consent of Landlord.

29.15 Severability. In the event any portion of this Lease shall be declared by any court of competent jurisdiction to be invalid, illegal or unenforceable, such portion shall be deemed severed from this Lease, and the remaining parts hereof shall remain in full force and effect, as fully as though such invalid, illegal or unenforceable portion had never been part of this Lease.

29.16 Survival. All indemnity and other unsatisfied obligations set forth in this Lease shall survive the termination or expiration hereof.

29.17 **WAIVER OF TRIAL BY JURY**. **TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE PARTIES HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS LEASE, OR THE TRANSACTIONS OR MATTERS RELATED HERETO OR CONTEMPLATED HEREBY.**

29.18 Successors and Assigns. Subject to the terms and conditions of Article 14 of this Lease, this Lease shall apply to and bind the heirs, personal representatives, and permitted successors and assigns of the parties.

29.19 Integration of Other Agreements; Amendments. This Lease and the APA set forth the entire agreement and understanding of the parties with respect to the matters set forth herein and supersedes all previous written or oral understandings, agreements, contracts, correspondence and documentation with respect thereto. Any oral representations or modifications concerning this Lease shall be of no force or effect. No provisions of this Lease may be amended or added to except by an agreement in writing signed by the parties or their respective successors in interest.

29.20 **TIME OF THE ESSENCE**. **TIME IS OF THE ESSENCE OF THIS LEASE AND EACH AND EVERY TERM AND PROVISION HEREOF.**

29.21 Waiver. The waiver by a party of any breach of any term, covenant, or condition of this Lease shall not be deemed a waiver of such term, covenant, or condition or of any subsequent breach of the same or any other term, covenant, or condition. No delay or omission in the exercise of any right or remedy of a party shall impair such right or remedy or be construed as a waiver of any default of the other party. Consent to or approval of any act by a party requiring consent or approval of the other party shall not be deemed to waive or render unnecessary such consent to or approval of any subsequent act. Any waiver must be in writing and shall not be a waiver of any other matter concerning the same or any other provision of this Lease.

29.22 No Surrender. No act or conduct of Landlord, including, without limitation, the acceptance of keys to the Premises, shall constitute an acceptance of the surrender of the Premises by Tenant before the expiration of the Term. Only a written notice from Landlord to Tenant shall constitute acceptance of the surrender of the Premises and accomplish a termination of the Lease.

29.23 Number and Gender. As used in this Lease, the neuter includes masculine and feminine, the singular includes the plural and the use of the word "including" shall mean "including without limitation."

29.24 Days. The term "days," as used herein, shall mean actual days occurring, including Saturdays, Sundays and Holidays.

29.25 [**INTENTIONALLY DELETED**]

29.26 No Third Party Beneficiaries. Except as otherwise provided herein, no person or entity shall be deemed to be a third party beneficiary hereof, including but not limited to any brokers, and nothing in this Lease, (either expressed or implied) is intended to confer upon any person or entity, other than Landlord and Tenant (and their respective nominees, successors and assigns), any rights, remedies, obligations or liabilities under or by reason of this Lease.

29.27 No Other Inducements. It is expressly warranted by each of the undersigned parties that no promise or inducement has been offered except as herein set forth and in the APA and that this Lease is executed without reliance upon any statement or representation of any person or party or its representatives concerning the nature and extent of damages, costs and/or legal liability therefor.

29.28 Independent Covenants. This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent and not dependent. Tenant hereby expressly waives the benefit of any Laws to the contrary and agrees that if Landlord fails to perform any of its obligations set forth herein, Tenant shall not be entitled to make any repairs or perform any acts hereunder at Landlord's expense or to any setoff of Rent.

29.29 No Discrimination. Tenant covenants by and for itself, its heirs, executors, administrators and assigns, and all persons claiming under or through Tenant, and this Lease is made and accepted upon and subject to the condition that there shall be no discrimination against or segregation of any person or group of persons, on account of race, color, creed, sex, religion, marital status, ancestry or national origin in the leasing, subleasing, transferring, use, or enjoyment of the Premises, nor shall Tenant itself, or any person claiming under or through Tenant, establish or permit such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy, of tenants, lessees, sublessees, subtenants or vendees in the Premises.

29.30 OFAC Compliance.

29.30.1 As used herein "Blocked Party" shall mean any party or nation that (a) is listed on the Specially Designated Nationals and Blocked Persons List maintained by the Office of Foreign Asset Control, Department of the U.S. Treasury ("OFAC") pursuant to Executive Order No. 13224, 66 Fed. Reg. 49079 (Sept. 25, 2001) or other similar requirements contained in the rules and regulations of OFAC (the "Order") or in any enabling legislation or other Executive Orders in respect thereof (the Order and such other rules, regulations, legislation, or orders are collectively called the "Orders") or on any other list of terrorists or terrorist organizations maintained pursuant to any of the rules and regulations of OFAC or pursuant to any other applicable Orders (such lists are collectively referred to as the "Lists"); or (b) has been determined by competent authority to be subject to the prohibitions contained in the Orders.

29.30.2 As a material inducement for Landlord entering into this Lease, Tenant warrants and represents that none of Tenant, any Affiliate of Tenant, any partner, member or stockholder in Tenant or any Affiliate of Tenant, or any beneficial owner of Tenant, any Affiliate of Tenant or any such partner, member or stockholder of Tenant (collectively, a "Tenant Owner"): (a) is a Blocked Party; (b) is owned or controlled by, or is acting, directly or indirectly, for or on behalf of, any Blocked Party; or (c) has instigated, negotiated, facilitated, executed or otherwise engaged in this Lease, directly or indirectly, on behalf of any Blocked Party. Tenant shall immediately notify Landlord if any of the foregoing warranties and representations becomes untrue during the Term.

29.30.3 Tenant shall not: (a) transfer or permit the transfer of any interest in Tenant or any Tenant Owner to any Blocked Party; or (b) make a Transfer to any Blocked Party or party who is engaged in illegal activities.

29.30.4 If at any time during the Term (a) Tenant or any Tenant Owner becomes a Blocked Party or is convicted, pleads nolo contendere, or is indicted, arraigned, or custodially detained on charges involving money laundering or predicate crimes to money laundering; (b) any of the representations or warranties set forth in this Section become untrue; or (c) Tenant breaches any of the covenants set forth in this Section, the same shall constitute a Default. In addition to any other remedies to which Landlord may be entitled on account of such Default, Landlord may immediately terminate this Lease and refuse to pay any Allowance or other disbursements due to Tenant under this Lease.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF the parties have executed this Lease, under seal, as of the date first-above written.

LANDLORD:

NAUTILUS, INC.
a Washington corporation

Witness:

By: /s/ Kenneth L. Fish
Printed Name: Kenneth L. Fish
Title: CFO
Date: February 22, 2010

Date:

(SEAL)

TENANT:

MED-FIT SYSTEMS, INC.,
a California corporation

Witness:

By: /s/ Dean Sbragia
Printed Name: Dean Sbragia
Title: President
Date: 2/22/10

Date:

(SEAL)

EXHIBIT A - LEGAL DESCRIPTION OF PREMISES

The Premises are the real property described below together with all improvements thereon.

The Premises are located in the Town of Independence, County of Grayson, Commonwealth of Virginia, and are more particularly described as follows:

Tract 1, Parcels 1-8: Tax Map No. 73A3-A-28; 73A3-A-31; 53-A-76B; 73A3-A-30; 53-A-76C; 73A3-A-25; 73A3-A-32 & 73A3-A-29

BEGINNING at an iron pipe at the corner of R. C. Cox on the North side of Va. Sec. Rt. #685; thence with the North boundary line of Va. Sec. Rt. #685, S 66-35 W 45.91 feet to a stake, S 36-31 W 11.68 feet to a stake, S 36-31 W 22.18 feet to a stake, S 06-52 W 73.31 feet to an iron pipe at a corner; thence, leaving the road, S 26-3 5 W 102.20 feet to an iron pipe in the Rex Johnson corner; thence, N 73-25 W 165 feet to an iron pipe, S 26-35 W 132 feet to an iron pipe, N 73-25 W 108.89 feet to an iron pipe, N 17-45 E 255.83 feet to a stake by a post in a branch, H.C. Moore's corner; thence, N 86-00 W 311.35 feet to a large poplar, N 64-31 W 68.93 feet to a post, N 20-32-50 W 1207.84 feet to an iron pipe in the fence corner of the H.C. Moore and Smith property; thence with the Smith line, N 80-32-50 E 829.69 feet to a post in a hollow at a fence intersection, N 81 -39-40 E 1131.09 feet to a set stone found in the Jim T. McKnight corner; thence with the McKnight line, S 51-02 E 432.80 feet to a pipe set by a West gate post, S 15-44-15 W 857.07 feet to an iron pipe hi the Eller corner; thence with the Eller line, S 81-21-20 W 128.84 feet to a 2 inch iron pipe, S 83-53-45 W 104.88 feet to a one-half inch iron pipe; thence S 02-09-30 W 149.44 feet to a pipe found, S 02-11 W 123.76 feet to a large oak stump 20 feet from the centerline of Va. Sec. Rt. #685; thence with the North line of Va. Sec. Rt. #685, N 85-06-15 W 80.84 feet to an iron pin set in the Miller fence corner; thence leaving the road and with the Miller line, N 05-28-50 E 32.49 feet to a post, N 06-07-17 W 20.57 feet to an iron pin set by a post, N 27-22-17 W 17.42 feet to an iron pin set, N 60-31-21 W 27.27 feet to an iron pin set, S 87-00-56 W 20.20 feet to an iron pin set at the end of the fence, N 26-14-40 W 91.85 feet to a metal post in a fence corner, S 85-12-22 W 72.68 feet to a metal post in a fence corner, S 06-25-30 W 137.28 feet to an iron pipe found at the Miller corner on the North side of State Rt. #685; thence with the North line of Va. Sec. Rt #685, S 81-25 W 41.37 feet to an iron pipe set, S 81-25 W 38.97 feet to an iron pipe, S 66-49 W 60.76 feet to a point at the corner of R.C. Cox; thence leaving the road and with the Cox line, N 07-56-41 W 174.13 feet to an iron pin, N 88-07-30 W 242.74 feet to an iron pin, S 04-30-36 E 248 feet to the point of the BEGINNING,

CONTAINING 56.291 acres, more or less, as shown by the plat of survey of J. L. Zeh, C.L.S., dated July 21, 1986, and revised by survey of out conveyance dated July 22, 1987, and

BEING the same land conveyed to Plum Limited Company (name subsequently changed to DFI Properties, LLC, on January 15, 1999, and which was subsequently merged into Grantor on March 8 2006) by deed dated December 31, 1998 from Nautilus International, Inc., which deed is recorded in the Clerk's Office of the Circuit Court of Grayson County, Virginia, in Deed Book 339, Page 1.

EXHIBIT B – CONSTRUCTION

This Exhibit sets forth the terms and conditions relating to construction work in the Premises. All references in this Exhibit to capitalized terms or "this Lease" shall mean the relevant portion of the lease to which this Exhibit is attached and of which this Exhibit forms a part.

1. Inspection by Landlord. Landlord shall have the right to inspect work at all times; provided however, Landlord's failure to inspect any work shall in no event constitute a waiver of any of Landlord's rights hereunder, nor shall Landlord's inspection of the work constitute Landlord's approval thereof. Should Landlord disapprove any work, Landlord shall notify Tenant in writing of such disapproval and shall specify the items disapproved. In the event Landlord disapproves of any matter that might adversely affect the Premises, Landlord may take such action as Landlord deems necessary, at Tenant's expense and without incurring any liability on Landlord's part, to correct any such matter, including, without limitation, causing the cessation of the applicable work.

2. Insurance. In addition to any insurance that may be required under this Lease, Tenant shall secure, pay for and maintain or cause Tenant's contractors to secure, pay for and maintain during the continuance of any work, the following insurance:

(a) Worker's Compensation Insurance with a limit of not less than the greater of (i) $500,000, or (ii) the amount required from time to time by applicable Laws.

(b) Employer's Liability Insurance with a limit of not less than $1,000,000.

(c) Commercial General Liability Insurance (including Contractor's Protective Liability) in an amount not less than $1,000,000 per occurrence, whether involving bodily injury liability (or death resulting therefrom) or property damage liability or a combination thereof with a minimum aggregate limit of $2,000,000, and with umbrella coverage with limits not less than $5,000,000 ($10,000,000 if the cost of the work is greater than $1,000,000). Such insurance shall provide for explosion and collapse, completed operations coverage and broad form blanket contractual liability coverage and shall insure against any and all claims for bodily injury, including death resulting therefrom, and damage to the property of others and arising from its operations under the contracts whether such operations are performed by Tenant's contractors or by anyone directly or indirectly employed by any of them.

(d) Automobile Liability Insurance, including the ownership, maintenance and operation of any automotive equipment, owned, hired, or non-owned in an amount not less than $1,000,000 for bodily injury and property damage combined in any one accident. Such insurance shall insure against any and all claims for bodily injury, including death resulting therefrom, and damage to the property of others arising from its operations under the contracts, whether such operations are performed by Tenant's contractors, or by anyone directly or indirectly employed by any of them.

(e) "All-risk" builder's risk insurance for the full insurable value of the work (including all stored material and equipment), as approved by Landlord. This insurance shall include the interests of Landlord and Tenant (and their respective contractors and subcontractors of any tier to the extent of any insurable interest therein) in the work and shall insure against physical loss or damage including, without duplication of coverage, theft, vandalism and malicious mischief. If any materials or equipment will be stored offsite or will be in transit to the job site and are not covered under said "all-risk" builder's risk insurance, then Tenant shall effect and maintain similar property insurance on such materials and equipment. Any loss insured under said "all-risk" builder's risk insurance shall be adjusted with Landlord and Tenant and made payable to Landlord, as trustee for the insureds, as their interests may appear.

(f) Commercial Catastrophe or "Umbrella" Excess Liability Insurance, as stated above, on an "occurrence" basis with a limit of not less than $5,000,000 (or $10,000,000, as applicable) per occurrence and in the aggregate.

(g) Professional Liability Insurance with limits of not less than the amount that would prudently be maintained for comparable work, which shall in no event be less than $1,000,000 per claim and in the aggregate.

(h) Pollution Liability and Environmental Impairment Insurance with limits of not less than $2,000,000 per claim and $5,000,000 in the aggregate.

The liability policies required in paragraphs (c) and (f) above shall be endorsed to include all additional insureds required or permitted herein with coverage equivalent to that provided by ISO form CG 20 10 11 85 [NOTE: if necessary, ISO endorsement CG 20 10 10 01 together with CG 20 37 10 01 are acceptable equivalents]. Such additional insured endorsements shall be separate from the certificates of insurance required herein.

All other policies (except the worker's compensation policy) shall be endorsed to include the Landlord Related Parties as additional insureds. All insurance policies shall provide that all additional insureds shall be given thirty (30) days' prior written notice of any reduction, cancellation or non-renewal of coverage (except that ten (10) days' notice shall be sufficient in the case of cancellation for non-payment of premium) and shall provide that the insurance coverage afforded to the additional insureds shall be primary to any insurance carried independently by said additional insureds. Certificates for all insurance required hereunder shall be delivered to Landlord before the commencement of construction and before any contractor's equipment is moved onto the Property. Tenant shall cause Tenant's contractors to provide Landlord with an endorsement evidencing that each required policy herein contains a waiver of subrogation in favor of the additional insureds required or permitted herein. Insurance companies shall have a rating of A VI, or higher, in the most currently available "Best Insurance Guide".

3. Lien Free Completion.

(a) Landlord may require, at Landlord's sole option, that Tenant provide to Landlord such security as reasonably determined by Landlord to protect Landlord against any liability in connection with the work, including but not limited to a lien and completion bond naming Landlord as a co-obligee.

(b) Tenant shall use its best efforts to obtain or cause to be obtained a "no-lien" contract from each of Tenant's contractors. All subcontractors under each of the contracts shall be given a notice of such no-lien contract before such subcontractor furnishes any labor or materials. If Tenant is unable to obtain or cause to be obtained a no-lien contract from any proposed contractor, Tenant shall give written notice of such fact to Landlord, and Landlord shall have the right to disapprove such contractor. Upon completion of the work, Tenant shall furnish Landlord with full and final waivers of liens and contractors' affidavits and statements, in such form as may be required by Landlord, Landlord's title insurance company and any Mortgagee, from all parties performing labor or supplying materials or services in connection with the work showing that all of said parties have been compensated in full.

(c) If Tenant fails to make any payment relating to the work, Landlord, as its option, may complete the work, make such payment and hold Tenant liable for the costs thereof.

4. Plan Approval. Landlord's approval of Tenant's plans will not be unreasonably withheld, provided that (a) they comply with all Laws; (b) the improvements do not adversely affect (as determined by Landlord) the Premises; (c) the plans are sufficiently detailed to allow construction of the improvements in a good and workmanlike manner; and (d) construction of the improvements conforms to the requirements set forth in this Exhibit. Notwithstanding that any plans submitted to Landlord in connection with this Lease (including, without limitation, pursuant to this Exhibit B) are reviewed by Landlord and notwithstanding any comments, advice or assistance that Landlord may render to Tenant, in no event shall any such review, comments, advice or assistance constitute a representation or warranty as to the completeness, design, accuracy or sufficiency of such plans, compliance of such plans with Laws or as to any other matter, and Landlord shall have no liability whatsoever with respect thereto.

5. Change Orders. Tenant shall make no changes or modifications to the plans approved by Landlord without Landlord's prior written consent. Such approval shall not be unreasonably withheld or delayed, as long as such requested change meets (a) through (d) in Section 4 above and the same would not delay the completion of the work. If any change order would increase the cost of construction, as a condition of such approval Landlord may require that Tenant deposit any increased cost with Landlord, or provide Landlord with other security therefor acceptable to Landlord.

6. Pre-Construction Activity. At least thirty (30) days prior to commencement of any work, Tenant shall submit the following information and items to Landlord for Landlord's review and approval:

(a) The proposed plans.

(b) A detailed critical path construction schedule containing the major components of the work and the time required for each, including the scheduled commencement date of construction of the work, milestone dates and the estimated date of completion of construction.

(c) An itemized statement of estimated construction cost, including fees for permits and architectural and engineering fees.

(d) Evidence satisfactory to Landlord in all respects of Tenant's ability to pay the cost of the work as and when payments become due.

(e) The names and addresses of Tenant's contractors (and said contractors' subcontractors) and materialmen to be engaged by Tenant for the work (individually, a "Tenant Contractor," and collectively, "Tenant's Contractors"). Landlord may designate a list of approved contractors for performance of those portions of work involving electrical, mechanical, plumbing, heating, air conditioning or life safety systems, from which Tenant must select its contractors for such designated portions of work ("Approved Contractors"). Landlord has the right to disapprove any of Tenant's Contractors that are not Approved Contractors.

(f) Certificates of insurance as required herein.

No work by Tenant shall proceed until Landlord has approved all of the foregoing items.

7. Performance of Work.

(a) All work by Tenant shall be performed under a valid permit when required, a copy of which shall be furnished to Landlord before commencement of such work.

(b) All work shall comply in all respects with (i) all applicable Laws; (ii) applicable standards of the American Insurance Association (formerly, the National Board of Fire Underwriters) and the National Electrical Code; and (iii) building material manufacturer's specifications.

(c) Tenant's contractors, approved by Landlord pursuant to Section 6(e) of this Exhibit C, shall be licensed contractors, possessing good labor relations (including use of union labor if required by Landlord), capable of performing quality workmanship and working in harmony with Landlord's contractors and subcontractors in the Building. All work shall be coordinated with any other construction or other work in the Building in order not to adversely affect construction work being performed by or for Landlord or its tenants.

(d) Tenant shall use only new, first-class materials, except where explicitly shown in the plans approved by Landlord. All work shall be done in a good and workmanlike manner. Tenant shall obtain contractors' warranties of at least one (1) year duration from the completion of the work against defects in materials and workmanship.

(e) At Tenant's expense, Tenant shall engage the services of an on-site project manager approved in advance by and reasonably acceptable to Landlord, who will be charged with the task of performing daily supervision of the work. Such on-site project manager shall be accountable and responsible to Tenant and to Landlord and, where necessary, shall serve as a liaison between Landlord and Tenant with respect to the work.

(f) Tenant shall pay to Landlord a percentage of the cost of any tenant work sufficient to compensate Landlord for all overhead, general conditions, fees and other costs and expenses arising from Landlord's supervision of or involvement with such work.

8. As-Built Plans and Specifications. Immediately after completion of any work on the Premises by Tenant, Tenant shall deliver to Landlord "as-built" plans and specifications (including all working drawings) for the work.

Exhibit 10.30

CREDIT AGREEMENT

among

BANK OF THE WEST,

as Lender,

and

NAUTILUS, INC.,

as Borrower,

dated

March 8, 2010

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CREDIT AGREEMENT

This CREDIT AGREEMENT (the "Agreement") dated March 8, 2010, is by and between BANK OF THE WEST (the "Lender") and NAUTILUS, INC., a Washington corporation ("Borrower").

RECITALS

A. Borrower has requested that Lender extend a $15,000,000 revolving credit facility, with a $10,000,000 sublimit for letters of credit, to Borrower.

B. Lender is willing to provide Borrower with the credit facilities requested, subject to the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which hereby are acknowledged, Lender and Borrower agrees as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Defined Terms. As used in this Agreement, the following terms have the following meanings:

"Accounts" means all accounts (as defined in RCW 62A.9A-102(a)(2) (or any successor statute)) of Borrower.

"Adjusted Continuing Business EBITDA" means, for any measurement period in question, Continuing Business EBITDA plus restructuring charges, Mobia launch charges, asset (including intellectual property) impairment charges related to the Continuing Business, and transaction costs and expenses incurred in connection with this Agreement and in connection with the termination of Borrower's previous senior revolving credit facility.

"Adjustment Date" means June 1, 2010, and, thereafter, the first day of each month following the delivery of the Quarterly Compliance Certificate.

"Affiliate" means any Person (a) that directly or indirectly controls, is controlled by, or is under common control with Borrower; provided that, Affiliate will not include Persons that would otherwise be Affiliates solely because of common control by Borrower's shareholders if such Persons are portfolio companies independently operated by such shareholders, (b) that directly or indirectly owns or holds 10 percent or more of any class of voting stock of Borrower, or (c) 10 percent or more of the voting stock of which is directly or indirectly owned or held by Borrower. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities or interests, by contract, or otherwise.

"Agreement" means this Credit Agreement, and any amendments, extensions, modifications, renewals, replacements, or restatements thereof.

"Annual Compliance Certificate" has the meaning specified in Section 7.10(i) of this Agreement.

"Applicable Floating Rate" means, as of any date, the One-Month Eurodollar Rate on such day multiplied by the Statutory Reserve Rate, where "Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board of Governors of the Federal Reserve System with respect to the One-Month Eurodollar Rate for Eurocurrency funding (currently referred to as "Eurocurrencies Liabilities" in Regulation D of the Board of Governors of the Federal Reserve System), including those reserve percentages imposed pursuant to Regulation D, adjusted automatically and as of the effective date of any change in any reserve percentage.

"Applicable Floating Rate Loan" means any Revolving Loan (or a portion thereof) bearing interest at the Applicable Floating Rate that is not a Base Rate Loan.

"Applicable Margin" means 350 Basis Points for LIBOR Rate Loans and Applicable Floating Rate Loans and 250 Basis Points for Base Rate Loans from the Closing Date to (but not including) the first Adjustment Date. Thereafter, the Applicable Margin shall be determined by measuring the Revolver Availability as of the end of a calendar quarter and determining which pricing level in the table below is applicable to the Revolver Availability at the time in question:

Revolver Availability	Applicable Margin for LIBOR Rate Loans and Applicable Floating Rate Loans	Applicable Margin for Base Rate Loans
$0.00 to $4,000,000.00	375 Basis Points	275 Basis Points
$4,000,000.01 to $8,000,000.00	350 Basis Points	250 Basis Points
$8,000,000.01 to $12,000,000.00	325 Basis Points	225 Basis Points
$12,000,000.01 and above	300 Basis Points	200 Basis Points

Changes in the Applicable Margin (if any) shall become effective on the corresponding Adjustment Date. If Borrower does not timely provide Lender with the Quarterly Compliance Certificate pursuant to Section 7.10(f) of this Agreement, Lender, at its option, may set the Applicable Margin at the highest level listed above until such time as such Quarterly Compliance Certificate is delivered.

"Authorized Officer" means the Chief Financial Officer, Chief Administrative Officer or Chief Executive Officer of Borrower, or any other officer of Borrower who by written notice to Lender is designated by the Chief Financial Officer, Chief Administrative Officer or Chief Executive Officer to request Revolving Loans pursuant to the terms of this Agreement.

"Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Rate in effect on such day plus 50 Basis Points, and (c) the Applicable Floating Rate on such date (or, if such date is not a Business Day, the immediately preceding Business Day) plus 100 Basis Points. Any change in the Base Rate due to a change in the Prime Rate, the Federal Funds Rate or the Applicable Floating Rate shall be effective from and including the effective date of such change in the Prime Rate, the Federal Funds Rate or the Applicable Floating Rate, respectively.

"Base Rate Loans" means any Revolving Loan (or portion thereof) bearing interest at the Base Rate.

"Basis Point" means $^{1}/_{100^{th}}$ of 1 percent per annum.

"Borrower" means Nautilus, Inc., and any Successor or permitted assign (if any) thereof.

"Borrowing Base" means the sum of (a) 80 percent of (i) Eligible Commercial Accounts Receivable, multiplied by (ii) 100 percent minus the Dilution Reserve Percentage for the calendar quarter covered by the most recent Quarterly Compliance Certificate, (b) 60 percent of Eligible Inventory but not to exceed $10,000,000, and (c) 50 percent of Eligible Consumer Finance Accounts Receivable but not to exceed $5,000,000.

"Borrowing Base Certificate" has the meaning specified in Section 7.10(b) of this Agreement.

"Business Day" means a day on which Lender is open for business in Portland, Oregon, and on which banks are open in London, England, for dealings in United States dollar deposits on the London interbank market.

"Capital Expenditures" means, with respect to any measurement period in question, all capital expenditures of Borrower (including, but not limited to, expenditures under Capital Leases), as determined in accordance with GAAP.

"Capital Lease" means any lease of property (real, personal, or mixed) that in accordance with GAAP should be capitalized on the lessee's balance sheet.

"Capital Stock" means, with respect to any Person, all (a) shares, interests, participations or other equivalents (howsoever designated) of capital stock and other equity or ownership interests of such Person and (b) rights (other than debt securities convertible into capital stock or other equity interests), warrants or options to acquire any such capital stock or other equity interests.

"Cash Secured Letters of Credit" means Letters of Credit secured by cash collateral pursuant to Section 3.6(a) of this Agreement.

"Change in Control" means that (a) a majority of the directors of Borrower shall be Persons other than Persons (i) for whose election proxies shall have been solicited by the board of directors of Borrower or for whose appointment or election is otherwise approved or

ratified by the board of directors of Borrower or (ii) who are then serving as directors appointed by the board of directors to fill vacancies on the board of directors caused by death or resignation (but not by removal) or to fill newly-created directorships or (b) any "person" or "group" (as such terms are used in Section 13(d) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have "beneficial ownership" of all securities that such person or group has the right to acquire whether such right is immediately exercisable or only after the passage of time), directly or indirectly, of Voting Stock of Borrower (or other securities convertible into such Voting Stock) representing 30 percent or more of the combined voting power of all Voting Stock of Borrower (provided that any Voting Stock held by Sherborne Investors Management LP shall be excluded from calculation for the purposes of this clause (b)).

"Closing Date" means March 8, 2010, or such other date as the parties mutually agree.

"Collateral" means substantially all existing and after-acquired assets of Borrower as described in the Security Agreement and the IP Security Agreements.

"Commercial Accounts Receivable" means all Accounts of Borrower that are not Consumer Finance Accounts Receivable.

"Commercial Business" means the assets of Borrower held for sale as described in the Borrower's report on Form 10-Q for fiscal quarter ending September 30, 2009 as filed with the SEC.

"Consumer Finance Accounts Receivable" means Accounts of Borrower where the account debtors are individuals who purchased Inventory directly from Borrower.

"Consumer Protection Laws" means any and all applicable federal, state, and local statutes, laws, regulations, rules, and ordinances (whether now existing or hereafter enacted or promulgated), and all applicable judicial, administrative, and regulatory decrees, judgments, and orders, including common law rulings and determinations, relating to consumer credit or the protection of consumers, including, but not limited to, the Consumer Credit Protection Act.

"Continuing Business" means all business operations of Borrower, other than the Commercial Business and any other discontinued operations of the Borrower.

"Continuing Business EBITDA" means, for any measurement period in question, an amount equal to Continuing Business Net Income for such period, plus the following, to the extent deducted or excluded in computing such Continuing Business Net Income: (a) interest expense of Borrower, (b) income taxes (and franchise taxes in the nature and in lieu of income taxes), any state single business or unitary or similar taxes of Borrower, (c) depreciation expense of Borrower, (d) amortization expense of Borrower (all as determined in accordance with GAAP), and (e) cash gains arising from the write-up of assets.

"Continuing Business Net Income" means, for any measurement period in question, the net income of Borrower arising from the Continuing Business for such period,

determined in accordance with GAAP, but in any event the following items shall be excluded or deducted from such net income arising from the Continuing Business: (a) any after tax gain or loss resulting from dispositions of assets outside of the ordinary course of business, (b) earnings of any Subsidiary accrued prior to the date it became a Subsidiary, (c) any deferred credit or other credit representing any excess of the equity of any Subsidiary at the date of acquisition thereof over the amount invested in such Subsidiary, (d) the net earnings of any entity (other than a Subsidiary) in which Borrower has an ownership interest, except to the extent such net earnings actually shall have been received by Borrower in the form of cash distributions, (e) any reversal of any contingency reserve, except to the extent that Borrower received cash associated with such reversal during the period in which the reversal occurred, and (f) to the extent not included in clauses (a) through (e) above, any extraordinary or non-recurring gains or losses.

"Credit Exposure Reserve" means, as of any date in question, an amount determined by Lender in its Permitted Discretion as the credit exposure of Lender based upon merchant services, corporate and purchase card programs, ACH, treasury management, foreign exchange, derivative and swap products or similar facilities or products provided by Lender or its Affiliates to Borrower.

"Credit Exposure Documents" means all documents executed by Borrower in favor of Lender related to merchant services, corporate and purchase card programs, ACH, treasury management, foreign exchange, derivative and swap products or similar facilities or products provided by Lender or its Affiliates to Borrower, including, without limitation, all documents executed by Borrower to grant Lender a security interest in cash collateral securing the Credit Exposure Reserve pursuant to Section 3.6 of this Agreement.

"Current Ratio" means, as of the end of the calendar quarter in question, the ratio of (a) the current assets of Borrower as of the end of such calendar quarter (determined in accordance with GAAP) plus the cash collateral pledged to Lender pursuant to Section 3.6(a) and Section 3.6(b) (to the extent not included in current assets) as of the end of such calendar quarter to (b) the current liabilities of Borrower as of the end of such calendar quarter (as determined in accordance with GAAP) plus the principal amount of all Revolving Loans outstanding on the last day of such quarter (to the extent not included in the calculation of current liabilities determined in accordance with GAAP).

"Dating" means the practice of giving credit beyond a stated period by forward dating of an invoice. For example, a buyer otherwise obligated to pay for goods or services within 30 days might be given a postdated invoice bearing a date a month later than the actual date of purchase or receipt of the goods or services, which, in effect, would mean that the buyer now would have 60 days in which to make payment.

"Debt to Tangible Net Worth" means, as of any date in question, the ratio of (a) total Indebtedness on the balance sheet of Borrower to (b) the fair market value of all assets on the balance sheet of Borrower except for (i) goodwill, including any amounts representing the excess of the purchase price paid for assets or stock acquired over the value assigned thereto on the balance sheet of Borrower, (ii) patents, trademarks, trade names, copyrights and other intellectual property, (iii) shares of Capital Stock of Borrower, (iv) loans and notes receivable from officers, employees, stockholders, or directors of Borrower or any Affiliate or Subsidiary of

Borrower, (v) deferred expenses, and (vi) any other intangible asset of Borrower that should be classified as such on the balance sheet of Borrower in accordance with GAAP, less all liabilities on the balance sheet of Borrower.

"Default" means any event or occurrence that with the passage of time, or the provision of notice, or both, would constitute an Event of Default.

"Default Rate" means an interest rate that is 3 percent per annum greater than the interest rate or rates in effect with respect to the Revolving Loan in question immediately prior to the occurrence of such Event of Default.

"Dilution Reserve Percentage" means, for any calendar quarter in question, the greater of (expressed as a percentage) (a) the amount of non-cash trade credits (credit memos, reserves, rebates, and similar items) divided by the total amount of retail sales reported by Borrower in the financial statements for such quarter (other than sales to individuals who purchased Inventory directly from Borrower), and (b) the amount reported by Borrower in the financial statements for such quarter as a rebate, allocation, or similar reserve divided by the total Commercial Accounts Receivable for such quarter.

"Dividend Determination Date" has the meaning specified in Section 9.4 of this Agreement.

"Eligible Commercial Accounts Receivable" means all Commercial Accounts Receivable of Borrower meeting all of the following criteria and in which Lender has a valid, perfected first priority security interest:

(a) A Commercial Account Receivable that arose from a bona fide sale of goods by Borrower, or as a result of services performed by Borrower under an enforceable contract, provided that such goods have been shipped to the appropriate account debtor (or the sale otherwise has been consummated), and, in the case of services, the services have been performed for the account debtor in question substantially in accordance with the contract or agreement governing such services;

(b) A Commercial Account Receivable as to which the title of Borrower to the Commercial Account Receivable is absolute and is not subject to any prior assignment, claim, or Lien, other than the Lien created by the Loan Documents and inchoate tax Liens;

(c) A Commercial Account Receivable as to which the amount shown on the books of Borrower is owing to Borrower and no partial payment has been made thereon, except as reflected on the books of Borrower;

(d) A Commercial Account Receivable to the extent that it is not subject to any reduction, counterclaim, setoff, recoupment, or any present claim for credits, allowances, or adjustment by the account debtor because of returned, inferior, or damaged goods, unsatisfactory services, or for any other reason, except for customary discounts allowed for prompt payment (provided, however, that at all times Borrower shall reduce the amount of Eligible Commercial Accounts Receivable by the actual amount of credits, offsets, allowances,

or adjustments against any Commercial Accounts Receivable outstanding at the time in question that are included in the calculation of Eligible Commercial Accounts Receivable; provided further that Commercial Accounts Receivable subject to such claims may be included in the Borrowing Base after deduction of the amount of such claims);

(e) A Commercial Account Receivable as to which the account debtor is not an Affiliate of Borrower, or an officer, director, or employee of Borrower (or an Affiliate of Borrower);

(f) A Commercial Account Receivable as to which the account debtor is not a Governmental Authority unless (i) the account debtor is the United States or any department, agency, or instrumentality thereof and the account has been assigned to Lender in compliance with the Assignment of Claims Act and (ii) the aggregate amount of all such Commercial Accounts Receivable does not exceed 10 percent of the total amount of Eligible Commercial Accounts Receivable;

(g) A Commercial Account Receivable to the extent that it does not result from, include, or constitute late charges, service charges, or interest;

(h) A Commercial Account Receivable as to which the account debtor is a Person residing in, or having its principal place of business in, the United States (or, if the account debtor is in another country, the account debtor's obligations to Borrower are supported by a letter of credit in favor of Borrower in amount, form, and content satisfactory to Lender, and issued by a bank satisfactory to Lender);

(i) A Commercial Account Receivable from a Tier I Account Debtor that is not more than 120 days old (as measured from the date of invoice) or more than 60 days past due or a Commercial Account Receivable from an account debtor other than a Tier I Account Debtor that is not more than 90 days old (as measured from the date of invoice) or more than 60 days past due;

(j) A Commercial Account Receivable that does not arise out of a contract with, or order from, an account debtor that by its terms forbids or makes the assignment of that Commercial Account Receivable to Lender void or unenforceable;

(k) A Commercial Account Receivable as to which Borrower has not received any note, trade acceptance, draft, or other negotiable instrument with respect to the goods or services giving rise to the Commercial Account Receivable unless Borrower promptly notifies Lender of such negotiable instrument and, at Lender's request, endorses or assigns and delivers the same to Lender);

(l) A Commercial Account Receivable as to which Borrower has not received any notice of the death of the account debtor, or of the dissolution, termination of existence, insolvency, business failure, appointment of a receiver for any part of the property of, assignment for the benefit of creditors by, or the filing of a petition in bankruptcy or the commencement of any proceeding under any bankruptcy or insolvency laws by or against the account debtor (and, upon the receipt of any such notice, Borrower promptly shall advise Lender of the event or occurrence in question);

(m) A Commercial Account Receivable as to which the account debtor's obligation to Borrower is denominated and payable in United States currency;

(n) A Commercial Account Receivable to the extent that it does not consist of Retainage;

(o) A Commercial Account Receivable to the extent that it does not relate to work-in-process or result from or consist of progress billings in excess of the amount permitted by the terms of the applicable contract;

(p) A Commercial Account Receivable that does not arise out of (i) a consignment transaction, (ii) a sale or return agreement, (iii) a transaction in which goods are delivered on a bill-and-hold basis, (iv) a sale with cash-on-delivery terms, (v) a guaranteed sale, or (vi) other sale terms by reason of which the payment by the account debtor is or may be conditional;

(q) A Commercial Account Receivable that is not subject to an agreement providing for Dating of the account debtor's obligation to pay for the goods or services in question;

(r) A Commercial Account Receivable from a Tier I Account Debtor as to which not more than 25 percent of the total amount owed by such Tier I Account Debtor to Borrower is more than 120 days old (as measured from the date of invoice) or a Commercial Account Receivable from an account debtor other than a Tier I Account Debtor as to which not more than 10 percent of the total amount owed by such account debtor to Borrower is more than 90 days old (as measured from the date of invoice);

(s) A Commercial Account Receivable from a Tier I Account Debtor as to which the total amount owed by such debtor to Borrower does not exceed 25 percent of Borrower's total Eligible Commercial Accounts Receivable at the time in question or a Commercial Account Receivable from an account debtor other than a Tier I Account Debtor as to which the total amount owed by such debtor to Borrower does not exceed 10 percent of Borrower's total Eligible Commercial Accounts Receivable at the time in question;

(t) A Commercial Account Receivable as to which the account debtor's financial condition is acceptable to Lender in its Permitted Discretion; and

(u) A Commercial Account Receivable that is not a Commercial Account Receivable that Lender determines in its Permitted Discretion to be ineligible in whole or in part and has provided Borrower written notice thereof.

Lender's calculation and determination of Eligible Commercial Accounts Receivable shall be binding and conclusive, absent manifest error.

"Eligible Consumer Finance Accounts Receivable" means all Consumer Finance Accounts Receivable of Borrower meeting all of the following criteria and in which Lender has a valid, perfected first priority security interest:

(v) A Consumer Finance Account Receivable that arose from a bona fide sale of goods by Borrower, or as a result of services performed by Borrower under an enforceable contract, provided that such goods have been shipped to the appropriate account debtor (or the sale otherwise has been consummated), and, in the case of services, the services have been performed for the account debtor in question substantially in accordance with the contract or agreement governing such services;

(w) A Consumer Finance Account Receivable as to which the title of Borrower to the Consumer Finance Account Receivable is absolute and is not subject to any prior assignment, claim, or Lien, other than the Lien created by the Loan Documents and inchoate tax Liens;

(x) A Consumer Finance Account Receivable as to which the amount shown on the books of Borrower is owing to Borrower;

(y) A Consumer Finance Account Receivable to the extent that it is not subject to any reduction, counterclaim, setoff, recoupment, defenses, claims, or any present claim for credits, allowances, or adjustment by the account debtor because of returned, inferior, or damaged goods, unsatisfactory services, claims or defenses under Consumer Protection Laws, or for any other reason, except for customary discounts allowed for prompt payment (provided, however, that at all times Borrower shall reduce the amount of Eligible Consumer Finance Accounts Receivable by the actual amount of credits, offsets, allowances, or adjustments against any Consumer Finance Accounts Receivable outstanding at the time in question that are included in the calculation of Eligible Consumer Finance Accounts Receivable; provided further that Consumer Finance Accounts Receivable subject to such claims may be included in the Borrowing Base after deduction of the amount of such claims);

(z) A Consumer Finance Account Receivable as to which the account debtor is not an Affiliate of Borrower, or an officer, director, or employee of Borrower (or an Affiliate of Borrower);

(aa) A Consumer Finance Account Receivable as to which the account debtor is a Person residing in and a citizen of the United States;

(bb) A Consumer Finance Account Receivable that is not more than 18 months old (as measured from the date of incurrence), or more than 45 days past due under the original terms of such Consumer Finance Account Receivable;

(cc) A Consumer Finance Account Receivable that does not arise out of a contract with, or order from, an account debtor that by its terms forbids or makes the assignment of that Consumer Finance Account Receivable to Lender void or unenforceable;

(dd) A Consumer Finance Account Receivable as to which Borrower has not received any note, trade acceptance, draft, or other negotiable instrument with respect to the goods or services giving rise to the Consumer Finance Account Receivable (and, if any such instrument or chattel paper is received, unless Borrower promptly notifies Lender and, at Lender’s request, endorses or assigns and delivers the same to Lender);

(ee) A Consumer Finance Account Receivable as to which Borrower has not received any notice of the death or insolvency of the account debtor (and, upon the receipt of any such notice, Borrower promptly shall advise Lender of the event or occurrence in question);

(ff) A Consumer Finance Account Receivable as to which the account debtor's obligation to Borrower is denominated and payable in United States currency;

(gg) A Consumer Finance Account Receivable to the extent that it does not consist of Retainage;

(hh) A Consumer Finance Account Receivable to the extent that it does not result from or consist of billings for goods not delivered or services not performed;

(ii) A Consumer Finance Account Receivable to the extent that it does not relate to work-in-progress result from or consist of progress billings in excess of the amount permitted by the terms of the applicable contract;

(jj) A Consumer Finance Account Receivable from an account creditor whose FICO score is greater than 680; and

(kk) A Consumer Finance Account Receivable that is not a Consumer Finance Accounts Receivable that Lender determines in its Permitted Discretion to be ineligible in whole or in part and has provided Borrower written notice thereof.

Lender's calculation and determination of Eligible Consumer Finance Accounts Receivable shall be binding and conclusive, absent manifest error.

"Eligible Inventory" means all Inventory of Borrower in which Lender has a valid, perfected first priority security interest, except the following:

(a) Work in progress or works in process;

(b) Inventory located outside the United States;

(c) Inventory that is in transit;

(d) Inventory that consists of parts and components;

(e) Damaged or obsolete Inventory;

(f) Inventory that is not merchantable;

(g) Inventory to the extent of any progress payments, pre-delivery payments, deposits, or other amounts received by Borrower in anticipation of the sale of such Inventory to another Person;

(h) All goods that are leased to or from others by Borrower;

(i) Inventory that is located on premises leased or rented by Borrower, unless (i) Borrower has delivered to Lender a landlord's lien waiver or subordination in a form satisfactory to Lender in its Permitted Discretion, or (ii) Borrower has established reserves in an amount equal to three months' rent;

(j) Inventory stored with a bailee or warehouseman, unless (i) Borrower has delivered to Lender a written acknowledgment of such bailee or warehouseman, in a form satisfactory to Lender in its Permitted Discretion, that such Person does not have a Lien in the Inventory in question, or (ii) Borrower has established reserves in an amount equal to three months' rent or three months of charges from such bailee or warehouseman;

(k) Inventory stored with a consignee, unless Borrower has demonstrated to Lender's reasonable satisfaction, that Borrower has taken reasonable steps to ensure that the Inventory in question shall not become subject to security interests or claims of creditors of the consignee;

(l) Inventory located at a location owned by Borrower that is subject to a mortgage or deed of trust in favor of a lender other than Lender, unless Borrower has delivered to Lender a mortgagee's lien waiver or subordination in a form satisfactory to Lender in its Permitted Discretion;

(m) Inventory that is covered by a negotiable document of title, unless such document and evidence of acceptable insurance covering such Inventory have been delivered to Lender with all necessary endorsements, free and clear of all Liens, except those in favor of Lender and inchoate tax Liens; or

(n) Other Inventory that Lender determines in its Permitted Discretion should not be included in the Borrowing Base.

The value of Eligible Inventory shall be determined in accordance with the lower of cost or market method of determining Inventory value. Lender's calculation and determination of Eligible Inventory shall be binding and conclusive, absent manifest error.

"Environmental Laws" means any and all applicable federal, state, and local environmental, health, or safety statutes, laws, regulations, rules, and ordinances (whether now existing or hereafter enacted or promulgated), and all applicable judicial, administrative, and regulatory decrees, judgments, and orders, including common law rulings and determinations, relating to injury to, or the protection of, human health or the environment, including, without limitation, all requirements pertaining to reporting, licensing, permitting, investigation, remediation, and removal of emissions, discharges, releases, or threatened releases of Hazardous Materials into the environment, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of such Hazardous Materials.

"ERISA" means The Employee Retirement Income Security Act of 1974 and the rules and regulations thereunder, collectively, as the same from time to time may be supplemented or amended and remain in effect.

"Event of Default" has the meaning specified in Section 10.1 of this Agreement.

"Federal Funds Rate" means, for any day, the weighted average (rounded upwards, if necessary to the next 1/100 of 1 percent) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/ 100 of 1 percent) of the quotations for such day for such transactions received by Lender from three Federal funds brokers of recognized standing selected by it.

"Financial Covenant Failure" has the meaning specified in Section 8.5 of this Agreement.

"Funded Indebtedness" means, on the measurement date in question, without duplication, (a) Indebtedness for borrowed money, (b) Indebtedness in respect of Capital Leases, (c) all obligations of the Person in question in respect of letters of credit, (d) all other interest-bearing obligations of the Person in question that, in accordance with GAAP, should be included as a liability on the consolidated balance sheet of the Person in question, and (e) all Guaranties executed with respect to any of the obligations described in items (a) through (d) of this definition.

"GAAP" means the generally accepted accounting principles issued by the American Institute of Certified Public Accountants in effect in the United States at the time of application to the provisions of this Agreement.

"Government Approval" means an approval, permit, license, authorization, certificate, or consent of any Governmental Authority.

"Governmental Authority" means the government of the United States, or any state or any foreign country or any political subdivision of any thereof, or any branch, department, agency, instrumentality, court, tribunal, or regulatory authority that constitutes a part of or exercises any sovereign power of any of the foregoing.

"Guaranties" means all guaranties, endorsements (other than endorsements of negotiable instruments for collection in the ordinary course of business), or other contingent or surety liabilities with respect to obligations of others, whether or not reflected on the balance sheet of the Person in question, including any obligation to furnish funds, directly or indirectly (whether by virtue of partnership arrangements, by agreement to keep-well, or otherwise), through the purchase of goods, supplies, or services, or by way of stock purchase, capital contribution, advance, or loan, or to enter into a contract for any of the foregoing, for the purpose of payment of obligations of any other Person.

"Hazardous Materials" means any substance (a) the presence of which requires notification, removal, or remediation under any Environmental Law; (b) that is or becomes defined as a "hazardous waste," "hazardous material," or "hazardous substance" under any present or future Environmental Law, or amendments thereto, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. Section 9601, et seq.) and any applicable local statutes and the regulations promulgated thereunder; (c) that is toxic, explosive, corrosive, flammable, infectious, radioactive,

carcinogenic, or otherwise hazardous and that is or becomes regulated pursuant to any Environmental Law; or (d) without limitation, that contains gasoline, diesel fuel, or other petroleum products, asbestos, or polychlorinated biphenyls.

"Indebtedness" means, with respect to the Person in question, (a) all obligations of such Person for borrowed money or other extensions of credit, whether secured or unsecured, absolute or contingent, including, without limitation, unmatured reimbursement obligations with respect to letters of credit, and all obligations representing the deferred purchase price of property, (b) all obligations evidenced by bonds, notes, debentures, or other similar instruments, (c) all obligations secured by any Lien on property owned or acquired by the Person, (d) that portion of all obligations arising under leases that is required to be capitalized on the balance sheet of the Person, (e) all Guaranties executed by such Person, and (f) all other obligations that, in accordance with GAAP, should be included as a liability in the balance sheet of the Person.

"Interest Period" means, with respect to each LIBOR Rate Loan, the period commencing on the date of the making or continuation of or conversion to such LIBOR Rate Loan and ending one, two, three, or six months thereafter (as Borrower may elect in the applicable Notice of Borrowing or Conversion), provided that:

(a) Any Interest Period (other than an Interest Period determined pursuant to clause (c) below) that otherwise would end on a day that is not a Business Day shall be extended to the next succeeding Business Day, unless such next succeeding Business Day falls in the next calendar month, in which case such Interest Period shall end on the immediately preceding Business Day;

(b) Any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (c) below, end on the last Business Day of a calendar month; and

(c) Any Interest Period that otherwise would end after the Revolving Credit Facility Maturity Date shall end on the Revolving Credit Facility Maturity Date.

"Inventory" means all inventory (as defined in RCW 62A.9A-102(a)(48), or any successor statute) of Borrower.

"Investment" means the purchase or acquisition of any share of Capital Stock, partnership interest, limited liability company interest, evidence of indebtedness, or other equity security of any other Person (including any Subsidiary or Affiliate), any loan, advance, or extension of credit (excluding Accounts arising in the ordinary course of business) to, or contribution to the capital of, any other Person (including any Subsidiary or Affiliate), any securities or commodities futures contracts held, any other investment in any other Person (including any Subsidiary or Affiliate), and the making of any commitment or acquisition of any option to make an Investment.

"IP Security Agreements" means the security agreements referenced in Section 5.1 of this Agreement, and includes any amendments, extensions, modifications, renewals, replacements, and restatements thereof.

"Lender" means Bank of the West, and any Successor or permitted assignee thereof.

"Letter of Credit" means a standby or commercial letter of credit in a form acceptable to Lender issued by Lender for the account of Borrower pursuant to Section 3.3 of this Agreement and the Letter of Credit Documents.

"Letter of Credit Documents" has the meaning specified in Section 3.3 of this Agreement, and includes all amendments, extensions, modifications, renewals, replacements, or restatements thereof.

"LIBOR" means the average offered rate for deposits in United States dollars (rounded upwards, if necessary, to the nearest 1/16 of 1 percent) for delivery of such deposits on the first day of an Interest Period, for the number of days in such Interest Period, which appears in Bloomberg British Association LIBOR, or any successor thereto (or such other commercially available reporting service selected by Lender in its reasonable discretion), at or about 11:00 a.m. London time (or such other time that such rate is available to Lender) on the day that is two Business Days preceding the first day of the Interest Period, or the rate for such deposits determined by Lender at such time based on such other published service of general application as shall be selected by Lender for such purpose; provided, that in lieu of determining the rate in the foregoing manner, Lender may determine the rate based on rates offered to Lender for deposits in United States dollars (rounded upwards, if necessary, to the nearest 1/16 of 1 percent) in the London Interbank Eurodollar market at such time for delivery on the first day of the Interest Period for the number of days in such Interest Period.

"LIBOR Rate" means a per annum interest rate (rounded upward, if necessary, to the nearest 1/16 of 1 percent) calculated for the Interest Period of a LIBOR Rate Loan in accordance with the following formula (in each instance determined by Lender in its reasonable discretion):

$$\text{LIBOR Rate} = \frac{\text{LIBOR}}{1 - \text{LIBOR Reserve Percentage}}$$

Lender's determination of the LIBOR Rate for any Interest Period shall be conclusive in the absence of manifest error.

"LIBOR Rate Loan" means any Revolving Loan bearing interest at a rate determined with reference to the LIBOR Rate.

"LIBOR Reserve Percentage" means, for any Interest Period, the aggregate of the maximum reserve percentages (including any basic, marginal, special, emergency, or supplemental reserves), expressed as a decimal, established (or as may be modified or adopted) by the Board of Governors of the Federal Reserve System and any other domestic or foreign banking authority to which Lender is subject with respect to "Eurocurrency Liabilities" (as defined in regulations issued from time to time by the Board of Governors of the Federal Reserve System), or applicable to extensions of credit by Lender, the rate of interest on which is determined with regard to rates applicable to "Eurocurrency Liabilities." The LIBOR Reserve Percentage shall be adjusted automatically on and as of the effective date of any change in any such reserve percentage.

"Lien" means any mortgage, trust deed, pledge, charge, hypothecation, assignment, deposit arrangement, security interest, attachment, garnishment, execution, encumbrance (including, but not limited to, easements, rights of way, and the like), lien (statutory or other), security agreement, transfer intended as security (including, without limitation, any conditional sale or other title retention agreement, the interest of a lessor under a Capital Lease, or any financing lease having substantially the same economic effect as any of the foregoing), or other voluntary or involuntary lien or charge upon (or affecting the revenues of) any real property or personal property.

"Liquidity" means, as of the end of the calendar quarter in question, the sum of Borrower's cash and cash equivalents, including cash collateral pledged to Lender pursuant to Section 3.6(a) and Section 3.6(b), as of the last day of such calendar quarter plus the Revolver Availability on the last day of such quarter.

"Loan Documents" means this Agreement, the Note, the Security Agreement, the IP Security Agreements, the Letter of Credit Documents, the Subsidiary Guaranty, any Swap Agreement, the Credit Exposure Documents, any other documents executed by Borrower in favor of Lender (whether before, on, or after the date of this Agreement) in relation to the Revolving Loans, the Letters of Credit or any security for or guaranties of the Revolving Loans or the Letters of Credit evidenced thereby, and any amendments, extensions, modifications, renewals, replacements, and restatements thereof.

"Material Adverse Effect" means (a) a material adverse effect on the business, assets, operations, or financial condition of Borrower, (b) a material impairment of the ability of Borrower to pay or perform its obligations under the Loan Documents in accordance with the terms thereof, (c) a material impairment of the Collateral, Lender's Liens with respect to the Collateral, or the priority of such Liens, or (d) a material impairment of Lender's rights and remedies under the Loan Documents.

"Non-Cash Secured Election" has the meaning specified in Section 3.6(c) of this Agreement.

"Non-Cash Secured Letters of Credit" means Letters of Credit that are not secured pursuant to Section 3.6(a) of this Agreement after Borrower has received the Non-Cash Secured Election pursuant to Section 3.6(c) of this Agreement.

"Note" means the promissory note referred to in Section 3.2 of this Agreement, and includes any amendments, extensions, modifications, renewals, replacements, and restatements thereof.

"Notice of Borrowing or Conversion" means a notice in form and content satisfactory to Lender in Lender's reasonable discretion signed by an Authorized Officer and given to Lender to request a Revolving Loan or convert a Revolving Loan.

"Obligations" means all of Borrower's indebtedness, obligations, and liabilities to Lender arising under or with respect to the Loan Documents, individually or collectively, whether direct or indirect, joint or several, absolute or contingent, due or to become due, now existing or hereafter arising, including, but not limited to, Borrower's obligations, indebtedness, and liabilities pursuant to the Note and this Agreement.

"One-Month Eurodollar Rate" means, for any day, the rate of interest per annum that is equal to the one month LIBOR rate appearing in Bloomberg British Association LIBOR (or on any successor or substitute thereof) at approximately 11:00 a.m. London time on such day.

"Patriot Act" has the meaning specified in Section 11.12 of this Agreement, and includes any amendments thereof.

"Permitted Discretion" means a determination or judgment made by Lender in good faith in the exercise of its commercially reasonable credit or business judgment from the perspective of a commercial secured lender.

"Permitted Liens" has the meaning specified in Section 9.3 of this Agreement.

"Person" means an individual, sole proprietorship, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority, or other entity of whatever nature.

"Pledge Agreement" means the pledge agreement referenced to in Section 5.2 of this Agreement, and includes any amendments, extensions, modifications, renewals, replacements, and restatements thereof.

"Prime Rate" means the rate of interest publicly announced from time to time by Lender as its "prime rate," or "reference rate." The Prime Rate is not necessarily the lowest rate of interest that Lender charges or collects from any borrower, or class of borrowers. Any change in the Prime Rate announced by Lender shall take effect at the opening of business on the day specified in the public announcement of such change.

"Quarterly Compliance Certificate" has the meaning specified in Section 7.10(f) of this Agreement.

"Restricted Payment" means any dividend, distribution, or other similar payment (whether in cash or property) by Borrower, and any purchase, redemption, retirement, or other acquisition for value of any capital stock or other ownership interests of Borrower, whether now or hereafter outstanding, or of any options, warrants, or similar rights to purchase such capital stock or other ownership interests, or any security convertible into or exchangeable for such capital stock or other ownership interests.

"Retainage" means that portion of the purchase price of goods sold or services provided by Borrower that the buyer thereof is not obligated to pay to Borrower until the end of a specified period of time following the satisfactory performance by Borrower under the agreement governing the transaction in question.

"Revolver Availability" means, at any time in question, the lesser of (a) $15,000,000 and (b) the Borrowing Base at the time in question, in either case with such lesser amount reduced by the sum of (x) the aggregate principal amount of Revolving Loans outstanding on such date and (y) the aggregate amount of Letters of Credit outstanding on such date.

"Revolving Credit Facility" has the meaning specified in Section 3.1 of this Agreement.

"Revolving Credit Facility Maturity Date" has the meaning specified in Section 3.14 of this Agreement.

"Revolving Loans" means amounts borrowed by Borrower under the Revolving Credit Facility, which shall be either Base Rate Loans, LIBOR Rate Loans, or Applicable Floating Rate Loans.

"SEC" means the Securities and Exchange Commission.

"Security Agreement" means the security agreement referred to in Section 5.1 of this Agreement, and includes any amendments, extensions, modifications, renewals, replacements, and restatements thereof.

"Solvent" means, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person, taken as a going concern, is greater than the total amount of liabilities, including contingent liabilities, of such Person; (b) the present fair salable value of the assets of such Person, taken as a going concern, is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured; (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature; and (d) such Person is not engaged in a business or transaction, and is not about to engage in a business or transaction, for which such Person's property would constitute an unreasonably small capital. The amount of contingent liabilities (such as litigation, guaranties and pension plan liabilities) at any time shall be computed as the amount that, in light of all facts and circumstances existing at the time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Subsidiary" means any corporation, association, limited liability company, joint stock company, business trust, or other similar organization of which 50 percent or more of the ordinary voting power for the election of a majority of the members of the board of directors or other governing body of such entity is held or controlled by Borrower; or any other such organization the management of which is directly or indirectly controlled by Borrower through the exercise of voting power or otherwise; or any joint venture or partnership in which Borrower has a 50 percent or greater ownership interest.

"Successor" means, for any corporation, limited liability company, or banking association, any successor by merger or consolidation, or by acquisition of substantially all of the stock, membership interests, or assets of the predecessor.

"Swap Agreement" means any interest rate swap agreement, interest rate cap agreement, interest collar agreement, or similar agreement or arrangement between Borrower and Lender or an Affiliate of Lender.

"Tax" or "Taxes" means any tax, assessment, duty, levy, or other charge imposed by any Governmental Authority on any property, revenue, income, or franchise of any Person, and any interest or penalty with respect to any of the foregoing.

"Testing Date" means March 31, 2010, and the last day of each calendar quarter thereafter.

"Tier I Account Debtors" means Dick's Sporting Goods, The Sports Authority, Amazon, Sears, Wal-Mart, Sam's Club, or Costco. Lender may, in its Permitted Discretion, remove account debtors of Borrower from the definition of Tier I Account Debtors upon notice to Borrower. Account debtors of Borrower may be added to the definition of Tier I Account Debtors upon written request from Borrower to Lender and approval of such account debtors by Lender in its Permitted Discretion.

"Unused Commitment Amount" has the meaning specified in Section 3.12 of this Agreement.

"Unused Commitment Fee" has the meaning specified in Section 3.12 of this Agreement.

"Unused Commitment Fee Margin" means 30 Basis Points from the Closing Date to (but not including) the first Adjustment Date. Thereafter, the Unused Commitment Fee Margin shall be determined by measuring the Revolver Availability as of the end of a calendar quarter and determining which fee level in the table below is applicable to the Revolver Availability at the time in question:

Revolver Availability	Unused Commitment Fee
$0.00 to $4,000,000.00	35 Basis Points
$4,000,000.01 to $8,000,000.00	30 Basis Points
$8,000,000.01 to $12,000,000.00	25 Basis Points
$12,000,000.01 and above	20 Basis Points

Changes in the Unused Commitment Fee Margin (if any) shall become effective on the corresponding Adjustment Date. If Borrower does not timely provide Lender with the Quarterly Compliance Certificate pursuant to Section 7.10(f) of this Agreement, Lender, at its option, may designate the Unused Commitment Fee Margin as 35 Basis Points until such time as such Quarterly Compliance Certificate is delivered.

"Voting Stock" means Capital Stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right to so vote has been suspended by the happening of a contingency.

Section 1.2 Accounting Terms.

(a) All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time.

(b) If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either Borrower or Lender shall so request, Lender and Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP; provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) Borrower shall provide to Lender financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

Section 1.3 Rules of Construction. The definitions of terms in this Agreement shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine, and neuter forms. The words "include," "includes," and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise (a) any reference in this Agreement to any Person shall be construed to include such Person's successors and assigns, (b) the words "herein," "hereof," and "hereunder," and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision of this Agreement, (c) all references in this Agreement to Articles, Sections, Exhibits, and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement, (d) any reference to any law or regulation in this Agreement shall, unless otherwise specified, refer to such law or regulation as amended, modified, or supplemented from time to time, (e) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts, and contract rights, (f) the use of the word "or" is not exclusive, and (g) in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including;" the words "to" and "until" each mean "to but excluding;" and the word "through" means "to and including."

Section 1.4 Rounding. Any financial ratios required to be maintained by Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

Section 1.5 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Pacific time (daylight or standard, as applicable).

Section 1.6 References to Agreements. Unless otherwise expressly provided herein, definitions of or references to organizational documents, agreements (including the Loan Documents) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, extensions, supplements and other modifications thereto, but only to the extent that such amendments, restatements, extensions, supplements and other modifications are not prohibited by any Loan Document.

Section 1.7 Incorporation of Recitals. The Recitals to this Agreement hereby are incorporated into and constitute a part of this Agreement.

ARTICLE II

CONDITIONS OF LENDING

Section 2.1 Conditions Precedent. Lender's agreements, obligations, and commitments under this Agreement (including, but not limited to, Lender's agreement to make the initial advance under the Revolving Credit Facility) are subject to fulfillment, or waiver by Lender, of each of the following conditions on or before the Closing Date:

(a) Lender shall have received the following agreements, documents, certificates, and opinions in form and substance satisfactory to Lender and, where applicable, duly executed and delivered by the parties thereto:

(i) This Agreement;

(ii) The Note;

(iii) The Pledge Agreement;

(iv) The Security Agreement;

(v) The IP Security Agreements;

(vi) Certificates of insurance or insurance binders evidencing compliance with Section 7.8 of this Agreement and the applicable provisions of the Security Agreement;

(vii) A certificate of the Secretary of Borrower with respect to resolutions of the directors of Borrower authorizing the execution and delivery of the Loan Documents and identifying the responsible Person authorized to execute, deliver, and take all other actions required under this Agreement and the other Loan Documents on behalf of Borrower, and providing specimen signatures of each such Person;

(viii) The articles of incorporation of Borrower and all amendments and supplements thereto, as filed in the office of the Washington Secretary of State, certified by the Washington Secretary of State as being a true and correct copy thereof;

(ix) The by-laws of Borrower and all amendments and supplements thereto, certified by the Secretary of Borrower as being a true and correct copy thereof;

(x) A certificate of the Washington Secretary of State as to the legal existence and status of Borrower in such state dated within 30 days of the Closing Date;

(xi) An opinion of counsel for Borrower as to the validity and enforceability of the Loan Documents and such other matters as required by Lender or its counsel (which opinion shall be in form and content satisfactory to Lender); and

(b) All necessary filings and recordings against the Collateral required to be performed in order to create and perfect Lender's first priority lien therein shall have been completed (which shall include termination of any existing financing statements with respect to the assets of Borrower);

(c) Borrower shall have paid (or are irrevocably committed to pay) Lender the fees owed pursuant to Section 3.9 of this Agreement;

(d) Borrower shall have reimbursed (or irrevocably committed to reimburse) Lender for reasonable out-of-pocket attorney fees and costs incurred by Lender in connection with the inspection of the Collateral and the negotiation and preparation of this Agreement and the other Loan Documents through the Closing Date;

(e) No litigation, arbitration, proceeding, or investigation shall be pending or threatened that (i) questions the validity or legality of the transactions contemplated by any Loan Document, or seeks a restraining order, injunction, or damages in connection therewith, or (ii) in the reasonable judgment of Lender, reasonably could be expected to have a Material Adverse Effect;

(f) As of the date of this Agreement, no Default or Event of Default exists (or would result from the initial advance under the Revolving Credit Facility);

(g) A third-party examiner acceptable to Lender shall have performed an examination, and Lender shall have approved such examination, of Borrower's Accounts and Borrower's Inventory;

(h) There shall have been no Material Adverse Effect since September 30, 2009; and

(i) Lender shall have received such other statements, opinions, certificates, documents, and information with respect to the matters contemplated by this Agreement as Lender may request in Lender's reasonable discretion.

If all of the above-referenced conditions are satisfied by the Closing Date, the Loan Documents and Lender's obligations under this Agreement in respect of the Revolving Loans and Letters of Credit shall become effective. If any of the above-referenced conditions precedent are not satisfied by the Closing Date, and such conditions are not waived or deferred (in writing) by Lender (in its sole and absolute discretion), Lender shall have no commitment or obligation to enter into this Agreement, or to make any Revolving Loans or issue any Letters of Credit.

Section 2.2 Conditions to Revolving Loans and Issuance of Letters of Credit. The following conditions must be satisfied (or waived or otherwise met) before Borrower shall be entitled to Revolving Loans or Letters of Credit under this Agreement after the Closing Date:

(a) No Default or Event of Default shall have occurred and be continuing;

(b) No Default or Event of Default exists or shall result from the Revolving Loan or Letter of Credit requested by Borrower;

(c) All of the Loan Documents shall be in full force and effect in all material respects;

(d) Each of the representations and warranties contained in Article VI of this Agreement shall be true and correct in all material respects except for representations and warranties which speak as of the Closing Date, with such exceptions as may be acceptable to Lender in the reasonable exercise of its judgment; and

(e) Borrower shall be in compliance in all material respects with all of the covenants set forth in Article VII, Article VIII, and Article IX of this Agreement, with such exceptions as may be acceptable to Lender.

In addition to the foregoing conditions, Borrower must be in compliance with the financial covenants set forth in Section 8.1, Section 8.2, Section 8.3 and Section 8.4 of this Agreement for the period covered by the most recent Quarterly Compliance Certificate or Annual Compliance Certificate delivered to Lender as of the date of a request for a Revolving Loan before Borrower shall be entitled to such Revolving Loan.

In addition to the foregoing conditions, Borrower must (x) deliver to Lender a written report in the form attached as Exhibit B hereto identifying Borrower's performance with respect to the financial covenants set forth in Section 8.1, Section 8.2, Section 8.3 and Section 8.4 of this Agreement as of December 31, 2009, which report shall be in a form satisfactory to Lender in its Permitted Discretion, shall include reasonable detail regarding the manner in which the financial covenants were calculated, and shall be accompanied by a certificate of an Authorized Officer that the calculation of each of the financial covenants is true and correct in all material respects, (y) deliver to Lender lien searches acceptable to Lender in its Permitted Discretion on all of Borrower's intellectual property, and (z) deliver to Lender a written report in a form satisfactory to Lender (in Lender's Permitted Discretion) identifying the amount of the Borrowing Base as of month-ended January 31, 2010, before Borrower shall be entitled to the first Revolving Loan and shall deliver such report in the form of Exhibit B and lien searches within 30 days after the Closing Date, and shall deliver such Borrowing Base report within five Business Days after the

Closing Date, even if Borrower shall not request a Revolving Loan prior to such date. In addition, if such liens searches show that Borrower's intellectual property is subject to liens other than Permitted Liens, Borrower shall remove such liens before Borrower shall be entitled to the first Revolving Loan.

Each request for a Revolving Loan or a Letter of Credit under this Agreement shall constitute a representation and warranty by Borrower that all of the foregoing conditions have been satisfied.

ARTICLE III

THE REVOLVING CREDIT FACILITY

Section 3.1 The Revolving Credit Facility Commitment. Upon satisfaction of the conditions precedent specified in Section 2.1 and Section 2.2 of this Agreement (as applicable), and subject to the terms and conditions of this Agreement, Lender agrees to make Revolving Loans to Borrower and issue Letters of Credit for the account of Borrower. Subject to the terms and conditions of this Agreement, Lender's maximum commitment in respect to Revolving Loans and Letters of Credit in respect of the credit facility described in the preceding sentence (which credit facility is referred to in this Agreement as the "Revolving Credit Facility") is $15,000,000.

Section 3.2 The Note. Contemporaneously with the execution of this Agreement, Borrower shall execute and deliver to Lender a promissory note (the "Note") in form and content satisfactory to Lender in its Permitted Discretion. The Revolving Loans extended to Borrower pursuant to the Revolving Credit Facility shall be evidenced by and repaid by Borrower in accordance with the Note and this Agreement.

Section 3.3 The Letter of Credit Subfacility. Pursuant to the terms and conditions of this Agreement and any other applications, documents, or agreements from Borrower to Lender related to the Letters of Credit (the "Letter of Credit Documents"), Lender shall issue Letters of Credit up to an aggregate amount outstanding at any time of $10,000,000 for the account of Borrower (which Letters of Credit shall be part of (and not in addition to) Lender's commitment in respect of the Revolving Credit Facility). Each Letter of Credit outstanding on or after the date of this Agreement shall be deemed to be an advance under the Revolving Credit Facility in an amount equal to the maximum amount of the Letter of Credit (as such maximum amount is determined in accordance with this Section 3.3). Lender shall not be obligated to issue any Letters of Credit on or after the Revolving Credit Facility Maturity Date. Furthermore, Lender shall not be required to issue any Letter of Credit with a maturity date after the Revolving Credit Facility Maturity Date. The amount of a Letter of Credit at any time shall be deemed to be the stated amount of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that by its terms, or the terms of any document related thereto, provides for one or more automatic increases in the stated amount thereof, the amount of such Letter of Credit shall be deemed to be the maximum stated amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum stated amount is in effect at the time in question. Borrower agrees that it shall execute any documents that Lender in its Permitted Discretion requires Borrower to execute in relation to the Letters of Credit. Within the foregoing limits, and subject to the terms and conditions of this Agreement,

Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly, Borrower may obtain Letters of Credit to replace Letters of Credit that have expired, or that have been drawn upon and reimbursed.

Section 3.4 Letter of Credit Fees. Borrower shall pay Lender a fee (the "Letter of Credit Fee") (a) with respect to each Cash Secured Letter of Credit equal to 2 percent per annum multiplied by the maximum amount available to be drawn under such Cash Secured Letter of Credit (which fee shall be prorated to take into account the fact that this fee is paid quarterly by Borrower) and (b) with respect to each Non-Cash Secured Letter of Credit equal to the Applicable Margin for LIBOR Rate Loans multiplied by the maximum amount available to be drawn under such Non-Cash Secured Letter of Credit (which fee shall be prorated to take into account the fact that this fee is paid quarterly by Borrower). For purposes of computing the amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be the maximum amount determined in accordance with Section 3.3. The Letter of Credit Fees shall be computed on a quarterly basis in arrears. The Letter of Credit Fees shall be due and payable by Borrower on the first Business Day of each calendar quarter, on the expiration date of the Letter of Credit in question, and, thereafter, on demand by Lender. Notwithstanding anything to the contrary contained in this Agreement, while any Event of Default exists, all Letter of Credit Fees shall accrue at an additional 3 percent. Borrower shall also pay to Lender the customary presentation fees, amendment fees, and other processing fees, and other standard costs and charges, of Lender relating to Letters of Credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable by Borrower to Lender promptly on demand and are not refundable.

Section 3.5 Reimbursement Obligation of Borrower. Borrower hereby agrees to reimburse or pay to Lender with respect to each Letter of Credit on each date that any draft presented under any Letter of Credit is honored by Lender (or Lender otherwise makes payment with respect thereto), the following amounts:

(a) the amount paid by Lender under or with respect to such Letter of Credit, and

(b) the amount of any Taxes, fees, charges, or other costs and expenses incurred by Lender in connection with any payment made by Lender under, or with respect to, such Letter of Credit.

Borrower may use the proceeds of Revolving Loans to make a payment owed pursuant to this Section 3.5, provided Borrower is entitled to such a loan hereunder at the time in question. Interest on any and all amounts remaining unpaid by Borrower under this Section 3.5 at any time from the date such amounts become due and payable, until payment in full, shall be payable by Borrower to Lender on demand at the Default Rate for Base Rate Loans.

Section 3.6 Cash Collateral for Letters of Credit and Credit Exposure Reserve.

(a) Prior to the Borrower making the Non-Cash Secured Election, Borrower shall provide cash collateral to Lender prior to, and as a condition precedent to, the issuance of any Letter of Credit in an amount equal to 105 percent of the maximum amount of

such Letter of Credit determined in accordance with Section 3.3. Borrower hereby grants Lender a security interest in such cash collateral to secure Borrower's reimbursement obligations in respect of such Letter of Credit. Borrower agrees to execute any documents required by Lender to evidence or perfect Lender's security interest in such cash collateral. Such cash collateral shall be held by Lender in a bank-controlled deposit account and Borrower shall have no right to withdraw or access such cash collateral so long as the applicable Letter of Credit is outstanding. Lender shall have the right to debit such account upon a drawing under such Letter of Credit.

(b) Borrower shall, on the Closing Date and at all times thereafter, maintain with Lender cash collateral in an amount equal to the Credit Exposure Reserve. Borrower hereby grants Lender a security interest in such cash collateral to secure payment and performance of all of the Obligations. Borrower agrees to execute any documents required by Lender to evidence or perfect Lender's security interest in such cash collateral. Such cash collateral shall be held by Lender in a bank-controlled deposit account. Borrower shall deposit additional cash collateral with Lender within three Business Days of receipt of written notice from Lender that the Credit Exposure Reserve has increased. Borrower shall have no right to withdraw or access such cash collateral. This requirement is in addition to Borrower's obligations to deposit cash collateral with Lender pursuant to Section 3.6(a).

(c) Borrower shall be entitled to obtain Letters of Credit without complying with the requirements of Section 3.6(a) provided that (i) no Default or Event of Default exists, (ii) Borrower is in compliance with Section 8.1, Section 8.2, Section 8.3 and Section 8.4 of this Agreement for the period covered by the most recent Quarterly Compliance Certificate or Annual Compliance Certificate delivered to Lender (as applicable) and (iii) Borrower provides written notice to Lender (the "Non-Cash Secured Election") of its irrevocable election to obtain Letters of Credit without complying with the requirements of Section 3.6(a). After receipt by Lender of the Non-Cash Secured Election, Section 8.5 of this Agreement shall have no further force or effect and any Financial Covenant Failure shall constitute an Event of Default. Within 30 days after receipt by Lender of the Non-Cash Secured Election, Lender shall distribute all cash pledged by Borrower pursuant to Section 3.6(a) as directed by Borrower.

Section 3.7 Permitted Use of Funds. Borrower shall use proceeds of the Revolving Credit Facility for general corporate purposes in the ordinary course of business.

Section 3.8 Limitation on Amount Outstanding. The maximum principal amount of credit that may be outstanding to Borrower under the Revolving Credit Facility at any time (including any outstanding Letters of Credit) is the lesser of (a) $15,000,000, and (b) the Borrowing Base at the time in question. If the total principal amount outstanding under the Revolving Credit Facility at any time (including any outstanding Letters of Credit) exceeds the lesser of the amounts specified in the preceding sentence, Borrower within three Business Days of the date Lender notifies Borrower of such situation shall pay Lender such excess amount (and Borrower's failure to make such payment shall constitute an Event of Default under Section 10.1(a) of this Agreement).

Section 3.9 The Revolving Credit Facility Commitment Fee. On the Closing Date, Borrower shall pay Lender a fee of $52,500 in consideration of Lender's commitment to extend the Revolving Credit Facility to Borrower on the basis set forth in this Agreement. Such fee shall be fully earned when paid, non-refundable, and shall not apply as a payment toward principal or interest.

Section 3.10 Available Interest Rates on the Revolving Credit Facility. Borrower hereby acknowledges and agrees that interest shall accrue (and shall be paid by Borrower as more particularly specified below) on Revolving Loans extended to Borrower under the Revolving Credit Facility at the LIBOR Rate plus the Applicable Margin, the Base Rate plus the Applicable Margin, or the Applicable Floating Rate plus the Applicable Margin (as selected by Borrower pursuant to Section 4.5 of this Agreement).

Section 3.11 Revolving Loan Interest Payments. Borrower shall pay Lender interest that accrues on Revolving Loans at the times specified in Section 4.2 of this Agreement.

Section 3.12 The Unused Commitment Fee. On the first Business Day of April, 2010, and the first Business Day of each third month thereafter, and on the Revolving Credit Facility Maturity Date, Borrower shall pay Lender a fee (the "Unused Commitment Fee") equal to the Unused Commitment Amount for the immediately preceding three-month period (or portion thereof) multiplied by the Unused Commitment Fee Margin (which fee shall be prorated to take into account the fact that this fee is paid quarterly by Borrower). As used in this Agreement, the term "Unused Commitment Amount" means the average of the difference on each day in the immediately preceding three-month period (or, in the case of the fee payable on the Revolving Credit Facility Maturity Date, on each day after the end of the prior three-month period for which the Unused Commitment Fee was due hereunder through the Revolving Credit Facility Maturity Date) between (a) $15,000,000 and (b) the aggregate principal amount of Revolving Loans and Letters of Credit outstanding.

Section 3.13 Revolving Nature of the Revolving Credit Facility. The Revolving Credit Facility is a revolving credit facility. Therefore, subject to the terms and conditions of this Agreement, Borrower may pay, repay, and re-borrow amounts under that credit facility.

Section 3.14 Maturity Date of the Revolving Credit Facility. On the earlier of (a) August 31, 2012, or (b) acceleration of the Obligations following an Event of Default, if any, under this Agreement, Lender's commitment to extend credit (including Letters of Credit) to Borrower pursuant to the Revolving Credit Facility shall terminate. The earlier of the dates specified in the preceding sentence of this Agreement is referred to in this Agreement as the "Revolving Credit Facility Maturity Date." On the Revolving Credit Facility Maturity Date, Borrower shall be obligated to pay Lender the entire balance of principal, accrued interest and Unused Commitment Fee owed pursuant to the Note, this Agreement, and the other Loan Documents (including Letter of Credit Documents) (together with any fees and costs owed thereunder or hereunder).

Section 3.15 No Borrowing During Pendency of an Event of Default. Borrower shall not be entitled to borrow (or obtain a Letter of Credit) under the Revolving Credit Facility at any time that a Default or an Event of Default exists.

Section 3.16 Cash Collateral After the Revolving Credit Facility Maturity Date. If any Non-Cash Secured Letter of Credit remains outstanding on or after the Revolving Credit

Facility Maturity Date, Borrower shall provide cash collateral to Lender on or before the Revolving Credit Facility Maturity Date (and, if required by Lender, shall grant a security interest in such cash collateral in favor of Lender in accordance with the requirements of Section 3.6(a)) in an amount equal to 105 percent of the aggregate undrawn face amount of such outstanding Non-Cash Secured Letters of Credit and such cash collateral shall secure Borrower's continuing obligations in respect of such outstanding Letters of Credit.

ARTICLE IV

TERMS RELATING GENERALLY TO PAYMENTS AND INTEREST RATES

Section 4.1 Computation of Interest and Fees. Each Revolving Loan that is a LIBOR Rate Loan shall bear interest on the outstanding principal amount thereof, for each Interest Period applicable thereto, at a rate per annum equal to the LIBOR Rate plus the Applicable Margin. Each Revolving Loan that is a Base Rate Loan shall bear interest on the outstanding principal amount thereof at the Base Rate plus the Applicable Margin, which rate shall change contemporaneously with any change in the Base Rate. Each Revolving Loan that is an Applicable Floating Rate Loan shall bear interest on the outstanding principal amount thereof at the Applicable Floating Rate plus the Applicable Margin, which rate shall change contemporaneously with any change in the Applicable Floating Rate. Interest payable by Borrower under this Agreement shall be computed daily on the basis of a year of 360 days and shall be paid for the actual number of days for which due. If the due date for any payment of principal is extended by operation of law, interest shall be payable for such extended time. If any payment required by this Agreement or the Note becomes due on a day that is not a Business Day, such payment shall be due on the next succeeding Business Day (subject to the definition of the term Interest Period), and such extension shall be included in computing interest in connection with such payment.

Section 4.2 Payment of Interest. Borrower shall pay Lender interest accrued on Base Rate Loans and Applicable Floating Rate Loans monthly in arrears on the first Business Day of each calendar month, commencing April 1, 2010. Except as specified in the following sentence, Borrower shall pay Lender interest accrued on LIBOR Rate Loans on the last day of the Interest Period for each such LIBOR Rate Loan. Notwithstanding the foregoing, if Borrower selects an Interest Period of six months with respect to any LIBOR Rate Loan, Borrower shall pay Lender interest accrued on the principal amount of such LIBOR Rate Loan on the last day of the third month of such Interest Period and on the last day of the Interest Period for such LIBOR Rate Loan.

Section 4.3 Default Rate of Interest. Following the occurrence of an Event of Default and during the continuance thereof, interest shall accrue, at Lender's option and upon notice to Borrower, (and shall be payable by Borrower) on the principal balances outstanding under the Note at the Default Rate.

Section 4.4 Limitations on Amounts of LIBOR Rate Loans. Borrower shall not request a LIBOR Rate Loan for less than a minimum of $500,000 in principal amount. Borrower shall not be entitled to have more than five LIBOR Rate Loans outstanding at any time.

Section 4.5 Notice of Borrowing or Conversion of Revolving Loans. Whenever Borrower desires to obtain a Revolving Loan under this Agreement or to convert an outstanding Revolving Loan to another interest rate option hereunder, Borrower shall give Lender a written Notice of Borrowing or Conversion (or a telephonic notice promptly confirmed by a written Notice of Borrowing or Conversion), which notice shall be irrevocable and which must be received no later than 1:00 p.m. on the date (a) one Business Day before the day on which the requested Revolving Loan is to be made as or converted to a Base Rate Loan or Applicable Floating Rate Loan, and (b) two Business Days before the day on which the requested Revolving Loan is to be made or converted to a LIBOR Rate Loan. Such Notice of Borrowing or Conversion shall specify (x) the effective date and amount of each Revolving Loan requested to be made or converted, (y) the interest rate option requested to be applicable thereto, and (z) the duration of the applicable Interest Period, if any (subject to the provisions of the definition of the term Interest Period). If any Notice of Borrowing or Conversion fails to specify the interest rate option applicable to the requested Revolving Loan (or the amount to be converted), then Borrower shall be deemed to have requested a Base Rate Loan. If no Interest Period is specified in a Notice of Borrowing or Conversion with respect to a requested LIBOR Rate Loan, then Borrower shall be deemed to have selected an Interest Period of one month's duration, and Lender promptly shall notify Borrower of such selection. If Lender receives a Notice of Borrowing or Conversion after the time specified in the first sentence of this Section 4.5, such Notice of Borrowing or Conversion shall not be effective unless Lender notifies Borrower of its intent to comply with such Notice of Borrowing or Conversion. If Lender does not receive an effective Notice of Borrowing or Conversion with respect to an outstanding LIBOR Rate Loan prior to the end of the Interest Period of such LIBOR Rate Loan, Borrower shall be deemed to have elected to convert such outstanding LIBOR Rate Loan in whole into a Base Rate Loan on the last day of the then current Interest Period with respect to the LIBOR Rate Loan in question. If the written confirmation of any telephonic notification differs in any material respect from Lender's record of the telephonic notification, the records of Lender shall control, absent manifest error. Borrower agrees that Lender shall have no obligation to verify the identity of any person making any request pursuant to this Section, and Borrower assumes all risks of the validity and authorization of such requests. If Borrower and Lender enter into any cash management, treasury management or other agreement that provides that the payment of checks and other items drawn on an account of Borrower that does not have sufficient funds at the time of drawing are deemed to be advances of a Revolving Loan, such Revolving Loans shall be Base Rate Loans.

Section 4.6 Advances of Loan Proceeds. Lender shall cause proceeds of the Revolving Loans requested by Borrower to which Borrower is entitled under the terms of this Agreement to be disbursed as directed by Borrower.

Section 4.7 No LIBOR Rate Loans or Applicable Floating Rate Loans When Default Exists. Notwithstanding any contrary provisions of this Agreement, and without limiting any other rights of Lender, if a Default or an Event of Default has occurred and is continuing, at Lender's election, (a) Borrower may not select a LIBOR Rate Loan or an Applicable Floating Rate Loan, (b) Borrower may not convert any Revolving Loan to a LIBOR Rate Loan or an Applicable Floating Rate Loan, and (c) no LIBOR Rate Loan may be continued as a LIBOR Rate Loan for a new Interest Period. If a Default or an Event of Default has occurred and is continuing, at Lender's election, each LIBOR Rate Loan shall convert to a Base Rate Loan at the expiration of the applicable Interest Period and, at Lender's election, all Applicable Floating Rate Loans will be converted to Base Rate Loans.

Section 4.8 Conversion of Loans. Upon the terms and subject to the conditions of this Agreement, Borrower may convert all or any part of any outstanding Base Rate Loan, Applicable Floating Rate Loan, or LIBOR Rate Loan into another Revolving Loan on any Business Day (which, in the case of a conversion of an outstanding LIBOR Rate Loan shall be the last day of the Interest Period applicable to such LIBOR Rate Loan). Borrower shall give Lender prior notice of each such conversion (which notice shall be effective upon receipt) in accordance with Section 4.5 of this Agreement.

Section 4.9 Lender's Note Records. Borrower irrevocably authorizes Lender to make or cause to be made, at or about the time of any Revolving Loan, or at the time of receipt of any payment of principal or interest on the Note, an appropriate notation in Lender's records reflecting (as the case may be) the making of such Revolving Loan or the receipt of such payment. The outstanding amount of the Revolving Loans set forth in the records of Lender shall be prima facie evidence, absent manifest error, of the amount of principal and interest owing and unpaid to Lender pursuant to the Note. Notwithstanding the foregoing, the failure of Lender to record (or any error in so recording) the amount of any Revolving Loan or payment in Lender's records shall not limit or otherwise affect the obligations of Borrower under this Agreement (or the Note) to make payments of principal of or interest thereunder when due.

Section 4.10 Voluntary Prepayments. LIBOR Rate Loans may not be prepaid in whole or in part (unless contemporaneously with or promptly after any prepayment thereof Borrower pay Lender all amounts owed pursuant to Section 4.12 of this Agreement). Base Rate Loans and Applicable Floating Rate Loans may be prepaid at any time, without any premium or prepayment charge.

Section 4.11 Method of Payments. All payments of principal of and interest by Borrower in respect of amounts due by Borrower under this Agreement shall be made by Borrower to Lender at Lender's Portland, Oregon, office (or at such other location that Lender may from time to time designate), in each case in immediately available funds denominated in United States dollars. All payments by Borrower under this Agreement and under any of the other Loan Documents shall be made without set-off or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions, or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein, unless Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon Borrower with respect to any amount payable by Borrower under this Agreement or under any of the other Loan Documents, Borrower shall pay to Lender such additional amount in United States dollars as shall be necessary to enable Lender to receive the same net amount that Lender would have received on such due date had no such obligation been imposed upon Borrower. Borrower promptly shall deliver to Lender certificates or other valid vouchers or evidence of payment satisfactory to Lender in Lender's reasonable discretion for all taxes or other charges deducted from or paid with respect to payments made by Borrower under this Agreement or under such other Loan Document. Borrower hereby authorizes Lender to debit Borrower's operating account at Lender to make the payments then due and payable by Borrower

pursuant to this Agreement. Lender plans to implement procedures that will automatically result in a debit or other draft on the above-referenced account to collect the payments owed by Borrower pursuant to this Agreement and the Note. Notwithstanding the provisions of the preceding sentence, Borrower hereby acknowledges and agrees that Lender's failure to debit the above-referenced account to collect a payment owed pursuant to this Agreement and the Note shall not relieve Borrower of Borrower's obligation to make the payment in question.

Section 4.12 LIBOR Indemnity. If Borrower for any reason makes any payment of principal with respect to any LIBOR Rate Loan on any day other than the last day of an Interest Period applicable to such LIBOR Rate Loan, or fails to borrow or continue or convert to a LIBOR Rate Loan after giving a Notice of Borrowing or Conversion thereof pursuant to Section 4.5 of this Agreement, or fails to prepay a LIBOR Rate Loan after having given notice thereof, Borrower shall pay to Lender any amount required to compensate Lender for any additional losses, costs, or expenses that Lender reasonably may incur as a result of such payment or failure (calculated in accordance with Lender's standard practice at the time in question), including, without limitation, any loss (including loss of anticipated profits), costs, or expense incurred by reason of the liquidation or re-employment of deposits or other funds required by Lender to fund or maintain such LIBOR Rate Loan. Borrower shall pay such amount upon presentation by Lender of a statement setting forth the amount and Lender's calculation thereof in reasonable detail, which statement shall be deemed true and correct, absent manifest error.

Section 4.13 Changed Circumstances. Notwithstanding any other provision of this Agreement, in the event that:

(a) On any date on which the LIBOR Rate or the Applicable Floating Rate otherwise would be set Lender shall determine in good faith (which determination shall be final and conclusive) that adequate and fair means do not exist for ascertaining the LIBOR Rate or the Applicable Floating Rate, or

(b) At any time Lender shall determine in good faith (which determination shall be final and conclusive) that:

(i) The making or continuation of or conversion of any loan to a LIBOR Rate Loan or an Applicable Floating Rate Loan has been made impracticable or unlawful by (a) the occurrence of a contingency that materially and adversely affects the interbank Eurodollar market, or (b) compliance by Lender in good faith with any applicable law or governmental regulation, guideline, or order or interpretation or change thereof by any governmental authority charged with the interpretation or administration thereof or with any request or directive of any such governmental authority (whether or not having the force of law); or

(ii) The LIBOR Rate or the Applicable Floating Rate no longer shall represent the effective cost to Lender for United States dollar deposits in the interbank market for deposits in which Lender regularly participates;

then, and in any such event, Lender promptly shall notify Borrower thereof. Until Lender notifies Borrower that the circumstances giving rise to such notice no longer apply, the obligation of Lender to allow selection by Borrower of LIBOR Rate Loans or Applicable Floating Rate Loans affected by the contingencies described in this Section 4.13 shall be suspended. If, at the time Lender so notifies Borrower, Borrower previously has given Lender a Notice of Borrowing or Conversion with respect to one or more LIBOR Rate Loans or Applicable Floating Rate Loans but such Revolving Loans have not yet gone into effect, such notification shall be deemed to be a request for a Base Rate Loan.

Section 4.14 Prepayment Due to Illegality. In the event of a determination of illegality pursuant to Section 4.13 of this Agreement with respect to the outstanding affected LIBOR Rate Loans or Applicable Floating Rate Loans, Borrower shall prepay the same, together with interest thereon and any amount due pursuant to Section 4.12, if any, of this Agreement, on such date as shall be specified in Lender's notice to Borrower (which shall not be earlier than the date such notice is given), unless Lender is permitted to maintain such Revolving Loans as LIBOR Rate Loans until the end of each then-applicable Interest Period. Unless otherwise agreed by Borrower and Lender, any payment required in accordance with the preceding sentence shall (subject to the terms and conditions of this Agreement) be made automatically with a Base Rate Loan.

ARTICLE V

COLLATERAL FOR BORROWER'S OBLIGATIONS

Section 5.1 Execution by Borrower of the Security Agreement and the IP Security Agreements. Contemporaneously with the execution of this Agreement, Borrower shall execute and deliver to Lender a security agreement (the "Security Agreement") in form and content satisfactory to Lender. The Security Agreement shall grant Lender a security interest in the Collateral to secure payment of the Obligations. In addition, contemporaneously with the execution of this Agreement, Borrower shall execute and deliver to Lender security agreements (the "IP Security Agreements") in form and substance satisfactory to Lender in its Permitted Discretion. The IP Security Agreements shall grant Lender a security interest in all existing and after-acquired intellectual property of Borrower to secure payment of the Obligations.

Section 5.2 Execution by Borrower of the Pledge Agreement. Contemporaneously with the execution of this Agreement, Borrower shall execute and deliver to Lender a pledge agreement (the "Pledge Agreement") in form and content satisfactory to Lender. The Pledge Agreement shall grant Lender a security interest and lien in 65 percent of the Capital Stock of Nautilus Fitness Canada Ltd. to secure payment of the Obligations.

Section 5.3 Right of Setoff. In addition to any rights now or hereafter granted under this Agreement, applicable law, or otherwise, and not by way of limitation of any such rights, upon the occurrence and during the continuance of an Event of Default, Borrower hereby authorizes Lender at any time, or from time to time, without presentment, demand, protest, or other notice of any kind to Borrower or to any other Person, any such notice being hereby expressly waived, to set off, and grants to Lender a security interest in and a lien on, any Indebtedness at any time held or owing by Lender to or for the credit or the account of Borrower,

including, without limitation, all depository account balances, cash and any other property of Borrower now or hereafter in the possession of Lender, against and on account of the Obligations and liabilities of Borrower to Lender, irrespective of whether the Obligations have matured and/or Lender may refuse to allow withdrawals from any such account.

Section 5.4 Other Documents. Borrower hereby agrees that until Borrower satisfies the Obligations in full and Lender has no further commitment to make Revolving Loans or issue Letters of Credit for the account of Borrower, Borrower shall promptly execute and deliver to Lender all documents deemed necessary or desirable by Lender in its Permitted Discretion to create, evidence, perfect, or continue Lender's security interests in the Collateral. In addition, Borrower hereby authorizes Lender to file such financing statements or other documents, and to take such other actions, that Lender believes in its Permitted Discretion need to be filed or taken in order to create, evidence, perfect, or continue Lender's security interests in the Collateral.

Section 5.5 Appraisals and Collateral Examinations. Lender shall require examinations of the Collateral annually. The examinations shall be conducted by a third-party examiner acceptable to Lender in its Permitted Discretion. Borrower hereby agrees to cooperate to facilitate such examinations of the Collateral. Borrower acknowledges and agrees that it shall pay for the reasonable cost of the annual examinations of the Collateral conducted on behalf of Lender, or any other inspection, examination, or appraisal of the Collateral obtained by Lender at any time that an Event of Default exists hereunder (which payments shall be made in accordance with Section 7.11 of this Agreement).

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender as follows:

Section 6.1 Existence and Power of Borrower. Borrower is a corporation duly organized and existing under the laws of the state of Washington and is qualified to do business in each jurisdiction where the failure to be so qualified could be reasonably likely to result in a Material Adverse Effect. Borrower has full power, authority, and legal right to carry on Borrower's businesses as presently conducted, to own and operate Borrower's properties and assets, and to execute, deliver, and perform this Agreement and the other Loan Documents.

Section 6.2 Authorization by Borrower. The execution, delivery, and performance by Borrower of this Agreement, the Note, and the other Loan Documents, and any borrowing under this Agreement, have been duly authorized by all necessary corporate action of Borrower, does not require shareholder approval, or the approval or consent of any trustee or the holders of any Indebtedness of Borrower, does not contravene any law, regulation, rule, or order binding on Borrower, or any of Borrower's organizational documents, and do not contravene the provisions of or constitute a default under any indenture, mortgage, material contract, or other material agreement or instrument to which Borrower is a party, or by which Borrower (or any of its properties) may be bound or affected, except as has been disclosed to Lender in writing.

Section 6.3 Government Approvals. No Government Approval or filing or registration with any Governmental Authority is required for the making and performance by Borrower of this Agreement or any Loan Document, or in connection with any of the transactions contemplated hereby, except those that have been obtained or made and are in full force and effect. Borrower has obtained all Governmental Approvals that are necessary or required in connection with the conduct of Borrower's business, except any Governmental Approvals the failure to obtain which could not be reasonably likely to result in a Material Adverse Effect.

Section 6.4 Binding Obligations. This Agreement, the Note, and the other Loan Documents have been duly executed and delivered by Borrower and constitutes the legal, valid, and binding obligations of Borrower. This Agreement, the Note, and the other Loan Documents are enforceable against Borrower and its property in accordance with their respective terms, except as limited by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting the enforcement of creditors' rights generally, and except as the remedy of specific performance, or the remedy of injunctive relief, is subject to the discretion of the court before which any proceeding therefor may be brought.

Section 6.5 Litigation. Except as set forth in Schedule 6.5 of this Agreement, there are no actions, proceedings, investigations, or claims against or affecting Borrower now pending before any court, arbitrator, or Governmental Authority, which individually or in the aggregate, could be reasonably likely to result in a Material Adverse Effect.

Section 6.6 Financial Condition of Borrower. Borrower has delivered to Lender Borrower's report on Form 10-Q for fiscal quarter ending September 30, 2009 as filed with the SEC, which presents fairly in all material respects Borrower's financial condition and results of operations for the period covered thereby. Since the date of such report, there has been no Material Adverse Effect, except as has been disclosed to Lender in writing.

Section 6.7 Title and Liens. Borrower has good and marketable title to all of Borrower's material properties and assets. The Collateral is not subject to any Lien, other than Permitted Liens.

Section 6.8 Intellectual Property; Licenses, Etc. Borrower owns, licenses or otherwise possesses the right to use, all material trademarks, service marks, trade names, copyrights, patents, patent rights, franchises, licenses and other intellectual property rights that are reasonably necessary for the operation of its businesses, without conflict with the rights of any other Person, except to the extent such conflict could not be reasonably likely to result in a Material Adverse Effect. To the knowledge of Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by Borrower infringes upon any rights held by any other Person in any material respect. No claim or litigation regarding any of the foregoing is pending or, to the knowledge of Borrower, threatened.

Section 6.9 Taxes. Borrower has filed all federal and state and all other material tax returns and reports required of Borrower and has paid all material Taxes that are due and payable (except to the extent such Taxes are being properly contested in good faith by

appropriate legal proceedings). The charges and accruals on the books of Borrower in respect of Taxes for all fiscal periods to date are accurate in all material respects. Taxes not yet due have been provided for as a reserve on the books of Borrower to the extent required under GAAP. There are no claims or assessments against Borrower by any Governmental Authority with respect to any Taxes, except those (if any) disclosed to Lender in writing, and except any claims or assessments that could not be reasonably likely to result in a Material Adverse Effect.

Section 6.10 Other Agreements. Borrower is not in breach of or default under any agreement to which Borrower is a party, or that is binding on Borrower (or any of its assets), except to the extent any such breach or default could not be reasonably likely to result in a Material Adverse Effect.

Section 6.11 Federal Reserve Regulations. Borrower is not engaged principally or as one of Borrower's important activities in the business of extending credit for the purpose of purchasing or carrying any margin stock (within the meaning of Federal Reserve Regulation U), and no part of the proceeds of any Revolving Loan will be used to purchase or carry any such margin stock, or to extend credit to others for the purpose of purchasing or carrying any such margin stock, or for any other purpose that violates the applicable provisions of any Federal Reserve Regulation. If requested to do so by Lender, Borrower will furnish to Lender a statement conforming with the requirements of Regulation U.

Section 6.12 Compliance With Laws. Borrower is in compliance in all respects with all laws, regulations, rules, and orders of Governmental Authorities applicable to Borrower, or to Borrower's operations or property (including, but not limited to, Environmental Laws, Consumer Protection Laws and ERISA), except any thereof whose validity is being contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof and except to the extent any non-compliance could not be reasonably likely to result in a Material Adverse Effect.

Section 6.13 Labor Relations. There is (a) no unfair labor practice complaint pending against Borrower or, to the best knowledge of Borrower, threatened, before the National Labor Relations Board, and no grievance or arbitration proceeding arising out of or under any collective bargaining agreement is so pending against Borrower or, to the best knowledge of Borrower, threatened, and (b) no strike, labor dispute, slowdown, or stoppage pending against Borrower or, to the best knowledge of Borrower, threatened against Borrower, except, in each case, to the extent such complaint, strike, labor dispute, slowdown or stoppage could not be reasonably likely to result in a Material Adverse Effect.

Section 6.14 Material Adverse Effect. Between September 30, 2009, and the Closing Date, no event has occurred, that alone or together with other events, could reasonably be expected to have a Material Adverse Effect.

Section 6.15 Full Disclosure. No information contained in this Agreement, any of the other Loan Documents, any projections, financial statements or collateral reports or other written reports from time to time delivered hereunder or any written statement furnished by or on behalf of Borrower to Lender pursuant to the terms of this Agreement contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein or therein not materially misleading in light of the circumstances under which they were made.

Section 6.16 Solvency. Borrower is Solvent.

Section 6.17 Continuing Representations and Warranties. Borrower hereby acknowledges and agrees that the representations and warranties of Borrower in this Article VI are continuing representations and warranties and that each request for a Revolving Loan or the issuance of a Letter of Credit for the account of Borrower under this Agreement constitutes a reaffirmation by Borrower that each such representation and warranty are accurate as of the date of the Revolving Loan or the issuance of a Letter of Credit requested by Borrower, unless such representation and warranty specifically relates to an earlier date, in which case it shall be accurate in all material respects as of such date.

ARTICLE VII

AFFIRMATIVE COVENANTS

Until Borrower has paid the Obligations (other than contingent indemnification obligations) in full and Lender's lending and letter of credit commitment with respect to the Revolving Credit Facility has terminated, Borrower agrees to do all of the following, unless Lender otherwise shall consent in writing:

Section 7.1 Additional Acts. Upon written demand by Lender, Borrower shall promptly execute and deliver all such instruments and perform all such other acts as Lender may reasonably request to carry out the transactions and establish or preserve the lien status and priority contemplated by this Agreement or any other Loan Document. Borrower authorizes Lender to file all financing statements necessary to perfect and continue its interests hereunder or under the Loan Documents.

Section 7.2 Use of Loan Proceeds. Borrower shall use funds borrowed under the Revolving Credit Facility only for purposes permitted by Section 3.3 of this Agreement.

Section 7.3 Preservation of Existence. Except as otherwise permitted in this Agreement, Borrower shall preserve and maintain its corporate existence, rights, franchises, and privileges in the jurisdiction of its organization and shall qualify and remain qualified as a foreign organization in each jurisdiction where the failure to do so could be reasonably likely to result in a Material Adverse Effect.

Section 7.4 Visitation Rights. At any reasonable time during normal business hours, and from time to time at reasonable intervals at mutually agreeable dates and times (not to exceed twice a year; provided that such limitation shall not be applicable when an Event of Default has occurred and is continuing), on reasonable advance notice, Borrower shall permit Lender to examine and make copies of and abstracts from Borrower's records and books of account, to visit the properties of Borrower, and to discuss the affairs, finances, and accounts of Borrower with any of the officers and directors of Borrower.

Section 7.5 Keeping of Books and Records. Borrower shall keep adequate records and books of account in which entries complete in all material respects will be made, in accordance with GAAP, reflecting all financial transactions of Borrower.

Section 7.6 Maintenance of Property. Borrower shall maintain and preserve all of Borrower's properties which are material to its business in good working order and condition, ordinary wear and tear and casualty (to the extent insured) excepted, and shall from time to time make all needed repairs, renewals, or replacements so that the efficiency of such properties shall be fully maintained and preserved.

Section 7.7 Other Obligations. Borrower shall pay and discharge before the same shall become delinquent all material Indebtedness, Taxes, and other material obligations for which Borrower is liable, or to which the income or property of the Borrower is subject, and all claims for labor, materials, or supplies that, if unpaid, might become by law a Lien upon assets of the Borrower, except such Indebtedness, Taxes, claims, and obligations that are being contested in good faith by appropriate proceedings.

Section 7.8 Insurance. Borrower shall keep in force upon all of Borrower's properties and operations policies of insurance carried with companies in such amounts and covering all such risks as shall be customary in the industry (as determined by Lender in its Permitted Discretion) naming Lender as a loss payee in respect of insurance covering the Collateral. Borrower, within 30 days of request, shall deliver to Lender certificates of insurance or duplicate policies evidencing such coverage and a schedule setting forth the amounts and types of insurance then maintained by Borrower.

Section 7.9 Compliance with Laws. Subject to the right of Borrower to contest any laws, regulations, rules or orders of any Governmental Authority in good faith by appropriate legal proceedings, and provided that Borrower establishes and maintains adequate reserves to the extent required by GAAP in relation to the matter being contested, Borrower shall comply with all laws, regulations, rules, and orders of any Governmental Authority applicable to Borrower, including, but not limited to, Environmental Laws, Consumer Protection Laws and ERISA, except where failure to so comply could not be reasonably likely to result in a Material Adverse Effect.

Section 7.10 Financial Information/Reporting. Borrower shall deliver to Lender the statements, reports, and other information listed below at the times noted below:

(a) On or before May 15, 2010, and within 45 days of the end of each calendar quarter thereafter, the unaudited balance sheet and statements of cash flow, income, and retained earnings of Borrower for the immediately preceding quarter (and for the period from the start of Borrower's then-current fiscal year through the last day of the immediately preceding quarter) on a consolidated and consolidating basis (it being agreed that the furnishing of Borrower's report on Form 10-Q for such fiscal quarter as filed with the SEC will satisfy such requirement);

(b) On or before March 25, 2010, and the 25th day of each month thereafter, a written report in the form of Exhibit A attached hereto describing in reasonable

detail the Borrowing Base (and the computation thereof) as of the end of the immediately preceding month, which shall be reconciled to the corresponding month-end balance sheets of Borrower and shall be certified to be true and correct in all material respects by an Authorized Officer (the "Borrowing Base Certificate");

(c) On or before March 25, 2010, and the 25th day of each month thereafter, a written report with respect to the Commercial Accounts Receivable as of the end of the immediately preceding month, which reports shall include reasonable detail regarding the aging of such Commercial Accounts Receivable, and otherwise shall be in a form satisfactory to Lender in Lender's reasonable discretion;

(d) On or before March 25, 2010, and on the 25th day of each month thereafter, a written report with respect to the Consumer Finance Accounts Receivable as of the end of the immediately preceding month, which reports shall include reasonable detail regarding the aging of such Consumer Finance Accounts Receivable, and otherwise shall be in a form satisfactory to Lender in Lender's reasonable discretion;

(e) On or before March 25, 2010, and the 25th day of each month thereafter, a written summary of aging of Borrower's accounts payable as of the end of the immediately preceding month, which reports shall include reasonable detail regarding the aging of such accounts payable, and otherwise shall be in a form satisfactory to Lender in Lender's reasonable discretion;

(f) On or before March 25, 2010, and on the 25th day of each month thereafter, a written report with respect to Borrower's Inventory as of the end of the immediately preceding month, which report shall include reasonable detail regarding the aging of the Inventory, and otherwise shall be in a form satisfactory to Lender in Lender's reasonable discretion;

(g) On or before May 15, 2010, and within 45 days after the end of each calendar quarter thereafter, a written report in the form attached as Exhibit B hereto identifying Borrower's performance with respect to the financial covenants set forth in Section 8.1, Section 8.2, Section 8.3 and Section 8.4 of this Agreement as of the end of the calendar quarter in question, which reports shall be in a form satisfactory to Lender in Lender's reasonable discretion, shall include reasonable detail regarding the manner in which the financial covenants were calculated, and shall be accompanied by a certificate of an Authorized Officer that (i) the calculation of each of the financial covenants is true and correct in all material respects, and (ii) as of the end of such quarter, no Default or Event of Default had occurred and was continuing (or, if a Default or an Event of Default existed at such time, identifying the Default or the Event of Default) (the "Quarterly Compliance Certificate");

(h) Within 120 days of each fiscal year end of Borrower, a copy of an audited statement (on a consolidated and consolidating basis) of Borrower's financial condition as of the end of the preceding fiscal year prepared by a certified public accounting firm acceptable to Lender in Lender's reasonable discretion (it being agreed that the furnishing of Borrower's annual report on form 10-K for such fiscal year as filed with the SEC will satisfy such requirement);

(i) Within 120 days after the end of each fiscal year of Borrower, a written report in the form attached as Exhibit B hereto, based upon the audited financial statement referred to in item (h) above, identifying Borrower's performance with respect to the financial covenants set forth in Section 8.1, Section 8.2, Section 8.3 and Section 8.4 of this Agreement as of the end of the fiscal year in question, which reports shall be in a form satisfactory to Lender in Lender's reasonable discretion, shall include reasonable detail regarding the manner in which the financial covenants were calculated, and shall be accompanied by a certificate of an Authorized Officer that (i) the calculation of each of the financial covenants is true and correct in all material respects, and (ii) as of the end of such year, no Default or Event of Default had occurred and was continuing (or, if a Default or an Event of Default existed at such time, identifying the Default or the Event of Default) (the "Annual Compliance Certificate");

(j) Within 60 days of each fiscal year end of Borrower (provided that a forecast for 2010 shall be delivered on the Closing Date), a forecast (including a balance sheet, income statement, and cash forecast acceptable to Lender in its Permitted Discretion) of the projected financial performance of Borrower for the current fiscal year of Borrower, which forecast shall be in a format satisfactory to Lender in Lender's reasonable discretion; and

(k) Other Information. All other statements, reports, and information as Lender reasonably may request concerning the Collateral, or the financial condition and business affairs of Borrower, their Subsidiaries, and their Affiliates.

Section 7.11 Expenses of Lender. Borrower shall reimburse Lender for all reasonable out-of-pocket expenses incurred by Lender in connection with Lender's banking and lending relationships with Borrower, including, but not limited to, recording charges, appraisal costs, environmental survey and investigation costs, collateral examination and inspection costs, travel expense, and the reasonable fees and expenses of outside legal counsel for Lender (including fees and expenses incurred in connection with the preparation, negotiation, closing, administration, amendment, modification, and enforcement of this Agreement, or the agreement evidenced hereby); the preservation, protection, or disposition of the Collateral (or Lender's security interests therein); or as required by applicable law, rules, policies, and regulations. The amounts owed by Borrower pursuant to the preceding sentence of this Agreement shall be paid by Borrower in the ordinary course of Borrower's business after Lender bills Borrower for such amounts, or on the Revolving Credit Facility Maturity Date, whichever occurs first.

ARTICLE VIII

FINANCIAL COVENANTS

Until Borrower has paid the Obligations (other than contingent indemnification obligations) in full and Lender's lending and letter of credit commitment with respect to the Revolving Credit Facility has terminated, Borrower agrees to do all of the following:

Section 8.1 Current Ratio. Borrower shall maintain a Current Ratio of not less than 1.10 to 1.00 as of March 31, 2010, and as of the last day of each calendar quarter thereafter.

Section 8.2 Liquidity Covenant. Borrower shall not permit Liquidity as of the dates set forth below to be less than the amount set forth below opposite such date:

Dates	Minimum Liquidity
March 31, 2010	$18,000,000
June 30, 2010	$15,000,000
September 30, 2010	$15,000,000

Borrower shall not permit Liquidity as of December 31, 2010, and as of the last day of each calendar quarter thereafter to be less than the amount required below based on Borrower's Adjusted Continuing Business EBITDA for the four quarters ending on such date:

Adjusted Continuing Business EBITDA	Minimum Liquidity
$2,500,000-$5,000,000	$15,000,000
$5,000,000.01-$7,500,000	$12,500,000
$7,500,000.01-$10,000,000	$10,000,000
$10,000,000.01-$12,500,000	$ 5,000,000
$12,500,000.01 and above	$ 0.00

Section 8.3 Adjusted Continuing Business EBITDA. Borrower shall not permit Adjusted Continuing Business EBITDA to be less than $2,500,000 for the four quarters ending March 31, 2010, and for the four quarters ending on the last day of each calendar quarter thereafter.

Section 8.4 Capital Expenditures. Borrower shall not make Capital Expenditures in any calendar year in excess of $1,500,000 (the "Capital Expenditure Limitation"); provided, that in the event Borrower does not expend the entire Capital Expenditure Limitation in any calendar year, Borrower may carry forward 50 percent of such un-expended amount to the immediately succeeding calendar year. All Capital Expenditures shall first be applied to reduce the applicable Capital Expenditure Limitation and then to reduce the carry-forward from the previous calendar year, if any, provided that notwithstanding anything herein to the contrary, Borrower shall not be entitled to carry forward any un-utilized Capital Expenditure Limitation for more than one year.

Section 8.5 Effect of No Outstanding Revolving Loans. If Borrower fails to perform or observe any financial covenant in Section 8.1, Section 8.2, Section 8.3, or Section 8.4 of this Agreement on any Testing Date (a "Financial Covenant Failure") prior to receipt by Lender of the Non-Cash Secured Election, such Financial Covenant Failure shall not constitute a Default or Event of Default if no Revolving Loan shall have been outstanding at any time during the calendar quarter ending on such Testing Date.

ARTICLE IX

NEGATIVE COVENANTS

Until Borrower has paid the Obligations (other than contingent indemnification obligations) in full and Lender's lending and letter of credit commitment with respect to the Revolving Credit Facility has terminated, Borrower agrees that Borrower shall not do any of the following, unless Lender otherwise shall consent in writing:

Section 9.1 Liquidation, Merger, or Sale of Assets. Borrower shall not (a) liquidate, dissolve, or enter into any merger or consolidation in which Borrower would not be the surviving entity, or (b) sell, lease, or dispose of any material portion of the business or assets of Borrower (except (A) sales of goods in the ordinary course of business; (B) sales or other dispositions of surplus or obsolete equipment in the ordinary course of business; (C) disposition of any property in connection with discontinuation of Commercial Business; (D) dispositions of Inventory that is obsolete, unmerchantable or otherwise unsalable in the ordinary course of business; (E) termination of any lease of real or personal property that is not necessary for the ordinary course of business of Borrower, could not reasonably be expected to have a Material Adverse Effect and does not result from Borrower's default thereunder; (F) licenses, sublicenses, leases or subleases granted to others not interfering in any material respect with the business of the Borrower and which could not reasonably be expected to have a Material Adverse Effect, (G) sales or dispositions of cash and cash equivalents in the ordinary course of business which are not reasonably likely to have a Material Adverse Effect; (H) abandonment of intellectual property of the Borrower that is immaterial, unnecessary or no longer used in the ordinary course of business, the abandonment of which could not reasonably be expected to have a Material Adverse Effect; (I) dispositions of Accounts not constituting Eligible Consumer Finance Accounts Receivable or Eligible Commercial Accounts Receivable in the ordinary course of business in connection with the collection or compromise thereof, and (J) dispositions of equipment that, in the aggregate during any 12-month period, has a fair market or book value (whichever is more) of $250,000 or less).

Section 9.2 Indebtedness. Borrower shall not create, incur, assume, guarantee, or be or remain liable with respect to any Indebtedness, other than the following:

(a) The Obligations;

(b) Funded Indebtedness of Borrower existing as of the date of this Agreement and secured by the Permitted Liens disclosed on Schedule 9.3(b) to this Agreement, and all renewals, extensions, refundings, and refinancings of such Indebtedness in a principal amount that does not exceed the principal amount outstanding on the Closing Date;

(c) Indebtedness for Taxes, assessments, or governmental charges to the extent that payment therefor shall at the time not be required to be made in accordance with Section 6.8 of this Agreement;

(d) Liabilities incurred by Borrower in the ordinary course of business (not as a result of borrowing);

(e) The endorsement of checks in the ordinary course of business;

(f) Indebtedness incurred to refinance any Indebtedness permitted by this Section 9.2 of this Agreement;

(g) Capital Leases and purchase money Indebtedness in an aggregate amount not to exceed $500,000;

(h) Intercompany Indebtedness existing as of the Closing Date to Borrower's Subsidiaries in an aggregate amount not to exceed $7,000,000 and intercompany Indebtedness to Borrower's Subsidiaries involved exclusively in the Continuing Business in an amount not to exceed $1,000,000 after the Closing Date;

(i) Indebtedness to an insurance company, the proceeds which are used by Borrower to finance their insurance premiums payable on workers' compensation insurance policies maintained by Borrower;

(j) Indebtedness incurred in respect of the deferred purchase price for any acquisition of intellectual property or constituting the obligation to make purchase price adjustments in connection with any such acquisition of intellectual property;

(k) Indebtedness that is not included in any of the preceding clauses of this Section, is not secured by a Lien and does not exceed $500,000 in the aggregate at any time;

(l) Contingent obligations (A) arising from endorsements of payment items for collection or deposit in the ordinary course of business; (B) arising from any foreign currency hedging agreements not to exceed $500,000 in the aggregate and not prohibited hereunder; (C) existing on the Closing Date and disclosed in writing to Lender, and any extension or renewal thereof that does not increase the amount of such contingent obligation when extended or renewed; (D) arising from customary indemnification obligations in favor of purchasers in connection with dispositions permitted under Section 9.1(b) hereof if such obligations could not reasonably be expected to have a Material Adverse Effect; or (E) Guaranties of Subsidiaries' Indebtedness that do not exceed $500,000 in the aggregate and incurred in the ordinary course of business; and

(m) Reimbursement obligations to Bank of America, N.A. with respect to the letters of credit listed on Schedule 9.2.

Section 9.3 Liens. Borrower shall not create, incur, assume, or suffer to exist any Lien of any kind upon or with respect to any of Borrower's property or assets, or assign or otherwise convey any right to receive income, including the sale or discount of Accounts with or without recourse, except the following ("Permitted Liens"):

(a) Liens in favor of Lender to secure the Obligations;

(b) Liens existing as of the date of this Agreement and disclosed in Schedule 9.3(b) to this Agreement;

(c) Liens for Taxes, assessments, or other governmental charges not delinquent or being contested in good faith and by appropriate proceedings and with respect to which proper reserves have been taken by Borrower; provided, however, that the Lien shall have no effect on (i) the priority of the Liens in favor of Lender, other than inchoate tax Liens arising prior to the due date of such taxes, or (ii) the value of the assets in which Lender has such a Lien, and, provided further, that a stay of enforcement of any such Lien (other than such inchoate tax Liens) shall be in effect;

(d) Landlords' and lessors' Liens in respect of rent not in default, or Liens in respect of pledges or deposits under workers' compensation, unemployment insurance, social security laws, or similar legislation (other than ERISA), or in connection with appeal and similar bonds incidental to litigation; mechanics', warehouseman's, laborers', and materialmen's and similar Liens, if the obligations secured by such Liens are not then delinquent;

(e) Easements, rights of way, restrictions, and other similar charges or Liens relating to real property and not interfering in a material way with the ordinary conduct of Borrower's businesses;

(f) Liens constituting a renewal, extension, or replacement of any Permitted Lien;

(g) Purchase money Liens in connection with Indebtedness permitted under Section 9.2(g);

(h) Deposits of cash with the owner or lessor of premises leased and operated by Borrower in the ordinary course of business to secure the performance by Borrower of its obligations under the terms of the lease for such premises;

(i) Liens arising from precautionary UCC filings regarding "true" operating leases or the consignment of goods to Borrower;

(j) Liens arising by operation of law under Article 2 of the UCC in favor of a reclaiming seller of goods or buyer of goods, provided that any such Liens are subordinated under law to the Liens in favor of Lender;

(k) Normal and customary rights of setoff upon deposits in favor of depository institutions, and Liens of a collecting bank on payment items in the course of collection;

(l) Licenses of intellectual property owned by Borrower and granted to any person in the ordinary course of business and any restrictions or conditions on transfer, assignment or renewal customarily imposed in a license to use intellectual property;

(m) Judgments and other similar Liens arising in connection with court proceedings that do not constitute a Default or Event of Default;

(n) Pledges and deposits of cash of less than $100,000 to secure obligations under appeal bonds or as otherwise required in connection with court proceedings (including, without limitation, surety bonds, security for costs of litigation where required by law and letters of credit) or any other instruments serving a similar purpose;

(o) Liens in favor of an insurance company to secure Indebtedness permitted in Section 9.2(i) hereof to finance insurance premiums; and

(p) Liens in the nature of rights of set off in favor of contractual counterparties in the ordinary course of business.

Section 9.4 Restricted Payments. Borrower shall not pay, make, declare, or authorize any Restricted Payment, redeem any of Borrower's common stock or redeem, refinance, or otherwise dispose of or acquire any of Borrower's preferred stock other than: (a) reasonable compensation paid to employees, officers, and directors in the ordinary course of business and consistent with prudent business practices; (b) dividends to shareholders of Borrower or dispositions to preferred shareholders of Borrower declared as of the last day of a calendar quarter and paid in the immediately following calendar quarter and redemptions of common stock of Borrower on a the last day of a calendar quarter, provided that (i) no Revolving Loans are outstanding on the date such dividends and dispositions are declared and made and on the date such redemptions are made and (ii) the aggregate amount of such dividends, dispositions, or redemptions (together with any other dividends, dispositions, and redemptions paid to shareholders of Borrower during the 12 months ending on the such date) do not exceed (A) 50 percent of the Continuing Business Net Income for the 12 months ending on such date when the Debt to Tangible Net Worth Ratio is equal to or greater than 2.50 to 1.00 on such date, and (B) 100 percent of the Continuing Business Net Income for the 12 months ending on such date when the Debt to Tangible Net Worth Ratio is less than 2.50 to 1.00 on such date; and (c) conversion of preferred stock of Borrower to common stock of Borrower.

Section 9.5 Investments; Purchase of Assets. Borrower shall not make or maintain any Investments, or purchase or otherwise acquire any material amount of assets, other than:

(a) Purchases of Inventory in the ordinary course of business;

(b) Purchases of intellectual property that do not exceed $1,000,000 in any calendar year and $2,000,000 in the aggregate and other purchases approved by Lender in its Permitted Discretion;

(c) Normal trade credit extended in the ordinary course of business and consistent with prudent business practice;

(d) Capital Expenditures allowed under Section 8.4 of this Agreement; or

(e) Investments in development of new product lines that are permitted under Section 9.9;

(f) Investment in Subsidiaries listed on Schedule 9.5 and Investments in Subsidiaries engaged exclusively in the Continuing Business made after the Closing Date that do not exceed $1,000,000 in the aggregate;

(g) Investment in joint ventures engaged exclusively in the Continuing Business made after the Closing Date that do not exceed $1,000,000 and other Investments in joint ventures engaged exclusively in the Continuing Business and approved by Lender in its Permitted Discretion;

(h) Loans and advances to officers and employees for salary, travel expenses, commissions and similar items in the ordinary course of business in the aggregate amount at any one time outstanding not to exceed $500,000;

(i) Payables permitted under Section 9.7 hereof;

(j) The endorsement of instruments for collection or deposit in the ordinary course of business;

(k) Stock or obligations issued to Borrower by any person (or the representative of such person) in respect of debt or other trade obligations of such person owing to Borrower in connection with the insolvency, bankruptcy, receivership or reorganization of such person or a composition, readjustment or settlement of the debts of such person or in respect of a settlement of a dispute with such person, provided, that the original of any such stock or instrument evidencing such obligations owing to Borrower shall be promptly delivered to Lender together with such stock power, assignment or endorsement by Borrower required by Lender;

(l) Investments in existence on the Closing Date set forth on Schedule 9.5;

(m) Securities, instruments or other Investments that Borrower may acquire in connection with any disposition permitted hereunder; provided that such securities, instruments or other Investments shall constitute not more that 25 percent of the purchase price; provided further that the original of any such securities or instruments owned by Borrower evidencing such Investments shall be promptly delivered to Lender together with such stock power or endorsement by Borrower required by Lender;

(n) Contingent obligations to the extent permitted under Section 9.2(l);

(o) Foreign currency hedging agreements entered into in the ordinary course of business for non-speculative purposes in an aggregate amount not to exceed $500,000;

(p) Loans to Subsidiaries of Borrower that are to be repaid within five Business Days of being made in an aggregate amount not to exceed $2,000,000 and other loans to Subsidiaries of Borrower approved by Lender in its Permitted Discretion;

(q) Investments not otherwise permitted hereunder not to exceed $500,000 at any one time, provided that no Default or Event of Default has occurred at the time of such Investments or would result therefrom; or

(r) Maintenance of deposits with Lender or Investments in cash equivalents.

Section 9.6 Obligations Relating to Guaranties. Borrower shall not create, incur, assume or permit to exist any obligations arising under Guaranties except (a) by endorsement of instruments or items of payment for deposit to the general account of Borrower, and (b) for obligations arising under Guaranties incurred for the benefit of Borrower if the primary obligation is expressly permitted by this Agreement.

Section 9.7 Transactions With Affiliates. Borrower shall not directly or indirectly enter into any purchase, sale, lease, sale-leaseback, or other transaction with any Affiliate, except transactions in the ordinary course of business on terms that are no less favorable to Borrower than those that might be obtained at the time in a comparable arm's-length transaction with any Person that is not an Affiliate, provided, however, that Borrower (a) may in any event enter into employment and severance arrangements with their respective officers and employees in the ordinary course of business, (b) may engage in transactions with Affiliates expressly permitted in Section 9 hereof, and (c) may pay customary fees and reasonable out-of-pocket costs to, and indemnities provided on behalf of, directors, officers, and employees in the ordinary course of business.

Section 9.8 Fiscal Year and Accounting Changes. Borrower shall not (a) change its fiscal year, or (b) make any significant change (i) in accounting treatment and reporting practices (except as permitted by GAAP), or (ii) in tax reporting treatment (except as required by law).

Section 9.9 Operations. Borrower shall not engage in any activity or introduce any major product that is substantially different from or unrelated to the present business activities or products of Borrower (other than any activities or products that are complimentary or ancillary to the present Continuing Business activities or products of Borrower), or discontinue any portion of Borrower's present business activities (other than the Commercial Business) that constitutes a substantial portion thereof.

Section 9.10 Prohibition on Change in Control. Borrower shall not undergo a Change in Control.

Section 9.11 Subsidiaries. Borrower shall not create or acquire any Subsidiary unless such Subsidiary is organized under the laws of the United States and becomes a party to and bound by, as a borrower, this Agreement and all other Loan Documents, as required by Lender. Any such Subsidiary that becomes a new borrower shall also cause Borrower to pledge all of such Subsidiary's Capital Stock to Lender to secure the Obligations in a form of agreement substantially similar to the Pledge Agreement.

ARTICLE X

EVENTS OF DEFAULT

Section 10.1 Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" under this Agreement:

(a) Borrower shall fail to pay any amount of principal (and such failure is not cured within three days) or interest (and such failure is not cured within five days) owed pursuant to the Note when due, or Borrower shall fail to pay any other amount payable by Borrower under this Agreement or any other the Loan Document when due (and such failure is not cured within 30 days);

(b) Any representation or warranty made by Borrower under or in connection with this Agreement or any Loan Document shall prove to have been incorrect in any material respect when made;

(c) Borrower shall fail to perform or observe (i) any covenant set forth in Section 7.8, Section 7.10, Article VIII (subject to Section 8.5) or Article IX, or (ii) any other covenant, obligation or term hereunder or under any of the Loan Documents and such failure is not cured within 30 days of the earlier of Lender's written notice thereof or Borrower becoming aware of such failure;

(d) Borrower shall (i) fail to pay when due (after any applicable grace period) any amount payable in respect of any Indebtedness (including undrawn, committed, or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) exceeding $250,000 in principal amount, unless the amount in question is subject to a bona fide dispute by Borrower and has not been determined by a court, arbitrator, or other finder of fact to be owed by Borrower, or (ii) fail to observe or perform (after any applicable notice or grace period) any term, covenant, or agreement evidencing or securing such Indebtedness, and the effect of such failure to observe or perform is to cause the acceleration of the maturity of such Indebtedness;

(e) A judgment or order for the payment of money in excess of $250,000 shall be entered against Borrower by any court, or a warrant of attachment or execution or similar process shall be issued or levied against property of Borrower that in the aggregate exceeds $250,000 in value, the payment of which is not fully covered by insurance in excess of any deductibles not exceeding $50,000 in the aggregate, and such judgment, order, warrant, or process shall continue undischarged or unstayed or unbonded for 60 days;

(f) Any occurrence or event that has a Material Adverse Effect; or

(g) Borrower shall admit in writing its inability to pay its debts, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by Borrower in any jurisdiction seeking to adjudicate Borrower bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, or composition of Borrower or Borrower's debt under any law relating to bankruptcy, insolvency, or reorganization or relief of debtors, or seeking appointment of a receiver, trustee, or other similar official for Borrower for such part of

Borrower's property as in the opinion of Lender (in Lender's reasonable discretion) is a substantial part; or any such proceeding shall be instituted against Borrower that is not dismissed within 60 days after the institution thereof, or Borrower shall take any corporate action to authorize any of the actions set forth above in this Section 10.1(g); or any Governmental Authority shall declare or take any action that operates as a moratorium on the payment of debts of Borrower.

Section 10.2 Consequences of Default. If any Event of Default shall occur and be continuing, then in any such case and at any time thereafter so long as any such Event of Default shall be continuing, Lender at its option (and without prior notice to Borrower) immediately may terminate its commitment with respect to the Revolving Credit Facility. In addition, in the event of an uncured Event of Default, Lender at its option may declare the principal of and the interest on the Note and all other sums payable by Borrower under this Agreement or under any of the Loan Documents to be immediately due and payable (with interest accruing thereon at the Default Rate), whereupon the same shall become immediately due and payable without protest, presentment, notice, or demand, all of which Borrower expressly waives. Furthermore, upon the occurrence of an Event of Default pursuant to Section 10.1(g) of this Agreement, all of the Obligations immediately shall be due and payable (with interest accruing and payable thereon at the Default Rate) and Lender's commitment in respect of the Revolving Credit Facility shall terminate.

Section 10.3 Remedies. Upon the occurrence of an Event of Default, Lender from time to time may exercise any rights and remedies available to it under the Uniform Commercial Code and any other applicable law in addition to, and not in lieu of, any rights and remedies expressly granted in this Agreement, or in any of the other Loan Documents.

ARTICLE XI

MISCELLANEOUS AND GENERAL TERMS AND CONDITIONS

Section 11.1 Remedies Cumulative. No failure by Lender to exercise any right, power, or remedy under this Agreement, or any Loan Document, and no delay by Lender in exercising any right, power, or remedy under this Agreement or any Loan Document, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or remedy under this Agreement or any Loan Document preclude any other or further exercise thereof, or the exercise of any other right, power, or remedy. The exercise of any right, power, or remedy shall in no event constitute a cure or waiver of any Event of Default under this Agreement, the Note, or the other Loan Documents, or the right of Lender to exercise any right under this Agreement, the Note, or any of the other Loan Documents, unless, in the exercise of such right, all obligations of Borrower under this Agreement, the Note, and the other Loan Documents are paid in full. The rights and remedies provided in this Agreement and the other Loan Documents are cumulative and not exclusive of any right or remedy provided by law. Time is of the essence and the provisions of this Agreement, the Note, and the other Loan Documents shall be enforced strictly.

Section 11.2 Governing Law. This Agreement, the Note, and the other Loan Documents shall be governed by and construed in accordance with the laws of Washington, without regard to conflicts of law principles.

Section 11.3 Consent to Jurisdiction and Venue, Waiver of Immunities. Each party hereto hereby irrevocably submits to the jurisdiction and venue of any state or federal court sitting in Vancouver, Washington, in any action or proceeding brought to enforce or otherwise arising out of or relating to this Agreement, the Note, or any other Loan Document. Each party hereto irrevocably waives to the fullest extent permitted by law any objection that each such party now or hereafter may have to the laying of venue in any such action or proceeding in any such forum, and hereby further irrevocably waive any claim that any such forum is an inconvenient forum. Each party hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in any other jurisdiction by suit on the judgment, or in any other manner provided by law. Nothing in this Agreement shall impair the right of Lender to bring any action or proceeding against Borrower, or Borrower's property, in the courts of any other jurisdiction, and Borrower irrevocably submits to the nonexclusive jurisdiction of the appropriate courts of the jurisdiction in which Borrower is incorporated, or any court sitting in any place where property or an office of Borrower is located.

Section 11.4 Notices. All notices and other communications provided for in this Agreement shall be in writing and shall be sent (unless otherwise specified) by e-mail, certified mail, return receipt requested (with postage prepaid) or delivered to each party at the following addresses, or at such other address as shall be designated by such party in a written notice to each other party:

Lender: Bank of the West
222 S.W. Columbia Street, Suite 1200
Portland, Oregon 97201
Attention: Sean Edwards, Vice President
E-mail: Sean.Edwards@bankofthewest.com

with a copy (which shall not constitute notice to Lender) to:

Miller Nash LLP
Suite 3500
111 S.W. Fifth Avenue
Portland, Oregon 97204
Attention: Clifton Molatore
E-mail: Clifton.Molatore@millernash.com

Borrower: Nautilus, Inc.
16400 S.E. Nautilus Drive
Vancouver, Washington 98683
Attention: Alec Anderson
E-mail: aanderson@nautilus.com

with a copy (which shall not constitute notice to Borrower) to:

Kirkland & Ellis LLP
300 N. LaSalle Street
Chicago, Illinois 60602
Attention: Jocelyn Hirsch
E-mail: Jocelyn.hirsch@kirkland.com

Except as otherwise specified, e-mail notice shall be effective upon receipt confirmed in writing, and all other notices and communications if duly given or made shall be effective upon receipt.

Section 11.5 Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective Successors and permitted assigns. Borrower may not assign or otherwise transfer all or any part of Borrower's rights or obligations under this Agreement, the Note, or any of the other Loan Documents without the prior, written consent of Lender (which consent may be withheld by Lender in its sole and absolute discretion), and any such assignment or transfer purported to be made by Borrower without such consent shall be ineffective. Lender at any time, with the prior written consent of Borrower (which consent shall not be unreasonably withheld or delayed and shall not be required during the continuance of an Event of Default), may assign or otherwise transfer all or any part of Lender's interest under this Agreement, the Note, and the other Loan Documents (including assignments for security and sales of participations) to any Person and, to the extent of such assignment, the assignee shall have the same rights and benefits as if such assignee were Lender. Borrower acknowledges and agrees that Lender may share such information regarding Borrower with a prospective assignee or transferee of Lender's interest in this Agreement, the Note, and the other Loan Documents as Lender reasonably deems appropriate, provided that the prospective assignee or transferee agrees in writing to maintain the confidentiality of such information.

Section 11.6 Severability. Any provision of this Agreement, the Note, or any other Loan Document that is prohibited or unenforceable in any jurisdiction shall as to such jurisdiction be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, or affecting the validity or enforceability of such provision in any other jurisdiction. To the extent permitted by applicable law, the parties to this Agreement waive any provision of law that renders any provision of this Agreement prohibited or unenforceable in any respect.

Section 11.7 Waiver of Jury Trial. EACH PARTY HERETO IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT, OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT, OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 11.7.

Section 11.8 Indemnification of Lender by Borrower. Borrower agrees to indemnify and hold harmless Lender, as well as Lender's shareholders, directors, officers, agents, attorneys, Subsidiaries, and Affiliates, from and against all damages, losses, settlement payments, obligations, liabilities, claims, suits, penalties, assessments, citations, directives, demands, judgments, actions, or causes of action, whether statutorily created or under the common law, all reasonable out-of-pocket costs and expenses (including, without limitation, attorneys' fees), and all other liabilities whatsoever (including, without limitation, liabilities under Environmental Laws) that at any time or times shall be incurred, suffered, sustained, or required to be paid by any such indemnified Person (except any of the foregoing to the extent that they result from the bad faith, gross negligence or willful misconduct of any indemnified Person) on account of, in relation to, or in any way in connection with any of the arrangements or transactions contemplated by, associated with, or ancillary to this Agreement, any of the other Loan Documents, or any other documents executed or delivered in connection herewith or therewith, all as the same may be amended from time to time. In any investigation, proceeding, or litigation, or the preparation therefor, Lender shall select its own counsel and, in addition to the foregoing indemnity, Borrower agrees to pay promptly the reasonable out-of-pocket fees and expenses of such counsel. In the event of the commencement of any such proceeding or litigation, Borrower shall be entitled to participate in such proceeding or litigation with counsel of Borrower's choice at Borrower's own expense, provided that such counsel shall be satisfactory to Lender, in Lender's reasonable discretion. The provisions of this Section 11.8 of this Agreement shall survive payment (or satisfaction of payment) of all amounts owing with respect to the Note or any other Loan Document.

Section 11.9 Waiver of Consequential Damages. To the fullest extent permitted by applicable law, Borrower hereby agrees not to assert, and Borrower hereby waives, any claim against any indemnitee under Section 11.8 of this Agreement on any theory of liability for special damages, indirect damages, consequential damages, or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document, or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Revolving Loan, or the use of the proceeds thereof.

Section 11.10 Payments Set Aside. To the extent any payments in respect of the Obligations (or any proceeds of any Collateral, including, but not limited to, any proceeds received by Lender as a result of any enforcement proceeding or setoff), or any part thereof, subsequently are invalidated, declared to be fraudulent or preferential, set aside, or required to be repaid to a trustee, receiver, or any other Person under any law or equitable cause, then, to the extent of such repayment (including any such repayment made voluntarily by Lender in its reasonable discretion), the Obligation or part thereof originally intended to be satisfied, and all rights and remedies therefor, shall be revived and shall continue in full force and effect, and Lender's rights, powers, and remedies under this Agreement and the Loan Documents shall continue in full force and effect, as if such payment had not been made, or such enforcement proceeding or setoff had not occurred. In such event, each Loan Document automatically shall be reinstated and Borrower shall take such action as reasonably may be requested by Lender to effect such reinstatement.

Section 11.11 Waiver of Various Matters; No Suretyship Defenses. Borrower hereby waives demand, protest, notice of protest, notice of default (except to the extent specifically and expressly required under this Agreement or the other Loan Documents) or dishonor, notice of payment and nonpayment, nonpayment at maturity, release, compromise, settlement, extension, modification, amendment, or renewal of documents, instruments, chattel paper, and guarantees at any time held by Lender on which Borrower may in any way be liable. Borrower acknowledges and agrees that its obligations to repay the amounts owed pursuant to the Note and this Agreement are direct and unconditional. Borrower hereby waives any claim that it is merely a surety in respect of the Obligations and Borrower hereby waives any rights or defenses that are (or might be) available to a surety in relation to this Agreement, the Note, the other Loan Documents, and the Obligations.

Section 11.12 USA Patriot Act Notice. Lender hereby notifies Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Patriot Act"), Lender is required to obtain, verify, and record information that identifies Borrower, which information includes the name and address of Borrower and other information that will allow Lender to identify Borrower in accordance with the Patriot Act.

Section 11.13 Entire Agreement. This Agreement, the Note, and the other Loan Documents set forth and constitute the entire agreement among Lender and Borrower with respect to the Revolving Loans evidenced by the Note and the security for those Revolving Loans. No oral promise or agreement of any kind or nature, other than those that have been reduced to writing and have been set forth in this Agreement, the Note, or the other Loan Documents, has been made among Lender and Borrower with respect to the Revolving Loans evidenced by the Note and the security for those Revolving Loans. Borrower acknowledges that Borrower has been represented by legal counsel in connection with the negotiation and execution of this Agreement and the other Loan Documents. Borrower voluntarily executed this Agreement and the other agreements and instruments referred to in this Agreement.

Section 11.14 Amendment. This Agreement, the Note, and the other Loan Documents may be amended or modified only by a written agreement signed by authorized representatives of Borrower and Lender that by its terms expressly supersedes, modifies, amends, or alters this Agreement (or another Loan Document, as applicable).

Section 11.15 Interpretation. This Agreement is a negotiated agreement. In the event of any ambiguity in this Agreement, such ambiguity shall not be subject to a rule of contract interpretation that would cause the ambiguity to be construed against any of the parties to this Agreement.

Section 11.16 Waiver. No waiver of any provision of this Agreement, the Note, or the other Loan Documents by Lender, or consent by Lender to any failure by Borrower to comply with any provision of this Agreement, the Note, or the other Loan Documents shall be effective unless the same shall be in writing and signed by Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 11.17 Standard for Discretion. In the event this Agreement is silent on the standard for any consent, approval, determination, or similar discretionary action by Lender, the standard shall be sole and unfettered discretion.

Section 11.18 Headings. The headings of the various provisions of this Agreement are for convenience of reference only, do not constitute a part of this Agreement, and shall not affect the meaning or construction of any provision of this Agreement.

Section 11.19 Construction. In the event of any conflict between the terms, conditions, and provisions of this Agreement and those of any other document or instrument referred to in this Agreement, the terms, conditions, and provisions of this Agreement shall control.

Section 11.20 Statutory Notice. **UNDER WASHINGTON LAW, ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE.**

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first written above.

BORROWER:

NAUTILUS, INC.

By: /s/ Kenneth Fish
Kenneth Fish, Chief Financial Officer

LENDER:

BANK OF THE WEST

By: /s/ Sean Edwards
Sean Edwards, Vice President

SECURITY AGREEMENT

This SECURITY AGREEMENT, dated as of March 8, 2010, is by and between NAUTILUS, INC., a Washington corporation (the "Debtor"), and BANK OF THE WEST ("the Secured Party").

WHEREAS, the Debtor has entered into a credit agreement dated as of the date hereof (as amended and in effect from time to time, the "Credit Agreement"), with the Secured Party, pursuant to which the Secured Party, subject to the terms and conditions contained therein, is to make loans or otherwise to extend credit to the Debtor; and

WHEREAS, it is a condition precedent to the Secured Party's making any loans or otherwise extending credit to the Debtor under the Credit Agreement that the Debtor execute and deliver to the Secured Party a security agreement in substantially the form hereof; and

WHEREAS, the Debtor wishes to grant a security interest in favor of the Secured Party as herein provided;

NOW, THEREFORE, in consideration of the promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. All capitalized terms used herein without definitions shall have the respective meanings provided therefor in the Credit Agreement. The term "State," as used herein, means the State of Washington. All terms defined in the Uniform Commercial Code of the State and used herein shall have the same definitions herein as specified therein. However, if a term is defined in Article 9 of the Uniform Commercial Code of the State differently than in another Article of the Uniform Commercial Code of the State, the term has the meaning specified in Article 9.

2. Grant of Security Interest. The Debtor hereby grants to the Secured Party, to secure the payment and performance in full of all of the Obligations, a security interest to the Secured Party in the following properties, assets and rights of the Debtor, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof (all of the same being hereinafter called the "Collateral"): all personal and fixture property of every kind and nature including without limitation all goods (including inventory, equipment and any accessions thereto), instruments (including promissory notes), documents, accounts (including health-care-insurance receivables), chattel paper (whether tangible or electronic), deposit accounts, letter-of-credit rights (whether or not the letter of credit is evidenced by a writing), commercial tort claims, securities and all other investment property, supporting obligations, any other contract rights or rights to the payment of money, insurance claims and proceeds, and all general intangibles (including all payment intangibles). The Secured Party acknowledges that the attachment of its security interest in any additional commercial tort claim as original collateral is subject to the Debtor's compliance with Section 4.6. Notwithstanding anything in this Section to the contrary, the following shall not constitute "Collateral" hereunder: (a) equipment acquired after the Closing Date pursuant to Capital Leases in compliance with the Credit Agreement to the extent that the agreements with respect thereto prohibit the inclusion of

such equipment as Collateral; and (b) any intent-to-use trademark application to the extent and for so long as creation by the Debtor of a security interest therein would result in the abandonment, invalidation, or unenforceability thereof. Notwithstanding anything in this Section to the contrary, the Collateral constituting stock in foreign Subsidiaries shall be limited as set forth in the Pledge Agreement.

3. Authorization to File Financing Statements. The Debtor hereby irrevocably (until termination of this Agreement) authorizes the Secured Party at any time and from time to time to file in any filing office in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral (i) as all assets of the Debtor or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of the State or such jurisdiction, or (ii) as being of an equal or lesser scope or with greater detail, and (b) provide any other information required by part 5 of Article 9 of the Uniform Commercial Code of the State, or such other jurisdiction, for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether the Debtor is an organization, the type of organization and any organizational identification number issued to the Debtor and, (ii) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of real property to which the Collateral relates. The Debtor agrees to furnish any such information to the Secured Party promptly upon the Secured Party's request. The Debtor also ratifies its authorization for the Secured Party to have filed in any Uniform Commercial Code jurisdiction any like initial financing statements or amendments thereto if filed prior to the date hereof.

4. Other Actions. To further the attachment, perfection and first priority of, and the ability of the Secured Party to enforce, the Secured Party's security interest in the Collateral, and without limitation on the Debtor's other obligations in this Agreement, the Debtor agrees, in each case at the Debtor's expense, to take the following actions with respect to the following Collateral:

4.1 Promissory Notes and Tangible Chattel Paper. If the Debtor shall at any time hold or acquire any promissory notes or tangible chattel paper, in each case to the extent that the aggregate amount of such promissory notes or tangible chattel paper (along with all other Collateral of any type described above) exceeds $250,000, the Debtor shall forthwith endorse, assign and deliver the same to the Secured Party, accompanied by such instruments of transfer or assignment duly executed in blank as the Secured Party may from time to time specify.

4.2 Deposit Accounts. For each deposit account that the Debtor at any time opens or maintains, the Debtor shall, at the Secured Party's request and option, pursuant to an agreement in form and substance satisfactory to the Secured Party in its Permitted Discretion, either (a) cause the depositary bank to comply at any time with instructions from the Secured Party to such depositary bank directing the disposition of funds from time to time credited to such deposit account, without further consent of the Debtor, or (b) arrange for the Secured Party to become the customer of the depositary bank with respect to the deposit account, with the Debtor being permitted, only with the consent of the Secured Party, to exercise rights to withdraw funds from such deposit account. The

Secured Party agrees with the Debtor that the Secured Party shall not give any such instructions or withhold any withdrawal rights from the Debtor, unless an Event of Default has occurred and is continuing, or would occur, if effect were given to any withdrawal not otherwise permitted by the Loan Documents. The provisions of this paragraph shall not apply to (i) any deposit account for which the Debtor, the depositary bank and the Secured Party have entered into a cash collateral agreement specially negotiated among the Debtor, the depositary bank and the Secured Party for the specific purpose set forth therein, (ii) a deposit account for which the Secured Party is the depositary bank and is in automatic control, and (iii) deposit accounts specially and exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of the Debtor's salaried employees, and (iv) deposit accounts that contain no more than $50,000 in any such deposit account at any time and no more than $250,000 in the aggregate in all such deposit accounts under this clause (iv).

4.3 Investment Property. If the Debtor shall at any time hold or acquire any certificated securities, to the extent that the aggregate amount of such certificated securities exceeds $250,000, the Debtor shall forthwith endorse, assign and deliver the same to the Secured Party, accompanied by such instruments of transfer or assignment duly executed in blank as the Secured Party may from time to time specify. If any securities in the aggregate amount exceeding $250,000 now or hereafter acquired by the Debtor are uncertificated and are issued to the Debtor or its nominee directly by the issuer thereof, the Debtor shall immediately notify the Secured Party thereof and, at the Secured Party's request and option, pursuant to an agreement in form and substance satisfactory to the Secured Party in its Permitted Discretion, either (a) cause the issuer to agree to comply with instructions from the Secured Party as to such securities, without further consent of the Debtor or such nominee, or (b) arrange for the Secured Party to become the registered owner of the securities. If any securities, whether certificated or uncertificated, or other investment property now or hereafter acquired by the Debtor, to the extent that the aggregate amount of such securities or investment property exceeds $250,000, are held by the Debtor or its nominee through a securities intermediary or commodity intermediary, the Debtor shall immediately notify the Secured Party thereof and, at the Secured Party's request and option, pursuant to an agreement in form and substance satisfactory to the Secured Party in its Permitted Discretion, either (i) cause such securities intermediary or (as the case may be) commodity intermediary to agree to comply with entitlement orders or other instructions from the Secured Party to such securities intermediary as to such securities or other investment property, or (as the case may be) to apply any value distributed on account of any commodity contract as directed by the Secured Party to such commodity intermediary, in each case without further consent of the Debtor or such nominee, or (ii) in the case of financial assets or other investment property held through a securities intermediary, arrange for the Secured Party to become the entitlement holder with respect to such investment property, with the Debtor being permitted, only with the consent of the Secured Party, to exercise rights to withdraw or otherwise deal with such investment property. The Secured Party agrees with the Debtor that the Secured Party shall not give any such entitlement orders or instructions or directions to any such issuer, securities intermediary or commodity intermediary, and shall not withhold its consent to the exercise of any withdrawal or

dealing rights by the Debtor, unless an Event of Default has occurred and is continuing, or, after giving effect to any such investment and withdrawal rights not otherwise permitted by the Loan Documents, would occur. The provisions of this paragraph shall not apply to any financial assets credited to a securities account for which the Secured Party is the securities intermediary.

4.4 Collateral in the Possession of a Bailee. If any Collateral is at any time in the possession of a bailee, the Debtor shall promptly notify the Secured Party thereof and, at the Secured Party's request and option, shall promptly obtain an acknowledgement from the bailee, in form and substance satisfactory to the Secured Party in its Permitted Discretion, that the bailee holds such Collateral for the benefit of the Secured Party, and that such bailee agrees to comply, without further consent of the Debtor, with instructions from the Secured Party as to such Collateral, provided that if no Default or Event of Default has occurred and is continuing, the Debtor does not need to comply with the provisions of this Section so long as the Collateral is not in possession of any such bailee for a period longer than 30 days and no more than $250,000 of Collateral is in possession of any such bailee (or $1,000,000 in possession of all bailees) at any time. The Secured Party agrees with the Debtor that the Secured Party shall not give any such instructions unless an Event of Default has occurred and is continuing or would occur after taking into account any action by the Debtor with respect to the bailee.

4.5 Letter-of-Credit Rights. If the Debtor is at any time a beneficiary under a letter of credit, to the extent that the aggregate amount of any such letters of credit exceeds $250,000, the Debtor shall promptly notify the Secured Party thereof and, at the request and option of the Secured Party, the Debtor shall, pursuant to an agreement in form and substance satisfactory to the Secured Party in its Permitted Discretion, either (a) arrange for the issuer and any confirmer or other nominated person of such letter of credit to consent to an assignment to the Secured Party of the proceeds of the letter of credit, or (b) arrange for the Secured Party to become the transferee beneficiary of the letter of credit.

4.6 Commercial Tort Claims. If the Debtor shall at any time hold or acquire a commercial tort claim, to the extent that the aggregate amount of any such commercial tort claims exceeds $250,000, the Debtor shall immediately notify the Secured Party in a writing signed by the Debtor of the particulars thereof and grant to the Secured Party in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance satisfactory to the Secured Party.

4.7 Other Actions as to Any and All Collateral. The Debtor further agrees, at the request and option of the Secured Party, to take any and all other commercially reasonable actions the Secured Party may determine in its Permitted Discretion to be necessary or useful for the attachment, perfection and first priority of, and the ability of the Secured Party to enforce, the Secured Party's security interest in any and all of the Collateral, including, without limitation, (a) executing, delivering and, where appropriate, filing financing statements and amendments relating thereto under the Uniform Commercial Code, to the extent, if any, that the Debtor's signature thereon is required

therefor, (b) causing the Secured Party's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the Secured Party to enforce, the Secured Party's security interest in such Collateral, (c) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Secured Party to enforce, the Secured Party's security interest in such Collateral, (d) obtaining governmental and other third party waivers, consents and approvals in form and substance satisfactory to Secured Party in its Permitted Discretion, including, without limitation, any consent of any licensor, lessor or other person obligated on Collateral, (e) obtaining waivers from mortgagees and landlords in form and substance satisfactory to the Secured Party in its Permitted Discretion and (f) taking all actions under any earlier versions of the Uniform Commercial Code or under any other law, as reasonably determined by the Secured Party to be applicable in any relevant Uniform Commercial Code or other jurisdiction, including any foreign jurisdiction.

5. Relation to Other Security Documents. The provisions of this Agreement supplement the provisions of any real estate mortgage or deed of trust granted by the Debtor to the Secured Party which secures the payment or performance of any of the Obligations. Nothing contained in any such real estate mortgage or deed of trust shall derogate from any of the rights or remedies of the Secured Party hereunder. In addition to the provisions of this Agreement being so read and construed with any such mortgage or deed of trust, the provisions of this Agreement shall be read and construed with the other Security Documents referred to below in the manner so indicated.

5.1 IP Security Agreements. Concurrently herewith the Debtor is also executing and delivering to the Secured Party the IP Security Agreements pursuant to which the Debtor is granting to the Secured Party security interests in certain Collateral consisting of patents and patent rights, trademarks, service marks and trademark and service mark rights, together with the goodwill appurtenant thereto. The provisions of the IP Security Agreements are supplemental to the provisions of this Agreement, and nothing contained in the IP Security Agreements shall derogate from any of the rights or remedies of the Secured Party hereunder. Neither the delivery of, nor anything contained in, the IP Security Agreements shall be deemed to prevent or postpone the time of attachment or perfection of any security interest in such Collateral created hereby.

6. Representations and Warranties Concerning Debtor's Legal Status. The Debtor has previously delivered to the Secured Party a certificate signed by the Debtor and entitled "Perfection Certificate" (the "Perfection Certificate"). The Debtor represents and warrants to the Secured Party as follows: (a) the Debtor's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof, (b) the Debtor is an organization of the type, and is organized in the jurisdiction set forth in the Perfection Certificate, (c) the Perfection Certificate accurately sets forth the Debtor's organizational identification number or accurately states that the Debtor has none, (d) the Perfection Certificate accurately sets forth the Debtor's place of business or, if more than one, its chief executive office, as well as the Debtor's mailing address, if different, (e) all other information set forth on the Perfection Certificate pertaining to the Debtor is accurate and complete in all material respects, and (f) that there has been no change in any information provided in the Perfection Certificate since the date on which it was executed by the Debtor.

7. Covenants Concerning Debtor's Legal Status. The Debtor covenants with the Secured Party as follows: (a) without providing at least 15 days' prior written notice to the Secured Party, the Debtor will not change its name, its place of business or, if more than one, chief executive office, or its mailing address or organizational identification number if it has one, (b) if the Debtor does not have an organizational identification number and later obtains one, the Debtor shall forthwith notify the Secured Party of such organizational identification number, and (c) the Debtor will not change its type of organization, jurisdiction of organization or other legal structure except as permitted in the Credit Agreement.

8. Representations and Warranties Concerning Collateral, etc. The Debtor further represents and warrants to the Secured Party as follows: (a) the Debtor is the owner of the Collateral, free from any right or claim of any person or any adverse lien, security interest or other encumbrance, except for the security interest created by this Agreement and Permitted Liens, (b) none of the Collateral constitutes, or is the proceeds of, "farm products" as defined in Section 9-102(a)(34) of the Uniform Commercial Code of the State, (c) none of the account debtors or other persons obligated on any of the Collateral is a governmental authority covered by the Federal Assignment of Claims Act or like federal, state or local statute or rule in respect of such Collateral, (d) the Debtor holds no commercial tort claim except as indicated on the Perfection Certificate, and (e) the Debtor has at all times operated its business in material compliance with all applicable provisions of the federal Fair Labor Standards Act, as amended, and with all applicable provisions of federal, state and local statutes and ordinances dealing with the control, shipment, storage or disposal of hazardous materials or substances, (f) all other information set forth on the Perfection Certificate pertaining to the Collateral is accurate and complete in all material respects, and (g) that there has been no change in any information provided in the Perfection Certificate since the date on which it was executed by the Debtor.

9. Covenants Concerning Collateral, etc. The Debtor further covenants with the Secured Party as follows: (a) the Collateral, to the extent not delivered to the Secured Party pursuant to Section 4, will be kept at those locations listed on the Perfection Certificate and the Debtor will not remove the Collateral from such locations, without providing at least 15 days prior written notice to the Secured Party, (b) except for the security interest herein granted and the Permitted Liens, the Debtor shall be the owner of the Collateral free from any right or claim of any other person, lien, security interest or other encumbrance, and the Debtor shall defend the same against all claims and demands of all persons at any time claiming the same or any interests therein adverse to the Secured Party (except for the Permitted Liens), (c) the Debtor shall not pledge, mortgage or create, or suffer to exist any right of any person in or claim by any person to the Collateral, or any security interest, lien or encumbrance in the Collateral in favor of any person, other than the Secured Party (and other than the Permitted Liens), (d) the Debtor will keep the Collateral in good order and repair (ordinary wear and tear excepted) and will not use the same in violation of any material law or any policy of insurance thereon, (e) the Debtor will permit the Secured Party, or its designee, to inspect the Collateral, subject to reasonable advance notice, at any reasonable time during normal business hours, wherever located, (f) the Debtor will pay promptly when due all taxes, assessments, governmental charges and levies upon the Collateral or incurred in connection with the use or operation of such Collateral or incurred in

connection with this Agreement (unless such taxes, assessments, governmental charges, and levies are being properly contested), (g) the Debtor will continue to operate, its business in compliance with all applicable provisions of the federal Fair Labor Standards Act, as amended, and with all applicable provisions of federal, state and local statutes and ordinances dealing with the control, shipment, storage or disposal of hazardous materials or substances, and (h) the Debtor will not sell or otherwise dispose, or offer to sell or otherwise dispose, of the Collateral or any interest therein except for (i) sales of inventory in the ordinary course of business (ii) so long as no Event of Default has occurred and is continuing, sales or other dispositions of obsolescent items of equipment consistent with past practices and (iii) as otherwise permitted in the Credit Agreement.

10. Insurance.

10.1 Maintenance of Insurance. The Debtor will maintain with financially sound and reputable insurers insurance with respect to its properties and business against such casualties and contingencies as shall be in accordance with general practices of businesses engaged in similar activities in similar geographic areas. Such insurance shall be in such minimum amounts that the Debtor will not be deemed a co-insurer under applicable insurance laws, regulations and policies and otherwise shall be in such amounts, contain such terms, be in such forms and be for such periods as may be reasonably satisfactory to the Secured Party. In addition, all such insurance (other than workers' compensation and D&O insurance) shall be payable to the Secured Party as loss payee. Without limiting the foregoing, the Debtor will (a) keep all of its physical property insured with casualty or physical hazard insurance on an "all risks" basis, (b) maintain all such workers' compensation or similar insurance as may be required by law, and (c) maintain, in amounts and with deductibles equal to those generally maintained by businesses engaged in similar activities in similar geographic areas, general public liability insurance against claims of bodily injury, death or property damage occurring, on, in or about the properties of the Debtor; business interruption insurance; and product liability insurance.

10.2 Insurance Proceeds. The proceeds of any casualty insurance in respect of any casualty loss of any of the Collateral shall, subject to the rights, if any, of other parties with an interest having priority in the property covered thereby, (a) so long as no Default or Event of Default has occurred and is continuing and to the extent that the amount of such proceeds is less than $10,000, be disbursed to the Debtor for direct application by the Debtor solely to the repair or replacement of the Debtor's property so damaged or destroyed, and (b) in all other circumstances, be held by the Secured Party as cash collateral for the Obligations. The Secured Party may, at its sole option, disburse from time to time all or any part of such proceeds so held as cash collateral, upon such terms and conditions as the Secured Party may reasonably prescribe, for direct application by the Debtor solely to the repair or replacement of the Debtor's property so damaged or destroyed, or the Secured Party may apply all or any part of such proceeds to the Obligations.

10.3 Continuation of Insurance. All policies of insurance shall provide for at least 30 days prior written cancellation notice to the Secured Party. In the event of failure by the Debtor to provide and maintain insurance as herein provided, the Secured Party may, at its option, provide such insurance and charge the amount thereof to the Debtor. The Debtor shall furnish the Secured Party with certificates of insurance and policies evidencing compliance with the foregoing insurance provision.

11. Collateral Protection Expenses; Preservation of Collateral.

11.1 Expenses Incurred by Secured Party. In the Secured Party's discretion, if the Debtor fails to do so, upon giving the Debtor prior written notice thereof, the Secured Party may discharge taxes and other encumbrances at any time levied or placed on any of the Collateral, maintain any of the Collateral, make repairs thereto and pay any necessary filing fees or insurance premiums. The Debtor agrees to reimburse the Secured Party promptly on demand for all expenditures so made. The Secured Party shall have no obligation to the Debtor to make any such expenditures, nor shall the making thereof be construed as the waiver or cure of any Default or Event of Default.

11.2 Secured Party's Obligations and Duties. Anything herein to the contrary notwithstanding, the Debtor shall remain obligated and liable under each contract or agreement comprised in the Collateral to be observed or performed by the Debtor thereunder. The Secured Party shall not have any obligation or liability under any such contract or agreement by reason of or arising out of this Agreement or the receipt by the Secured Party of any payment relating to any of the Collateral, nor shall the Secured Party be obligated in any manner to perform any of the obligations of the Debtor under or pursuant to any such contract or agreement, to make inquiry as to the nature or sufficiency of any payment received by the Secured Party in respect of the Collateral or as to the sufficiency of any performance by any party under any such contract or agreement, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to the Secured Party or to which the Secured Party may be entitled at any time or times. The Secured Party's sole duty with respect to the custody, safe keeping and physical preservation of the Collateral in its possession, under Section 9-207 of the Uniform Commercial Code of the State or otherwise, shall be to deal with such Collateral in the same manner as the Secured Party deals with similar property for its own account.

12. Securities and Deposits. The Secured Party may at any time following and during the continuance of a Default and Event of Default, at its option, transfer to itself or any nominee any securities constituting Collateral, receive any income thereon and hold such income as additional Collateral or apply it to the Obligations. Whether or not any Obligations are due, the Secured Party may, following and during the continuance of a Default and Event of Default, demand, sue for, collect, or make any settlement or compromise which it deems desirable with respect to the Collateral. Regardless of the adequacy of Collateral or any other security for the Obligations, any deposits or other sums at any time credited by or due from the Secured Party to the Debtor may at any time be applied to or set off against any of the Obligations.

13. Notification to Account Debtors and Other Persons Obligated on Collateral. If a Default or an Event of Default shall have occurred and be continuing, the Debtor shall, at the request and option of the Secured Party, notify account debtors and other persons obligated on any of the Collateral of the security interest of the Secured Party in any account, chattel paper, general intangible, instrument or other Collateral and that payment thereof is to be made directly to the Secured Party or to any financial institution designated by the Secured Party as the Secured Party's agent therefor, and the Secured Party may itself, if a Default or an Event of Default shall have occurred and be continuing, upon notice to the Debtor, so notify account debtors and other persons obligated on Collateral. After the making of such a request or the giving of any such notification, the Debtor shall hold any proceeds of collection of accounts, chattel paper, general intangibles, instruments and other Collateral received by the Debtor as trustee for the Secured Party without commingling the same with other funds of the Debtor and shall turn the same over to the Secured Party, together with any necessary endorsements or assignments. The Secured Party shall apply the proceeds of collection of accounts, chattel paper, general intangibles, instruments and other Collateral received by the Secured Party to the Obligations, such proceeds to be immediately credited after final payment in cash or other immediately available funds of the items giving rise to them.

14. Power of Attorney.

14.1 Appointment and Powers of Secured Party. The Debtor hereby irrevocably (until termination of this Agreement) constitutes and appoints the Secured Party and any officer or agent thereof, with full power of substitution, as its true and lawful attorneys-in-fact with full irrevocable power and authority in the place and stead of the Debtor or in the Secured Party's own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments that may be necessary or useful to accomplish the purposes of this Agreement and, without limiting the generality of the foregoing, hereby gives said attorneys the power and right, on behalf of the Debtor, without notice to or assent by the Debtor, to do the following:

(a) upon the occurrence and during the continuance of an Event of Default, generally to sell, transfer, pledge, make any agreement with respect to or otherwise dispose of or deal with any of the Collateral in such manner as is consistent with the Uniform Commercial Code of the State and as fully and completely as though the Secured Party were the absolute owner thereof for all purposes, and to do, at the Debtor's expense, at any time, or from time to time, all acts and things which the Secured Party deems necessary or useful to protect, preserve or realize upon the Collateral and the Secured Party's security interest therein, in order to effect the intent of this Agreement, all at least as fully and effectively as the Debtor might do, including, without limitation, (i) the filing and prosecuting of registration and transfer applications with the appropriate federal, state, local or other agencies or authorities with respect to trademarks, copyrights and patentable inventions and processes, (ii) upon written notice to the Debtor, the exercise of voting rights with respect to voting securities, which rights may be exercised, if the Secured Party so elects, with a view to causing the liquidation of assets of the issuer of any such securities, and (iii) the execution, delivery and recording, in connection with any sale or other disposition of any Collateral, of the endorsements, assignments or other instruments of conveyance or transfer with respect to such Collateral; and

(b) to the extent that the Debtor's authorization given in Section 3 is not sufficient, to file such financing statements with respect hereto, with or without the Debtor's signature, or a photocopy of this Agreement in substitution for a financing statement, as the Secured Party may deem appropriate and to execute in the Debtor's name such financing statements and amendments thereto and continuation statements which may require the Debtor's signature.

14.2 Ratification by Debtor. To the extent permitted by law, the Debtor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and is irrevocable.

14.3 No Duty on Secured Party. The powers conferred on the Secured Party hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon it to exercise any such powers. The Secured Party shall be accountable only for the amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or agents shall be responsible to the Debtor for any act or failure to act, except for the Secured Party's own bad faith, gross negligence or willful misconduct.

15. Rights and Remedies. If an Event of Default shall have occurred and be continuing, the Secured Party, without any other notice to or demand upon the Debtor have in any jurisdiction in which enforcement hereof is sought, in addition to all other rights and remedies, the rights and remedies of a secured party under the Uniform Commercial Code of the State and any additional rights and remedies which may be provided to a secured party in any jurisdiction in which Collateral is located, including, without limitation, the right to take possession of the Collateral, and for that purpose the Secured Party may, so far as the Debtor can give authority therefor, enter upon any premises on which the Collateral may be situated and remove the same therefrom. The Secured Party may in its discretion require the Debtor to assemble all or any part of the Collateral at such location or locations within the jurisdiction(s) of the Debtor's principal office(s) or at such other locations as the Secured Party may reasonably designate. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Secured Party shall give to the Debtor at least five Business Days prior written notice of the time and place of any public sale of Collateral or of the time after which any private sale or any other intended disposition is to be made. The Debtor hereby acknowledges that five Business Days prior written notice of such sale or sales shall be reasonable notice. In addition, the Debtor waives any and all rights that it may have to a judicial hearing in advance of the enforcement of any of the Secured Party's rights and remedies hereunder, including, without limitation, its right following an Event of Default to take immediate possession of the Collateral and to exercise its rights and remedies with respect thereto.

16. Standards for Exercising Rights and Remedies. To the extent that applicable law imposes duties on the Secured Party to exercise remedies in a commercially reasonable manner, the Debtor acknowledges and agrees that it is not commercially unreasonable

for the Secured Party (a) to fail to incur expenses reasonably deemed significant by the Secured Party to prepare Collateral for disposition or otherwise to fail to complete raw material or work in process into finished goods or other finished products for disposition, (b) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (c) to fail to exercise collection remedies against account debtors or other persons obligated on Collateral or to fail to remove liens or encumbrances on or any adverse claims against Collateral, (d) to exercise collection remedies against account debtors and other persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (e) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (f) to contact other persons, whether or not in the same business as the Debtor, for expressions of interest in acquiring all or any portion of the Collateral, (g) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the collateral is of a specialized nature, (h) to dispose of Collateral by utilizing Internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets, (i) to dispose of assets in wholesale rather than retail markets, (j) to disclaim disposition warranties, (k) to purchase insurance or credit enhancements to insure the Secured Party against risks of loss, collection or disposition of Collateral or to provide to the Secured Party a guaranteed return from the collection or disposition of Collateral, or (l) to the extent deemed appropriate by the Secured Party, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Secured Party in the collection or disposition of any of the Collateral. The Debtor acknowledges that the purpose of this Section 16 is to provide non-exhaustive indications of what actions or omissions by the Secured Party would fulfill the Secured Party's duties under the Uniform Commercial Code or other law of the State or any other relevant jurisdiction in the Secured Party's exercise of remedies against the Collateral and that other actions or omissions by the Secured Party shall not be deemed to fail to fulfill such duties solely on account of not being indicated in this Section 16. Without limitation upon the foregoing, nothing contained in this Section 16 shall be construed to grant any rights to the Debtor or to impose any duties on the Secured Party that would not have been granted or imposed by this Agreement or by applicable law in the absence of this Section 16.

17. No Waiver by Secured Party, etc. The Secured Party shall not be deemed to have waived any of its rights or remedies in respect of the Obligations or the Collateral unless such waiver shall be in writing and signed by the Secured Party. No delay or omission on the part of the Secured Party in exercising any right or remedy shall operate as a waiver of such right or remedy or any other right or remedy. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion. All rights and remedies of the Secured Party with respect to the Obligations or the Collateral, whether evidenced hereby or by any other instrument or papers, shall be cumulative and may be exercised singularly, alternatively, successively or concurrently at such time or at such times as the Secured Party deems expedient.

18. Suretyship Waivers by Debtor. The Debtor waives demand, notice, protest, notice of acceptance of this Agreement, notice of loans made, credit extended, Collateral received or delivered or other action taken in reliance hereon and all other demands and notices

of any description except any demands and notices expressly provided for in this Agreement or the Credit Agreement. With respect to both the Obligations and the Collateral, the Debtor assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of or failure to perfect any security interest in any Collateral, to the addition or release of any party or person primarily or secondarily liable, to the acceptance of partial payment thereon and the settlement, compromising or adjusting of any thereof, all in such manner and at such time or times as the Secured Party may deem advisable. The Secured Party shall have no duty as to the collection or protection of the Collateral or any income therefrom, the preservation of rights against prior parties, or the preservation of any rights pertaining thereto beyond the safe custody thereof as set forth in Section 11.2. The Debtor further waives any and all other suretyship defenses.

19. Marshalling. The Secured Party shall not be required to marshal any present or future collateral security (including but not limited to the Collateral) for, or other assurances of payment of, the Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order, and all of its rights and remedies hereunder and in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights and remedies, however existing or arising. To the extent that it lawfully may, the Debtor hereby agrees that it will not invoke any law relating to the marshalling of collateral which might cause delay in or impede the enforcement of the Secured Party's rights and remedies under this Agreement or under any other instrument creating or evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, the Debtor hereby irrevocably waives the benefits of all such laws.

20. Proceeds of Dispositions; Expenses. The Debtor shall pay to the Secured Party on demand any and all out-of-pocket expenses, including reasonable attorneys' fees and disbursements, incurred or paid by the Secured Party in protecting, preserving or enforcing the Secured Party's rights and remedies under or in respect of any of the Obligations or any of the Collateral. After deducting all of said expenses, the residue of any proceeds of collection or sale or other disposition of the Collateral shall, to the extent actually received in cash, be applied to the payment of the Obligations in such order or preference as the Secured Party may determine, but in accordance with the terms of the Credit Agreement, proper allowance and provision being made for any Obligations not then due. Upon the final payment and satisfaction in full of all of the Obligations and after making any payments required by Sections 9-608(a)(1)(C) or 9-615(a)(3) of the Uniform Commercial Code of the State, any excess shall be returned to the Debtor. In the absence of final payment and satisfaction in full of all of the Obligations, the Debtor shall remain liable for any deficiency.

21. Overdue Amounts. Until paid, all amounts due and payable by the Debtor hereunder shall be a debt secured by the Collateral and shall bear, whether before or after judgment, interest at the rate of interest for overdue principal set forth in the Credit Agreement.

22. Termination; Release of Collateral. Upon termination of the Credit Agreement, this Agreement shall automatically terminate and Secured Party (at Borrower's expense) shall promptly execute and deliver to Borrower such documents and instruments reasonably requested by Borrower as shall be necessary to evidence termination of all security

interests given by Borrower to Secured Party hereunder. Upon any dispositions of Collateral permitted by the Credit Agreement, Secured Party's security interest in such Collateral shall automatically terminate and Secured Party (at Borrower's expense) shall promptly execute and deliver to Borrower such documents and instruments reasonably requested by Borrower as shall be necessary to evidence termination of all security interests given by Borrower to Secured Party in such Collateral.

23. Governing Law; Consent to Jurisdiction. THIS AGREEMENT IS INTENDED TO TAKE EFFECT AS A SEALED INSTRUMENT AND SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WASHINGTON. The parties hereto agree that any action or claim arising out of, or any dispute in connection with, this Agreement, any rights, remedies, obligations, or duties hereunder, or the performance or enforcement hereof or thereof, may be brought in the courts of the State or any federal court sitting therein and consents to the exclusive jurisdiction of such court and to service of process in any such suit being made upon such party by mail at the address specified in Section 11.4 of the Credit Agreement. Each party hereto hereby waives any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient court.

24. Waiver of Jury Trial. THE PARTIES HERETO WAIVE THEIR RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, ANY RIGHTS, REMEDIES, OBLIGATIONS, OR DUTIES HEREUNDER, OR THE PERFORMANCE OR ENFORCEMENT HEREOF OR THEREOF. Except as prohibited by law, the parties hereto waive any right which they may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. Each party hereto (a) certifies that neither party hereto nor any representative, agent or attorney of any party hereto has represented, expressly or otherwise, that the Secured Party would not, in the event of litigation, seek to enforce the foregoing waivers or other waivers contained in this Agreement, and (b) acknowledges that, in entering into the Credit Agreement and the other Loan Documents, the parties hereto are relying upon, among other things, the waivers and certifications contained in this Section 24.

25. Miscellaneous. The headings of each section of this Agreement are for convenience only and shall not define or limit the provisions thereof. This Agreement and all rights and obligations hereunder shall be binding upon the Debtor and its respective successors and assigns, and shall inure to the benefit of the Secured Party and its successors and assigns. If any term of this Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall in no way be affected thereby, and this Agreement shall be construed and be enforceable as if such invalid, illegal or unenforceable term had not been included herein. The Debtor acknowledges receipt of a copy of this Agreement.

IN WITNESS WHEREOF, intending to be legally bound, the Debtor has caused this Agreement to be duly executed as of the date first above written.

NAUTILUS, INC.

By: /s/ Kenneth Fish
Kenneth Fish, Chief Financial Officer

BANK OF THE WEST

By: /s/ Sean Edwards
Sean Edwards, Vice President

EXHIBIT 21

SUBSIDIARIES OF NAUTILUS, INC.

Nautilus, Inc., a Washington corporation

Nautilus International Holdings, S.A., a Swiss corporation

Nautilus International, S.A., a Swiss corporation

Nautilus Switzerland, S.A., a Swiss corporation

Nautilus International GmbH, a German corporation

Nautilus Fitness UK Ltd., a United Kingdom corporation

Nautilus Fitness Italy S.r.l., an Italian corporation

Nautilus Fitness Canada, Inc., a Canadian corporation

Nautilus (Shanghai) Fitness Co., Ltd., a Chinese corporation

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-126054, 333-46936, and 333-79643 on Form S-8 of our reports dated March 8, 2010, relating to the consolidated financial statements of Nautilus, Inc. appearing in this Annual Report on Form 10-K of Nautilus, Inc. for the year ended December 31, 2009.

/s/ DELOITTE & TOUCHE LLP

Portland, Oregon
March 8, 2010

EXHIBIT 31.1

CERTIFICATION

I, Edward J. Bramson, certify that:

1. I have reviewed this annual report on Form 10-K of Nautilus, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 8, 2010
Date

By: /s/ Edward J. Bramson
Edward J. Bramson,
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Kenneth L. Fish, certify that:

1. I have reviewed this annual report on Form 10-K of Nautilus, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 8, 2010
Date

By: /s/ Kenneth L. Fish
Kenneth L. Fish,
Chief Financial Officer

EXHIBIT 32.1

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Nautilus, Inc., a Washington corporation (the "Company"), does hereby certify that:

To my knowledge, the Annual Report on Form 10-K for the year ended December 31, 2009 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 8, 2010
Date

By: /s/ Edward J. Bramson
Edward J. Bramson,
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of Nautilus, Inc., a Washington corporation (the "Company"), does hereby certify that:

To my knowledge, the Annual Report on Form 10-K for the year ended December 31, 2009 (the "Form 10-K") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 8, 2010
Date

By: /s/ Kenneth L. Fish
Kenneth L. Fish,
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.