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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

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: 000-25867

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)

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

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 Exchange Act). Yes ☐ No ☒

Number of shares of issuer's common stock outstanding as of April 30, 2008: 31,557,136

NAUTILUS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NAUTILUS, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands)

	March 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,254	$ 7,911
Trade receivables (net of allowance for doubtful accounts of $4,112 and $4,490 at March 31, 2008 and December 31, 2007, respectively)	74,416	88,311
Inventories, net	66,018	58,910
Prepaid expenses and other current assets	8,903	13,759
Income taxes receivable	8,802	11,382
Assets of discontinued operations	79,249	73,771
Assets held for sale	1,677	1,677
Short-term note receivable	—	2,384
Deferred tax assets	8,086	18,615
Total current assets	257,405	276,720
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of $61,548 and $59,673 on March 31, 2008 and December 31, 2007, respectively	41,420	42,291
GOODWILL	32,622	32,743
OTHER INTANGIBLES AND OTHER ASSETS, net	50,928	39,086
TOTAL ASSETS	$382,375	$ 390,840
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	$ 47,594	$ 43,993
Accrued liabilities	44,121	37,318
Short-term borrowings	63,155	79,000
Income taxes payable	311	283
Customer deposits	3,381	2,925
Liabilities of discontinued operations	16,750	15,867
Total current liabilities	175,312	179,386
NON-CURRENT LIABILITIES	7,329	6,919
NON-CURRENT DEFERRED TAX LIABILITIES	3,317	5,123
LONG-TERM TAXES PAYABLE	3,436	2,958
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY:		
Common stock – no par value, 75,000 shares authorized, 31,557 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	5,753	4,346
Retained earnings	178,661	185,021
Accumulated other comprehensive income	8,567	7,087
Total stockholders' equity	192,981	196,454
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$382,375	$ 390,840

See notes to consolidated financial statements.

NAUTILUS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except per share amounts)

	Three Months Ended March 31,	
	2008	2007
NET SALES	$129,601	$136,973
COST OF SALES	73,676	74,458
Gross profit	55,925	62,515
OPERATING EXPENSES:		
Selling and marketing	42,230	47,562
General and administrative	19,810	11,410
Research and development	2,205	2,787
Total operating expenses	64,245	61,759
OPERATING INCOME (LOSS)	(8,320)	756
OTHER INCOME (EXPENSE):		
Interest income	79	70
Interest expense	(1,237)	(880)
Other income, net	43	95
Total other income (expense)	(1,115)	(715)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(9,435)	41
INCOME TAX EXPENSE (BENEFIT)	(2,554)	50
LOSS FROM CONTINUING OPERATIONS	(6,881)	(9)
DISCONTINUED OPERATIONS:		
Income from discontinued operations	2,376	3,980
Income tax expense from discontinued operations	1,855	1,507
INCOME FROM DISCONTINUED OPERATIONS, net of tax	521	2,473
NET INCOME (LOSS)	$ (6,360)	$ 2,464
EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS:		
BASIC	$ (0.22)	$ 0.00
DILUTED	$ (0.22)	$ 0.00
EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS:		
BASIC	$ 0.02	$ 0.08
DILUTED	$ 0.02	$ 0.08
EARNINGS (LOSS) PER SHARE:		
BASIC	$ (0.20)	$ 0.08
DILUTED	$ (0.20)	$ 0.08
WEIGHTED AVERAGE SHARES OUTSTANDING:		
BASIC	31,557	31,508
DILUTED	31,557	31,729

See notes to consolidated financial statements.

NAUTILUS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (6,360)	$ 2,464
Income from discontinued operations	521	2,473
Loss from continuing operations	(6,881)	(9)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	3,848	3,451
Share-based compensation	1,469	704
(Gain) loss on sale of property, plant and equipment	37	(16)
Excess tax benefit from exercise of employee stock options	—	(95)
Deferred income taxes	8,666	(5,945)
Foreign currency transaction gain	(58)	(6)
Changes in assets and liabilities:		
Trade receivables	16,157	45,861
Inventories	(5,866)	(14,536)
Prepaid expenses and other current assets	(60)	(1,352)
Other assets	(891)	—
Income taxes receivable	(8,872)	—
Trade payables	3,393	(7,441)
Income taxes payable	494	(2,430)
Accrued liabilities	6,150	(4,685)
Customer deposits	406	(338)
Net cash provided by operating activities of continuing operations	17,992	13,163
Net cash provided by (used in) operating activities of discontinued operations	(3,819)	2,620
Net cash provided by operating activities	14,173	15,783
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,589)	(2,082)
Proceeds from sale of property, plant and equipment	57	16
Refund of Land America acquisition escrow deposit	5,000	—
Net increase in other intangibles and other assets	(285)	(235)
Net (increase) decrease in notes receivable	2,384	(139)
Net cash provided by (used in) investing activities from continuing operations	5,567	(2,440)
Net cash used in investing activities from discontinued operations	(24)	(224)
Net cash provided by (used in) investing activities	5,543	(2,664)

(continued)

NAUTILUS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Three Months Ended March 31,	
	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid on common stock	—	(3,156)
Proceeds from exercise of stock options	—	756
Excess tax benefit from exercise of employee stock options	—	95
Net reduction in short-term borrowings	(15,845)	(10,300)
Net cash used in financing activities from continuing operations	(15,845)	(12,605)
Net cash used in financing activities from discontinued operations	(87)	(142)
Net cash used in financing activities	(15,932)	(12,747)
Net effect of foreign currency exchange rate changes	(1,441)	111
Net increase in cash and cash equivalents	2,343	483
Cash and cash equivalents, beginning of period	7,911	4,262
Cash and cash equivalents, end of period	$ 10,254	$ 4,745
Supplemental disclosures:		
Cash paid for interest	$ (833)	$ (661)
Cash refunded (paid) for income taxes	$ 1,697	$ (4,048)
SUPPLEMENTAL DISCLOSURE OF OTHER NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accrued and noncurrent liabilities incurred for software purchase	$ 1,021	$ —

See notes to consolidated financial statements.

(concluded)

NAUTILUS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements relate to Nautilus, Inc. and its subsidiaries ("the Company") as of March 31, 2008 and for the three month periods ended March 31, 2008 and 2007. All intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

The financial information included herein reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three month period ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year.

In the fourth quarter of 2007, management committed to a plan to sell our fitness apparel division, DashAmerica, Inc. d/b/a Pearl Izumi USA ("Pearl Izumi"), which designs, markets and sells branded fitness apparel and footwear sold primarily under the Pearl Izumi brand on a global basis. On April 18, 2008, the Company completed the sale of the fitness apparel division. Accordingly, all assets and liabilities and results of operations associated with the fitness apparel division have been presented in the consolidated financial statements as discontinued operations separate from continuing operations in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"). See Note 2 "Discontinued Operations."

Use of Accounting 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. Our significant estimates can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Revision of Expense Classification – We revised our prior presentation of royalty expense. For all periods presented, we now report royalty expenses related to items manufactured and sold in cost of goods sold. Expenses incurred for preproduction royalties are included in research and development expense. Preproduction royalties represent costs incurred to utilize licensed patent technologies prior to a sellable product being available for manufacture and sale. We have concluded that the effect of these misstatements did not materially impact any previously issued financial statements, however we have revised prior period comparative information presented herein in order to present such information on a consistent basis.

New Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"), which gives entities the option to measure eligible financial assets, and financial liabilities at fair value on an instrument by instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. This statement was effective as of January 1, 2008. The adoption of SFAS No. 159 had no impact on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). This statement defines fair value, establishes a framework for measuring fair value in U.S. GAAP, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 had no impact on the Company's financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ("SFAS No. 141(R)"). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, and the goodwill acquired in its financial statements. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company is in the process of analyzing the impact of SFAS No. 141(R) on its financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51* ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained, noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The Company is in the process of analyzing the impact of SFAS No. 160 on its financial statements.

2. DISCONTINUED OPERATIONS

On April 18, 2008 the Company completed the sale of its fitness apparel division. The assets and liabilities and results of operations of the fitness apparel division have been presented separately in the consolidated financial statements as discontinued operations.

Revenues, income before income taxes, income tax expense and income from discontinued operations were as follows:

	Three months ended March 31,	
(In thousands)	2008	2007
Revenue	$24,369	$21,866
Income before income taxes	$ 2,376	$ 3,980
Income tax expense	1,855	1,507
Income from discontinued operations	$ 521	$ 2,473

Income from discontinued operations includes a pre-tax impairment charge of $2.6 million in the quarter ended March 31, 2008, to reduce the carrying value of the net assets of the discontinued operations to the net proceeds from the sale. No costs associated with exit or disposal activities as contemplated by SFAS No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* have been recorded.

Assets and liabilities of the fitness apparel division have been segregated and presented as assets and liabilities of discontinued operations in the consolidated balance sheets for all periods presented. Depreciation and amortization related to assets held for sale ceased as of December 15, 2007. Assets and liabilities for the discontinued operations were as follows:

(In thousands)	March 31, 2008	December 31, 2007
Current assets	$36,701	$ 28,660
Property and equipment, net	1,456	1,411
Goodwill	17,134	19,743
Intangible and other assets	23,958	23,957
Assets of discontinued operations	$79,249	$ 73,771
Current liabilities	$ 6,167	$ 5,332
Current portion of long-term debt	454	447
Long-term debt excluding current portion	3,704	3,797
Noncurrent deferred tax liabilities	6,425	6,291
Liabilities of discontinued operations	$16,750	$ 15,867

3. STOCKHOLDERS' EQUITY

Stock Options

A summary of the Company's stock option plan 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
Outstanding at January 1, 2008	2,804	$ 13.54		
Granted	759	4.15		
Forfeited or cancelled	(103)	15.51		
Expired	(61)	20.69		
Exercised	—	0.00		$ 0
Outstanding at March 31, 2008	3,399	$ 11.25	3.98	$ 0
Vested and expected to vest at March 31, 2008	2,395	$ 11.53	3.36	$ 0
Exercisable at March 31, 2008	1,738	$ 12.56	2.53	$ 0

The fair value of the Company's equity awards was estimated utilizing the following assumptions:

	Three Months Ended March 31,	
	2008	2007
Expected Life (years)	4.8	4.8
Risk-free interest rate	2.9%	4.6%
Dividend yield	0%	2.5%
Expected volatility	52%	43%

The weighted average grant-date fair value of stock options granted was $1.91 per share for stock options granted in the first three months of 2008. The total fair value of options vested during the first three months of 2008 was $65,000. The total unrecognized compensation cost related to nonvested options was $4.5 million at March 31, 2008. This cost is expected to be recognized over a weighted-average period of 2.65 years.

During the first quarter of 2008, the Company accelerated vesting on stock options related to the termination of the former Chief Executive Officer and incurred $1.0 million of shared based compensation charges which are recorded in general and administrative expenses.

In the fourth quarter of 2007, the Board of Directors suspended the payment of quarterly dividends. 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. The Company's loan agreement contains covenants that include limitations on paying dividends when certain ratios are not met. Based on the covenants, the Company is currently precluded from paying dividends.

Performance Units

A summary of the Company's performance 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 cancelled	(3)	15.83
Expired	—	—
Exercised	—	—
Outstanding at March 31, 2008	45	$ 15.68

At March 31, 2008 and 2007 there was approximately $0.7 million and $3.6 million, respectively, of total unrecognized share-based compensation cost related to performance units with intrinsic value of $0.1 million and $0, respectively. None of the performance units were vested at March 31, 2008 and 2007. The Company recorded compensation expense of $0 and $37,000 related to the performance unit awards in the three-month periods ended March 31, 2008 and March 31, 2007, respectively.

Restricted Stock

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

(In thousands, except fair value amounts)	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2008	266	$ 9.23
Awarded	—	—
Vested	—	—
Forfeited	(34)	9.23
Outstanding at March 31, 2008 (1)	232	$ 9.23

(1) Outstanding awards of restricted stock are all nonvested at March 31, 2008.

Restricted stock compensation expense for the three months ended March 31, 2008 was $0.1 million. At March 31, 2008, unrecognized cost related to restricted stock totaled approximately $0.8 million and is expected to be recognized over a weighted average period of 1.37 years. The restricted stock had an intrinsic value of $0.8 million at March 31, 2008. There was not any restricted stock issued and outstanding at March 31, 2007.

4. INVENTORIES

Inventories consisted of the following:

(in thousands)	March 31, 2008	December 31, 2007
Finished goods	$ 46,090	$ 39,143
Work-in-process	1,501	1,261
Parts and components	8,084	8,422
Raw materials	10,343	10,084
Inventories	$ 66,018	$ 58,910

Inventories are stated at the lower of cost or market. The Company evaluates the need for inventory valuation adjustments associated with obsolete, slow-moving and not saleable inventory by reviewing current transactions and forecasted product demand on a monthly basis.

5. OTHER INTANGIBLES AND OTHER ASSETS

Intangible and other assets, exclusive of goodwill, consisted of the following:

(in thousands)	Estimated Useful Life (in years)	March 31, 2008	December 31, 2007
Intangible assets:			
Indefinite life trademarks	N/A	$ 17,519	$ 17,519
Patents	1 to 16	23,195	23,007
Non-compete agreements	3	1,879	1,957
Total intangible assets		42,593	42,483
Accumulated amortization:			
Patents		(3,365)	(2,826)
Non-compete agreements		(1,826)	(1,740)
Total accumulated amortization		(5,191)	(4,566)
Intangible assets, net		37,402	37,917
Other assets		2,073	1,169
Long-term income taxes receivable		11,453	—
Intangible and other assets, net		$ 50,928	$ 39,086

Identifiable intangible assets such as license agreements, patents, and trademarks are recorded at cost, or when acquired as part of a business combination, at estimated fair value and are amortized straight-line over the period they are expected to provide the Company with economic benefit. The amortization expense for the next five full succeeding years is estimated at $3.0 million, $2.8 million, $2.8 million, $2.8 million and $2.8 million.

The Company recorded a long-term receivable related to income tax refunds the Company anticipates claiming in the second quarter of 2009, due to anticipated tax losses in 2008, primarily related to certain payments made to Land America (see Note 10) in 2007 and 2008, that can offset taxable income from earlier years.

6. ACCRUED LIABILITIES

The significant accrued liabilities were estimated warranty costs of $17.6 million and $18.3 million at March 31, 2008 and December 31, 2007, respectively and accrued payroll liabilities, including severance and benefits of $5.4 million and $6.3 million at March 31, 2008 and December 31, 2007, respectively. At March 31, 2008 the Company accrued $8.0 million for the settlement of claims associated with the termination of the purchase agreement with Land America.

7. LINE OF CREDIT AND OTHER DEBT

On January 16, 2008 the Company and its subsidiary Nautilus International S.A. entered into a Loan and Security Agreement (the “Loan Agreement”) with Bank of America N.A., as agent for the lenders party thereto, providing for a $100 million revolving secured credit line including a secured term loan in the principal amount of $18.5 million. The Loan Agreement will be available for letters of credit, working capital and general business purposes, including acquisition financing. On February 29, 2008, the Company entered into the First Amendment to the Loan Agreement which modified minimum Earnings Before Interest, Tax, Depreciation and Amortization (“EBITDA”) covenants, revised the exclusion of certain non-cash charges and unusual expense items from the calculation of EBITDA, and reduced the maximum aggregate revolving commitments of the lenders thereunder to $70 million concurrent with completion of the sale of the Company’s fitness apparel division, which amount may be increased under certain circumstances to $95 million.

On March 31, 2008, the Company entered into a Second Amendment to Loan Agreement (the “Second Amendment”) in respect of the Loan Agreement. Pursuant to the Second Amendment, the Company extended the maturity date of the term loan outstanding under the Loan Agreement to the earlier to occur of (i) April 30, 2008, (ii) the consummation of a sale of the Company’s fitness apparel division or (iii) the consummation of a financing pursuant to which a third party takes a first priority lien in certain intellectual property assets of the Company. In connection with, and pursuant to the Second Amendment the Company also repaid $3 million of principal amount outstanding under the term loan. At March 31, 2008, the Company had $63.2 million of borrowings outstanding on the Loan Agreement.

The Company completed the sale of the fitness apparel division on April 18, 2008 and received net cash proceeds of $58.4 million. Upon receipt of these proceeds, the Company paid off all amounts then outstanding under the Loan Agreement.

On May 5, 2008, the Company entered into a Third Amendment to the Loan Agreement ("Third Amendment"). Pursuant to the Third Amendment, the lenders consented to the repurchase by the Company of up to $10.0 million of its common stock. In addition, the Third Amendment made modifications to the definition of "EBITDA," including the exclusion of amounts payable under the Land America settlement agreement and certain other items from the calculation of "EBITDA" for the purposes of the Loan Agreement.

8. COMPREHENSIVE INCOME (LOSS)

Accounts of the Company's foreign operations are measured using the local currency as the functional currency. These accounts are then translated into U.S. dollars using the current rate method with translation gains and losses accumulated as the comprehensive income component of stockholders' equity. Transaction gains or losses incurred by conducting business in other currencies are recorded as part of other income/expense in the Consolidated Statements of Operations.

Comprehensive income (loss) was as follows:

	Three Months Ended March 31,	
(in thousands)	**2008**	**2007**
Net income (loss)	$ (6,360)	$ 2,464
Foreign currency translation adjustments	1,481	299
Comprehensive income (loss)	$ (4,879)	$ 2,763

9. EARNINGS PER SHARE

The calculation of the number of outstanding shares is as follows:

	Three months ended March 31,	
(in thousands, except per share amounts)	**2008**	**2007**
Basic shares outstanding	31,557	31,508
Dilutive effect of restricted stock*	—	221
Diluted shares outstanding	31,557	31,729
Antidilutive stock options and awards *	3,285	1,803
Net income (loss)	$ (6,360)	$ 2,464
Earnings (loss) per share:		
Basic	$ (0.20)	$ 0.08
Diluted	$ (0.20)	$ 0.08

* Stock options and awards not included in the calculation of diluted earnings per share because they would be antidilutive.

10. COMMITMENTS AND CONTINGENCIES

Legal Matters

We are involved in various claims, lawsuits and other proceedings from time to time. Such litigation involves uncertainty as to possible losses we may ultimately realize when one or more future events occur or fail to occur. We accrue and charge to income estimated losses from contingencies when it is probable that a liability had been incurred and the amount of loss can be reasonably estimated. Differences between estimates recorded and actual amounts determined in subsequent periods are treated as changes in accounting estimates. The Company estimates the probability of losses on legal contingencies based on the advice of internal and external counsels, outcomes from similar litigation, the status of the lawsuits (including settlement initiatives), legislative developments, and other factors. Due to 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 significantly. A significant change in our estimates, or a result that materially differs from our estimates, could have a significant impact on our financial position, results of operations and cash flows.

Land America

On October 17, 2007 the Company entered into a series of agreements (the "Land America Agreements") under which the Company or its wholly-owned subsidiaries were to acquire or lease substantially all of the assets of Land America Health & Fitness Co. Ltd. ("Land America") and Treuriver Investments, Ltd. ("Treuriver"). Land America is primarily engaged in the manufacture of products for the Company in a manufacturing facility located in Xiamen, People's Republic of China, and Treuriver is Land America's related trading company. The Land America Agreements were entered into following the exercise, on June 29, 2007, of purchase options set forth in Purchase Option Agreements which the Company entered into on February 1, 2007. The Company had previously paid Land America and Treuriver non-refundable deposits of $18.5 million in connection with the purchase agreements.

On January 19, 2008, the Company gave written notice to Land America and Treuriver exercising its rights to terminate the Land America Agreements on the basis that (i) all of the conditions to closing set forth in the Land America Agreements had not been satisfied or waived, and/or (ii) the Closing (as defined in the Land America Agreements) had not occurred prior to the Termination Date (as defined in the Land America Agreements).

By letter dated January 21, 2008, legal counsel to Land America and Treuriver notified the Company that Land America and Treuriver consider the Company to be in breach of certain duties set forth in the Asset Purchase Agreements and that Land America and Treuriver had incurred economic damages as a result of such alleged breach.

On May 5, 2008, the Company, Land America and Treuriver entered into a settlement agreement providing for the release of all claims arising out of or related to the termination of the Land America Agreements. Pursuant to this settlement agreement, the Company has agreed to pay a total of $8.0 million to Land America and Treuriver. In addition, the Company and Land America entered into a revised supply agreement that extends the relationship by one year to December 31, 2010.

FACTA Litigation

On October 29, 2007, Sue Repenning, individually and on behalf of a group of allegedly similarly situated individuals, filed a suit against the Company for violation of the Federal Fair Credit and Accurate Transaction Act ("FACTA"). The case, filed in federal court in Cleveland, Ohio, alleges that the Company was not compliant with certain aspects of FACTA as regards the proper display of credit card information for customers who place an order for products on the Company's website. Plaintiff seeks the statutory penalty set forth in FACTA for each violation which ranges from $100 to $1,000 per violation, as well as punitive damages, and attorneys fees and costs.

The case is in the early stages of discovery and has not yet been certified as a class action. The Company denies any liability under FACTA and believes that its procedures and protocols comply with applicable law, including FACTA and further denies that the case is certifiable as a class action. The case recently transferred from federal court in Cleveland, Ohio to Seattle, Washington. The Company is and will continue to vigorously defending the matter.

In addition to the matters described above, from time to time the Company is subject to litigation, claims and assessments that arise in the ordinary course of business, including disputes that may arise from intellectual property related matters. Many of our legal matters are covered in whole or in part by insurance. Management believes that any liability resulting from such matters will not have a material adverse effect on the Company's financial position, results of operations, or cash flows.

Guarantees and Commitments

At March 31, 2008, the Company had approximately $0.3 million in outstanding commercial letters of credit expiring through December 31, 2008.

The Company has long lead times for inventory purchases and therefore needs to secure factory capacity from its vendors in advance. At March 31, 2008, the Company had approximately $45.5 million in purchase obligations, all of which was for inventory purchases.

11. REPORTABLE SEGMENTS AND RELATED INFORMATION

The Company's operating segments are evidence of the structure of the Company's internal organization and are organized to allow focus on specific business opportunities in the Company's worldwide market place. The Company's business segments are Fitness Equipment Business, and International Equipment Business. Accounting policies used by each segment are the

same as those disclosed in Note 1 to the Company's Annual Report on Form 10-K. In February 2008, the Company entered into an agreement to sell its fitness apparel division and completed the sale in the second quarter of 2008. Accordingly all assets and liabilities and results of operations associated with this division have been presented in the consolidated financial statements as discontinued operations and are not included in the segment information below.

The Fitness Equipment Business is responsible for the design, production, marketing and sale of branded fitness equipment sold under the Nautilus, Bowflex, Schwinn Fitness and Stairmaster brand names and is responsible for servicing customers within North and South America.

The International Equipment Business is responsible for the marketing and sale of branded fitness equipment sold under the Nautilus, Bowflex, Schwinn Fitness and Stairmaster brand names and is responsible for servicing customers outside of North and South America.

Net sales from external customers for the Company's consolidated operations were as follows:

	Three Months Ended March 31,	
(in thousands)	2008	2007
Fitness Equipment Business	$112,006	$120,400
International Equipment Business	17,595	16,573
Net sales	$129,601	$136,973

Gross profit for the Company's operations was as follows:

	Three Months Ended March 31,	
(in thousands)	2008	2007
Fitness Equipment Business	$ 51,537	$ 57,362
International Equipment Business	4,388	5,153
Gross profit	$ 55,925	$ 62,515

Total assets from the Company's operating segments were as follows:

	March 31, 2008	December 31, 2007
(in thousands)		
Fitness Equipment Business	$340,369	$ 346,268
International Equipment Business	42,006	44,572
Total Assets	$382,375	$ 390,840

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This quarterly report on Form 10-Q 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, future capital expenditures, anticipated tax benefits, 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 in our most recent Annual Report on Form 10-K. 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.

This 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 located at Item 1 of this Form 10-Q. We believe that period-to-period comparisons of our operating results are not necessarily indicative of future performance. You should consider our prospects in light of the risks, expenses and difficulties frequently encountered by companies that operate in evolving markets. We may not be able to successfully address these risks and difficulties and, consequently, we cannot assure you of any future growth or profitability.

SUMMARY OF THE FIRST QUARTER 2008 RESULTS

Net sales for the first quarter of 2008 were $129.6 million, compared to $137.0 million in the same quarter of 2007, a decrease of $7.4 million or 5.4%. Gross profit margins decreased to 43.2% in the first quarter of 2008, compared to 45.6% in the same quarter of 2007, as a result of changes in product and channel mix and lower sales volume in our North America markets along with a sale of close-out equipment during the quarter. The decrease in sales is primarily due to a soft North American market for home exercise equipment which led to decreased sales across all channels, but primarily in our rod-based products in the direct and retail channels, offset by increased sales of the Revolution products in the Direct Channel.

Operating expenses for the first quarter of 2008 were $64.2 million compared to $61.8 million in the same quarter of the prior year, an increase of 4.0%. The increase in operating expenses is primarily due to the Company's agreement to make an $8.0 million payment in the second quarter as settlement of all claims arising out of or related to the termination of the agreement to purchase the Land America manufacturing facility in China. In addition, the Company incurred $2.4 million of termination costs in the first quarter of 2008 related to the departure of our former CEO. These expenses were partially offset by reduced costs as a result of our ongoing restructuring activities.

In April 2008, the Company completed the sale of its fitness apparel division. Accordingly, the results of operations associated with that division have been presented in the consolidated financial statements as discontinued operations.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007

The following tables present certain consolidated financial data as a percentage of net sales and statement of operations data comparing results for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,					
(in thousands)	2008	% of net sales	2007	% of net sales	$ change	% change
Net sales	$129,601	100.0%	$136,973	100.0%	$(7,372)	(5.4)%
Cost of sales	73,676	56.8%	74,458	54.4%	(782)	(1.1)%
Gross profit	55,925	43.2%	62,515	45.6%	(6,590)	(10.5)%
Operating expenses:						
Selling and marketing	42,230	32.6%	47,562	34.7%	(5,332)	(11.2)%
General and administrative	19,810	15.3%	11,410	8.3%	8,400	73.6%
Research and development	2,205	1.7%	2,787	2.0%	(582)	(20.9)%
Total operating expenses	64,245	49.6%	61,759	45.1%	2,486	4.0%
Operating income (loss)	(8,320)	(6.4)%	756	0.6%	(9,076)	(1,200.5)%
Other Income (Expense):						
Interest income	79	0.1%	70	0.1%	9	12.9%
Interest expense	(1,237)	(1.0)%	(880)	(0.6)%	(357)	40.6%
Other income, net	43	0.0%	95	0.1%	(52)	(54.7)%
Total other income (expense)	(1,115)	(0.9)%	(715)	(0.5)%	(400)	55.9%
Income (loss) from continuing operations before income taxes	(9,435)	(7.3)%	41	0%	(9,476)	(23,112.2)%
Income tax expense (benefit)	(2,554)	(2.0)%	50	0%	(2,604)	(5,208.0)%
Loss from continuing operations	(6,881)	(5.3)%	(9)	0%	(6,872)	76,355.6%
Discontinued operations:						
Income from discontinued operations	2,376		3,980		(1,604)	(40.3)%
Income tax expense from discontinued operations	1,855		1,507		348	23.1%
Income from discontinued operations, net of tax	521		2,473		(1,952)	(78.9)%
Net income (loss)	$ (6,360)		$ 2,464		$(8,824)	(358.1)%

Net Sales

Fitness Equipment Business - The fitness equipment business designs, produces, markets and sells fitness products sold under the Nautilus, Bowflex, Schwinn Fitness, and StairMaster brand names. Our fitness equipment is marketed and sold through the direct, commercial, and retail channels of distribution located in North and South America. Total net sales for the Fitness Equipment Business were $112.0 million in the first quarter of 2008 compared to $120.4 million in the same period of 2007, a decrease of $8.4 million or 7.0%. The Company is operating in an uncertain consumer environment that we believe is contributing to softer domestic sales and that we expect will continue in the second quarter. Specific channel net sales information is detailed below:

In the **direct channel,** net sales declined 6.1% to $69.4 million compared to $73.9 million in the first quarter of 2007. Sales in the direct channel consist of our Bowflex branded products and primarily include our rod-based home gyms, TreadClimber products, SelectTech dumbbells, and the Bowflex Revolution. The decrease in net sales was primarily the result of declines in the sales of rod-based home gyms and the home version of TreadClimbers offset by increases in sales of the Revolution and SelectTech product lines. The decline in rod-based home gym sales are partially explained by a decrease in advertising dollars in the first quarter of 2008 along with a reduction in promotion (discount) activity compared to the prior year.

TreadClimber revenue was adversely impacted by less efficient marketing activity due to the use of aged advertisements. In addition, sales of TreadClimber products in the first quarter of 2007 were affected by a lack of product availability in the fourth quarter of 2006 which led to higher shipments in the first quarter of 2007. The introduction of the Revo XP and an increase in advertising helped drive growth in Revolution and SelectTech revenue. In addition, the Revolution product lines received additional consumer financing support during the first quarter of 2008 which allowed more customers to qualify for financing of this product in the form of higher credit lines at higher costs to the Company.

In the **retail channel,** net sales decreased to $25.2 million as compared to $27.6 million last year, or 8.7%. Sales in this channel are primarily to various sporting good stores, warehouse clubs, department stores, fitness retail stores and independent bicycle dealers that typically sell health club-quality equipment to the end consumer for home and small business use. The decline in this channel was mainly due to softness in the consumer retail market for home fitness equipment and a scale back in rod-based gyms and other products offered in the retail channel offset by increased sales of our SelectTech 552 products and Schwinn branded indoor bikes and elliptical products.

In the **commercial channel,** net sales declined 10.4% to $16.3 million in the first quarter of 2008 compared to $18.2 million in the same period of 2007. Sales in this channel primarily constitute those to commercial dealers, health clubs, hotels and living complexes. Sales declined in the first quarter of 2008 primarily due to the decision to suspend sales of the commercial TreadClimber products due to durability issues. In addition, sales declined slightly in the Stairmaster product lines of steppers and stepmills from the prior year. The Company launched the Nautilus One product line in the third quarter of 2007 which added revenue in the first quarter of 2008 along with other increases in strength product lines.

Royalty income represents the revenue the Company receives for licensing certain owned patents, trademarks and brands to other companies. Royalty income increased to $1.1 million in the first quarter of 2008 compared to $0.7 million in the same period of 2007. The increase is a result of having more companies utilize our patents and trademarks.

International Equipment Business Net sales from the International Equipment Business were $17.6 million in the first quarter of 2008 compared to $16.6 million in the same period of 2007, an increase of $1.0 million or 6.0%. The International Equipment Business represents sales outside of the Americas and consists primarily of commercial and retail sales. The increase is due to international currencies (primarily the Euro) strengthening significantly compared to the US Dollar compared to the prior year quarter.

Gross Profit

As a result of lower net sales and lower gross margins, total gross profit was $55.9 million in the first quarter of 2008 compared to $62.5 million in the same period of 2007, a decrease of $6.6 million or 10.5%. As a percentage of net sales, gross profit margin decreased to 43.2% in the first quarter of 2008 compared to 45.6% in the comparable period of 2007.

Fitness Equipment Business Gross profit for the Fitness Equipment Business decreased primarily as a result of lower sales of $51.5 million in the first quarter of 2008 compared to $57.4 million in the same period of 2007. As a percentage of net sales, gross profit margins decreased to 46.0% in the first quarter of 2008 compared to 47.6% in the comparable period of 2007. The decrease in gross profit is primarily attributed to increases in warranty expense and inventory reserves related to commercial cardio products of $0.9 million; a sale of closeout equipment below cost and additional freight charges delivering backordered F3 commercial strength products throughout the quarter. These items were offset by decreases in labor costs related to restructuring activities completed during 2007 and other decreases in variable costs due to the decrease in volume of sales. During 2007 and the first quarter of 2008, the Company’s gross margins benefited from rebates payable under our Supply Agreement with Land America. As a result of the termination of the agreement to purchase the Land America assets, those rebates will not be available in the future. The negative impact on gross margin resulting from termination of the rebates will depend on the volume of future purchases from Land America.

During 2007, the Company reclassified royalty expense related to products sold into cost of goods sold. Royalty expense was previously reported as a separate line within operating expenses for those products utilizing a licensed patented technology. The reclassification was made for all periods presented. Royalty expense of $1.3 and $1.1 million for the quarters ended March 31, 2008 and 2007, respectively is included in cost of sales.

International Equipment Business Gross profit for the International Equipment Business was $4.4 million in the first quarter of 2008 compared to $5.2 million in the same period of 2007, a decrease of $0.8 million or 14.8%. As a percentage of net sales, gross profit margin was 24.9% in the first quarter of 2008 compared to 31.1% in the comparable period of 2007. The decrease in gross profit is primarily attributed to increases in warranty expenses and inventory reserves compared to the prior year as well as sales mix.

Operating Expenses

Selling and Marketing

Selling and marketing expenses were $42.2 million in the first quarter of 2008 compared to $47.6 million in the same period of 2007, a decrease of $5.3 million or 11.2%. The reduction in marketing expense is a result of a $0.9 million decline in personnel costs related to restructuring activities completed during 2007; a $1.2 million decrease in production costs related to new infomercial advertisements created in the first quarter of 2007; and decreases in tradeshow expenses, advertising expenses and commissions as a result of lower sales and management of discretionary costs.

General and Administrative

General and administrative expenses were $19.8 million in the first quarter of 2008 compared to $11.4 million in the same period of 2007, an increase of $8.4 million or 73.6%. The increase is primarily the result of the Company's agreement to make an $8.0 million payment in settlement of all claims arising out of or related to the termination of the agreement with Land America to purchase their China-based manufacturing assets. In addition, the Company incurred $2.4 million of expense related to the departure of our former Chief Executive Officer. These expenses were partially offset by reductions in personnel costs related to restructuring activities and a reduction in legal expenses. The Company expects to incur additional restructuring related costs in the second quarter of 2008.

Research and Development

Research and development expenses were $2.2 million in the first quarter of 2008 compared to $2.8 million in the same period of 2007, a decrease of $0.6 million or 20.9%. The decrease in research and development expenses was the result of a $0.3 million decrease in personnel expenses from the first quarter of 2007 as the Company completed a number of restructuring activities during 2007; a $0.2 million decrease in prototype expenses related to the Nautilus One product line incurred in 2007 with no comparable project in the first quarter of 2008 and a $0.2 million decrease in third party fees to provide research information regarding fitness equipment.

In 2007, the Company reclassified preproduction royalties into research and development expenses for all periods presented which added $0.2 million and $0.2 million for the quarters ended March 31, 2008 and 2007, respectively. Preproduction royalties represent costs paid to utilize licensed patent technologies prior to a sellable product being available for manufacture and sale.

Other Income (Expense)

Interest expense

Interest expense increased to $1.2 million in the first quarter of 2008 compared to interest expense of $0.9 million in the same period of 2007. The increase in interest expense is due to a higher "spread" over LIBOR under our new Loan Agreement as compared with the rates payable under our prior loan agreement in 2007 and increased average short-term borrowings outstanding during the first quarter of 2008 as compared to 2007. These increases were partially offset by the lower interest rate environment in 2008.

Income Tax Expense

The provision for income tax from continuing operations was a benefit of $2.6 million in the first quarter of 2008 compared to expense of $50,000 in the same period of 2007. During the first quarter of 2008 there have been no material changes to the Company's uncertain tax positions as disclosed in the 2007 Annual Report on Form 10-K.

Discontinued Operations

The Company designated the financial results of its fitness apparel business as discontinued operations during 2007. This resulted in recording the financial results as income from discontinued operations. The income from discontinued operations during the first quarter of 2008 was $0.5 million compared to income from discontinued operations of $2.5 million during the prior year quarter. The 2008 income from discontinued operations includes an impairment charge of $2.6 million for the difference between book value of the fitness apparel business net assets (assets minus liabilities) and the anticipated net sale proceeds.

LIQUIDITY AND CAPITAL RESOURCES

During the first three months of 2008, our operating activities from continuing operations generated $18.0 million in net cash compared to $13.2 million in the same period of the prior year. The generation of operating cash in the first quarter of 2008 was primarily from collection of accounts receivable. In addition, the Company received a tax refund of $1.9 million in the

first quarter of 2008 and anticipates receiving approximately $7.1 million of tax refunds in the second quarter of 2008. The Company has agreed to pay $8.0 million in the second quarter of 2008 in connection with the settlement of all claims arising out of or related to the termination of the Land America Agreements.

Net cash provided by investing activities from continuing operations was $5.6 million in the first three months of 2008 compared to cash used in investing activities of $2.4 million in the same period of 2007. The change is primarily due to the return of a deposit in escrow for the Land America acquisitions and the collection of a note receivable from a previous business partnership with a nutrition company.

Net cash used in financing activities was $15.8 million in the first three months of 2008 compared to $12.6 million in the same period of the prior year. The increase from continuing operations was primarily due to increased payments on short-term borrowings offset a reduction in dividends paid. In the fourth quarter of 2007, the Board of Directors suspended the quarterly dividend. 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. The Company's loan agreement contains covenants that include limitations on paying dividends when certain ratios are not met. Based on the covenants, the Company is currently precluded from paying dividends. On May 5, 2008, the Board of Directors authorized the expenditure of up to $10.0 million to repurchase outstanding shares of the Company's common stock.

In the fourth quarter of 2007, management committed to a plan to sell the fitness apparel division, DashAmerica, Inc. d/b/a Pearl Izumi USA, ("Pearl Izumi") which designs, markets and sells branded fitness apparel and footwear sold primarily under the Pearl Izumi brand globally. On April 18, 2008 the Company completed the sale of the fitness apparel division. Accordingly, the results of operations for the fitness apparel division have been reclassified as discontinued operations. Net cash used by operating activities of discontinued operations during the first three months of 2008 was $3.8 million compared to net cash provided by discontinued operations of $2.6 million for the same period in 2007. The significant increase is a result of recording an impairment charge of $2.6 million to adjust the net book value of the fitness apparel division down to fair market value as determined by an accepted sale agreement. Cash flows used in investing activities for discontinued operations were $24,000 in 2008 compared to $0.2 million in 2007. Cash flows used in financing activities for discontinued operations were $0.1 million in 2008 compared to $0.1 million in 2007 as the Company made debt payments related to the original acquisition.

The Company has a Loan and Security Agreement (the "Loan Agreement") with Bank of America N.A., as agent for the lenders party thereto, providing for a $100 million revolving secured credit line, which was reduced to $70 million concurrent with the completion of the sale of it fitness apparel division. The Company completed the sale of the fitness apparel division on April 18, 2008 and received net cash proceeds of approximately $58.4 million. Upon receipt of these proceeds, the Company paid off all amounts outstanding under the Loan Agreement.

We believe our existing cash and cash equivalents, cash generated from operations and borrowings available under our credit facilities will be sufficient to meet our operating and capital requirements in the foreseeable future.

OFF-BALANCE SHEET ARRANGEMENTS

As described in the Company's 2007 Annual Report on Form 10-K, from time to time, we arrange for leases or other financing sources with third parties to enable certain of our commercial customers to purchase our commercial products. While most of these financings are without recourse, in certain cases we may offer a guarantee or other recourse provisions. At March 31, 2008 and December 31, 2007, the maximum contingent liability under all recourse provisions was approximately $1.4 million and $1.3 million, respectively.

The Company has an agreement with a financing company to provide second tier financing for its consumers under which the Company previously shared financial responsibility if consumer default rates exceeded contractual expectations. During the third quarter 2007, the Company renegotiated its second tier financing agreements and transferred risk of loss to the financing company for a settlement payment of $0.7 million. As a result, a reserve is no longer established for consumer default on second tier financing arrangements. Our financing partners review consumer credit information and determine which consumers will receive financing and approve the amount of financing provided. Refer to Note 1 in the Company's 2007 Form 10-K for further discussion of these arrangements.

INFLATION AND PRICE CHANGES

We are experiencing cost increases for products and components manufactured in China reflecting unfavorable foreign currency exchange rates and increases in Chinese wages, taxes and raw material costs which our third party sourcing partners are seeking to pass along to the Company. Raw material costs have also increased for products manufactured by Nautilus owned facilities in the United States. Gross margins may be negatively impacted if these conditions continue and the Company is unable to find other cost savings or increase prices sufficiently to offset the cost increases.

Transportation costs have fluctuated due to fluctuations in fuel prices. To the extent these costs continue to increase and we are unable to pass these costs to the customer, our gross margins may continue to be negatively impacted.

SEASONALITY

In general, based on historic trends, we expect our sales from fitness equipment products both in the U.S. and internationally to vary seasonally with sales typically the strongest in the fourth quarter, followed by the first and third quarters, and the weakest in the second quarter. We believe that such factors as 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 consumers tend to do more activities outside including exercise, which impacts sales of fitness equipment used indoors. We expect the fluctuation in our net sales between our highest and lowest quarters to be approximately 35%.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with U.S. GAAP 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. As described by the Securities and Exchange Commission (“SEC”), critical accounting estimates and assumptions are those that may be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and that have a material impact on the financial condition or operating performance of the company. Based on this definition, we believe the items listed below are our critical accounting estimates and assumptions:

- Revenue recognition
- Allowance for doubtful accounts
- Inventory valuation
- Product warranty
- Stock compensation
- Litigation and loss contingencies
- Goodwill and other intangible assets valuation
- Income tax provision

Management and our independent auditors regularly discuss with our audit committee each of our critical accounting estimates and assumptions, as well as critical accounting policies presented in the Company’s 2007 Annual Report on Form 10-K, and the development and selection of these accounting estimates and the disclosure about each estimate in the MD&A. These discussions typically occur at our quarterly audit committee meetings and include the basis and methodology used in developing and selecting these estimates, the trends in and amounts of these estimates, specific matters affecting the amount of and changes in these estimates, and any other relevant matters related to these estimates, including significant issues concerning accounting principles and financial statement presentation.

NEW ACCOUNTING PRONOUNCEMENTS

For a description of the new accounting standards that affect us, refer to Note 1 to our Consolidated Financial Statements included under Part I, Item 1 of this Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our reported market risks since the filing of our 2007 Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission on March 17, 2008.

We hold our cash and cash equivalents primarily in bank deposits and in liquid debt instruments with maturity dates of less than one year. We are subject to concentration of credit risk as bank deposits may exceed federally insured limits.

FOREIGN EXCHANGE RISK

We are exposed to foreign exchange risk from currency fluctuations, mainly in Canada and Europe, due to sourcing of our products in the U.S. dollars and selling them primarily in Canadian dollars, British pounds, Swiss Francs, and Euros. Given the relative size of our current foreign operations, the exposure to the exchange risk could have a material impact on the results of operations. Management estimates the maximum impact on stockholders' equity of a ten percent change in any applicable foreign currency to be approximately $1.5 million.

INTEREST RATE RISK

Fluctuations in the general level of interest rates on our current variable rate credit agreements expose us to market risk. As of March 31, 2008, our outstanding borrowings under the credit facilities were $63.2 million and represented 33.4% of our total liabilities. Rates on these short-term borrowings have declined in recent periods which have decreased the Company's interest expense. To the extent that the Company needs to rely on indebtedness to finance its operations, a material change in interest rates could have a material impact on the Company's financial position, results of operations, or cash flows.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chairman and Chief Executive Officer, and Chief Financial Officer the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), as amended) as of the end of the period covered by this quarterly report on Form 10-Q pursuant to Rule 13a-15(b) and 15d-15(b) under the Exchange Act.

As previously disclosed under "Item 9A. Controls and Procedures" in our Annual Report on Form 10-K for our 2007 fiscal year, our management identified a material weakness in our internal control over financial reporting as of December 31, 2007 as described below. Management concluded that the controls around the review of significant non-routine transactions and the review of significant management estimates and reserves did not operate effectively, resulting in audit adjustments to the 2007 consolidated financial statements. These deficiencies, if left unremediated, could result in the failure to prevent or detect a material misstatement in the Company's consolidated financial statements.

Notwithstanding management's evaluation that our internal control over financial reporting were not effective as of December 31, 2007, we believe that the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present our financial condition, results of operations and cash flows for the periods covered thereby in all material respects.

Our management does not expect that our disclosure controls and procedures will prevent or detect all errors and fraud. Any control system, no matter how well designed and operated, is based on certain assumptions and can provide only reasonable, not absolute assurance, that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Controls

Remediation Efforts on the Internal Controls Surrounding Management's Review of Significant Non-Routine Transactions and Review of Significant Estimates and Reserves.

The following remedial actions have or will be undertaken to address the material weakness in the controls around the review of significant non-routine transactions and the review of significant management estimates and reserves:

- The accounting and finance organization is being restructured to allow key personnel to focus on corporate accounting and external reporting.
- Additional training has been or will be provided to accounting personnel for specific technical areas of high risk.
- Key accounting personnel have been assigned to perform monthly review of all significant non-routine transactions and significant management estimates and reserves.
- The external reporting timeline is being adjusted to allow adequate time for management review and analysis, including significant non-routine transactions and significant management estimates and reserves.

Management is continuing to closely monitor the effectiveness of our processes, procedures and controls, and will make any further changes as management determines appropriate.

Except in connection with actions we are taking to remediate the material weakness in our internal control over financial reporting discussed above, there was no change in our internal control over financial reporting that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Accordingly, the material weakness in our internal control over financial reporting that existed as of December 31, 2007, as described above and as disclosed in Item 9A of our Annual Report on Form 10-K, has not yet been remediated as of March 31, 2008.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a description of the legal proceedings that affect us, refer to Note 10 to the consolidated financial statements located at Item 1 of this Form 10-Q.

Item 1A. Risk Factors

There have been no material changes to the risk factors identified in our annual report on Form 10-K for the year-ended December 31, 2007.

Item 6. Exhibits

The following exhibits are filed herewith.

Exhibit No.	Description
2.1	Stock Purchase Agreement dated as of February 15, 2008 by and among Nautilus, Inc., Shimano American Corporation and DashAmerica, Inc. D/B/A Pearl Izumi USA, Inc. (Incorporated by reference from Exhibit 2.1 to Company's Current Report on Form 8-K filed 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 from Exhibit 2.2 to Company's Current Report on Form 8-K filed on April 24, 2008) Confidential treatment has been requested with respect to a portion of this exhibit.
10.1	First Amendment to Loan and Security Agreement and Waiver dated as of February 29, 2008 among the Company, Nautilus International S.A. and Bank of America, N.A., in its capacity as agent (Incorporated by reference from Exhibit 10.3 to the Company's Annual Report on Form 10-K filed March 17, 2008).
10.2	Second Amendment to Loan and Security Agreement dated as of March 31, 2008 among the Company, Nautilus International S.A. and Bank of America, N.A., in its capacity as agent.
10.3	Third Amendment to Loan and Security Agreement dated as of May 5, 2008 among the Company, Nautilus International S.A. and bank of America, N.A., in its capacity as agent.
10.4	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. (Confidential treatment has been requested with respect to a portion of this Exhibit).
10.5	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.
10.6	Employment Agreement dated May 6, 2008 between Nautilus, Inc. and Sebastien Goulet.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(b) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements 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.

May 12, 2008
Date

By: /s/ Edward J. Bramson
Edward J. Bramson,
Chairman and Chief Executive Officer
(Principal Executive Officer)

May 12, 2008
Date

By: /s/ William D. Meadowcroft
William D. Meadowcroft,
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	Description
2.1	Stock Purchase Agreement dated as of February 15, 2008 by and among Nautilus, Inc., Shimano American Corporation and DashAmerica, Inc. D/B/A pearl Izumi USA, Inc. (Incorporated by reference from Exhibit 2.1 to Company's Current Report on Form 8-K filed 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 from Exhibit 2.2 to Company's Current Report on Form 8-K filed on April 24, 2008).
10.1	First Amendment to Loan and Security Agreement and Waiver dated as of February 29, 2008 among the Company, Nautilus International S.A. and Bank of America, N.A., in its capacity as agent (Incorporated by reference from Exhibit 10.3 to the Company's Annual Report on Form 10-K filed March 17, 2008).
10.2	Second Amendment to Loan and Security Agreement dated as of March 31, 2008 among the Company, Nautilus International S.A. and Bank of America, N.A., in its capacity as agent.
10.3	Third Amendment to Loan and Security Agreement dated as of May 5, 2008 among the Company, Nautilus International S.A. and bank of America, N.A., in its capacity as agent.
10.4	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. (Confidential treatment has been requested with respect to a portion of this Exhibit).
10.5	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.
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31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14 (a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a-14(b) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 10.2

SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS **SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT** (this "Amendment"), dated as of March 31, 2008, is entered into by and among the financial institutions signatory hereto (each a "Lender" and collectively the "Lenders"), **BANK OF AMERICA, N.A.**, as administrative agent for the Lenders (in such capacity, "Agent"), **NAUTILUS, INC.**, a Washington corporation ("US Borrower"), **NAUTILUS INTERNATIONAL S.A.**, a Swiss private share company ("Swiss Borrower", and together with US Borrower, collectively, "Borrowers").

RECITALS

A. Borrowers, Agent and the Lenders have previously entered into that certain Loan and Security Agreement dated as of January 16, 2008 (as amended, supplemented, restated and modified from time to time, the "Loan Agreement"), pursuant to which the Lenders have made certain loans and financial accommodations available to Borrowers. Terms used herein without definition shall have the meanings ascribed to them in the Loan Agreement.

B. Borrowers have requested that Agent and the Lenders amend the Loan Agreement, which Agent and the Lenders are willing to do pursuant to the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Amendments to Loan Agreement.

(a) The definition of "Revolver Commitment" in Section 1.1 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"Revolver Commitment: for any Lender, its obligation to make Revolver Loans and to participate in LC Obligations up to the maximum principal amount shown on **Schedule 1.1(a)**, or as hereafter determined pursuant to each Assignment and Acceptance to which it is a party. "Revolver Commitments" means the aggregate amount of such commitments of all Lenders. Following the Closing Date, the Revolver Commitments shall be automatically increased on the date of any repayment of any portion of the Term Loans to include the amount of such repayment; provided that (i) unless the aggregate Revolver Commitments have been increased pursuant to **Section 2.1.7**, the Revolver Commitments shall not exceed (A) during the period from the Closing Date through the earlier to occur of the second Business Day following Borrowers' receipt of proceeds from the Disclosed Sale or April 30, 2008, $100,000,000, or (B) thereafter, $70,000,000, and (ii) in the event the Revolver Commitments have been increased pursuant to **Section 2.1.7**, the Revolver Commitments shall not exceed (A) during the period from the Closing Date through the earlier to occur of the second Business Day following Borrowers' receipt of proceeds from the Disclosed Sale or April 30, 2008, $125,000,000, or (B) thereafter, $95,000,000."

(b) The definition of "Term Loan Maturity Date" in Section 1.1 of the Loan Agreement is hereby amended and restated to read as follows:

"Term Loan Maturity Date: the earliest to occur of (a) April 30, 2008, (b) the date of consummation of the Disclosed Sale, or (c) the closing date of the Proposed IP Financing."

(c) Section 2.1.7(a) of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"(a) Provided there exists no Default or Event of Default, upon notice to Agent (which shall promptly notify the Lenders), Borrowers may request an increase in the Revolver Commitments to an amount not more than (i) during the period from the Closing date through the earlier to occur of the second Business Day following Borrowers' receipt of proceeds from the Disclosed Sale or April 30, 2008, $125,000,000, or (ii) thereafter, $95,000,000, in the aggregate. At the time of sending such notice, Borrowers (in consultation with Agent) shall specify the time period within which each Lender is requested to respond (which shall in no event be less than 10 Business Days from the date of delivery of such notice to the Lenders). Each Lender shall notify Agent within such time period whether or not it agrees to increase its Commitment with respect to Loans and Letters of Credit and, if so, whether by an amount equal to, greater than, or less than its Pro Rata Share of such requested increase. Any Lender not responding within such time period shall be deemed to have declined to increase such Commitment. Agent shall notify Borrowers and each Lender of the Lenders' responses to each request made hereunder. To achieve the full amount of the requested increase, Agent may or Borrowers may, with the prior consent of Agent, invite additional lending institutions that constitute Eligible Assignees to become Lenders pursuant to a joinder agreement in form and substance reasonably satisfactory to Agent and its counsel."

(d) Section 5.3.1 of the Loan Agreement is hereby amended and restated to read as follows:

"5.3.1 Payment of Principal. The principal amount of the Term Loans shall be repaid as follows: (i) a principal payment in the amount of $3,000,000 to be made on or before March 31, 2008, and (ii) principal payments on the first Business Day of each month in consecutive monthly installments of $513,889, commencing on February 1, 2008 and continuing until the Term Loan Maturity Date, on which date all principal, interest and other amounts owing with respect to the Term Loans shall be due and payable in full. Each installment shall be paid to Agent for the Pro Rata benefit of Term Loan Lenders. Once repaid, whether such repayment is voluntary or required, Term Loans may not be reborrowed."

2. Effectiveness of this Amendment. The following shall have occurred before this Amendment is effective:

(a) Amendment. Agent shall have received this Amendment and the Acknowledgment of Guarantor attached hereto fully executed in a sufficient number of counterparts for distribution to all parties.

(b) Term Loan Principal Payment. Agent shall have received a principal payment in the amount of $3,000,000 to be applied to the outstanding Term Loan.

(c) Representations and Warranties. The representations and warranties set forth herein must be true and correct.

(d) No Default. No event has occurred and is continuing that constitutes an Event of Default.

(e) Other Required Documentation. All other documents and legal matters in connection with the transactions contemplated by this Amendment shall have been delivered or executed or recorded and shall be in form and substance satisfactory to Agent.

3. Representations and Warranties. Each Borrower represents and warrants as follows:

(a) Authority. Such Borrower has the requisite corporate power and authority to execute and deliver this Amendment, and to perform its obligations hereunder and under the Loan Documents (as amended or modified hereby) to which it is a party. The execution, delivery and performance by such Borrower of this Amendment have been duly approved by all necessary corporate action and no other corporate proceedings are necessary to consummate such transactions.

(b) Enforceability. This Amendment has been duly executed and delivered by such Borrower. This Amendment and each Loan Document to which such Borrower is a party (as amended or modified hereby) is the legal, valid and binding obligation of such Borrower, enforceable against such Borrower in accordance with its terms, and is in full force and effect.

(c) Representations and Warranties. The representations and warranties contained in each Loan Document to which such Borrower is a party (other than any such representations or warranties that, by their terms, are specifically made as of a date other than the date hereof) are correct on and as of the date hereof as though made on and as of the date hereof.

(d) Due Execution. The execution, delivery and performance of this Amendment are within the power of such Borrower, have been duly authorized by all necessary corporate action, have received all necessary governmental approval, if any, and do not contravene any law or any contractual restrictions binding on Borrower.

(e) No Default. No event has occurred and is continuing that constitutes an Event of Default.

4. Choice of Law. The validity of this Amendment, its construction, interpretation and enforcement, the rights of the parties hereunder, shall be determined under, governed by, and construed in accordance with the internal laws of the State of California, without giving effect to any conflict of law principles (but giving effect to Federal laws relating to national banks). The consent to forum and arbitration provisions set forth in Section 14.14 of the Loan Agreement are hereby incorporated in this Amendment by reference.

5. Counterparts. This Amendment may be executed in any number of counterparts and by different parties and separate counterparts, each of which when so executed and delivered, shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telefacsimile or a substantially similar electronic transmission shall have the same force and effect as the delivery of an original executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by telefacsimile or a substantially similar electronic transmission shall also deliver an original executed counterpart, but the failure to do so shall not affect the validity, enforceability or binding effect of such agreement.

6. Reference to and Effect on the Loan Documents.

(a) Upon and after the effectiveness of this Amendment, each reference in the Loan Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Loan Agreement, and each reference in the other Loan Documents to "the Loan Agreement", "thereof" or words of like import referring to the Loan Agreement, shall mean and be a reference to the Loan Agreement as modified and amended hereby.

(b) Except as specifically amended above, the Loan Agreement and all other Loan Documents, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed and shall constitute the legal, valid, binding and enforceable obligations of Borrowers to Agent and the Lenders.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of Agent or any Lender under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

(d) To the extent that any terms and conditions in any of the Loan Documents shall contradict or be in conflict with any terms or conditions of the Loan Agreement, after giving effect to this Amendment, such terms and conditions are hereby deemed modified or amended accordingly to reflect the terms and conditions of the Loan Agreement as modified or amended hereby.

7. Ratification. Each Borrower hereby restates, ratifies and reaffirms each and every term and condition set forth in the Loan Agreement, as amended hereby, and the Loan Documents effective as of the date hereof.

8. Estoppel. To induce Lenders to enter into this Amendment and to continue to make advances to Borrowers under the Loan Agreement, each Borrower hereby acknowledges and agrees that, as of the date hereof, there exists no right of offset, defense, counterclaim or objection in favor of such Borrower as against Agent or any Lender with respect to the Obligations.

9. Integration. This Amendment, together with the other Loan Documents, incorporates all negotiations of the parties hereto with respect to the subject matter hereof and is the final expression and agreement of the parties hereto with respect to the subject matter hereof.

10. Severability. In case any provision in this Amendment shall be invalid, illegal or unenforceable, such provision shall be severable from the remainder of this Amendment and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

[Remainder of Page Left Intentionally Blank]

IN WITNESS WHEREOF, the parties have entered into this Amendment as of the date first above written.

BORROWERS

NAUTILUS, INC.,
a Washington corporation

By: _____
Name: _____
Title: _____

NAUTILUS INTERNATIONAL S.A.,
a Swiss private share company

By: _____
Name: _____
Title: _____

AGENT AND LENDERS

BANK OF AMERICA, N.A.,
as Agent and as sole Lender

By: _____
Name: _____
Title: _____

ACKNOWLEDGEMENT BY GUARANTOR

Dated as of March __, 2008

The undersigned, being a Guarantor ("Guarantor") under that certain Guaranty and Security Agreement dated as of January 16, 2008 made in favor of Agent ("Guaranty"), hereby acknowledges and agrees to the foregoing Second Amendment to Loan and Security Agreement (the "Amendment") and confirms and agrees that the Guaranty is and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects except that, upon the effectiveness of, and on and after the date of the Amendment, each reference in such Guaranty to the Loan Agreement (as defined in the Amendment), "thereunder", "thereof" or words of like import referring to the "Loan Agreement", shall mean and be a reference to the Loan Agreement as amended or modified by the Amendment. Although Agent has informed Guarantor of the matters set forth above, and Guarantor has acknowledged the same, Guarantor understands and agrees that Agent has no duty under the Loan Agreement, the Guaranty or any other agreement with Guarantor to so notify Guarantor or to seek such an acknowledgement, and nothing contained herein is intended to or shall create such a duty as to any advances or transaction hereafter.

DASHAMERICA, INC.,
a Colorado corporation

By: _____
Name: _____
Title: _____

Exhibit 10.3

THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT AND CONSENT

THIS **THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT AND CONSENT** (this "Amendment"), dated as of May 5, 2008, is entered into by and among the financial institutions signatory hereto (each a "Lender" and collectively the "Lenders"), **BANK OF AMERICA, N.A.**, as administrative agent for the Lenders (in such capacity, "Agent"), **NAUTILUS, INC.**, a Washington corporation ("US Borrower"), **NAUTILUS INTERNATIONAL S.A.**, a Swiss private share company ("Swiss Borrower", and together with US Borrower, collectively, "Borrowers").

RECITALS

A. Borrowers, Agent and the Lenders have previously entered into that certain Loan and Security Agreement dated as of January 16, 2008 (as amended, supplemented, restated and modified from time to time, the "Loan Agreement"), pursuant to which the Lenders have made certain loans and financial accommodations available to Borrowers. Terms used herein without definition shall have the meanings ascribed to them in the Loan Agreement.

B. US Borrower has informed Agent and the Lenders that it intends to repurchase up to $10,000,000 of US Borrower's outstanding capital stock as recently approved by the Board of Directors of US Borrower (the "Stock Repurchase").

C. Borrowers, Agent and the Lenders now wish to amend the Loan Agreement and consent to the Stock Repurchase (as defined below) on the terms and conditions set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. Amendments to Loan Agreement.

(a) The definition of "Availability Block" in Section 1.1 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"Availability Block: a block in an amount equal to the Real Estate Formula Amount."

(b) The definition of "EBITDA" in Section 1.1 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"EBITDA: determined on a consolidated basis for Borrowers and Subsidiaries, net income, calculated before (in each case, to the extent included in determining net income and to the extent incurred or attributable during the applicable measurement period) (i) interest expense, (ii) provision for income taxes, (iii) depreciation and amortization expense, (iv) gains or losses arising from the sale of capital assets, (v) gains arising from the write-up of assets, and (vi) any extraordinary gains, (vii) fees incurred by Borrowers in connection with entering into this Agreement and the Loan Documents in an aggregate amount not to exceed $700,000, (viii) legal fees and expenses incurred by US Borrower during the fourth Fiscal Quarter of 2007 or the first Fiscal Quarter of 2008 in connection

with the proxy dispute between US Borrower, its directors and Sherborne Investors, L.P. in an aggregate amount not to exceed $2,700,000, (ix) a write-down of Intellectual Property and associated goodwill taken on or before the last day of the first Fiscal Quarter of 2008 in connection with the Disclosed Sale in an amount not to exceed $15,500,000, (x) a non-cash inventory write-down taken on or before the last day of the fourth Fiscal Quarter of 2007 in an amount not to exceed $400,000, (xi) up to $600,000 in expenses (no more than $150,000 of which expenses shall be cash expenses) incurred during the first Fiscal Quarter of 2008 in connection with closure of Borrowers' Australia direct operations, (xii) up to $1,000,000 in expenses incurred during the first or second Fiscal Quarter of 2008 in connection with closure of Borrowers' Italy operations, (xiii) up to $1,000,000 in expenses (no more than $400,000 of which expenses shall be cash expenses) incurred during the first and second Fiscal Quarters of 2008 in connection with closure of Borrowers' Bolingbrook, Illinois distribution center, (xiv) a non-cash write-off of up to $1,200,000 taken during the fourth Fiscal Quarter of 2007 in connection with the abandonment of the License with Lance Armstrong, (xv) a non-cash charge of up to $1,890,000 taken during the fourth Fiscal Quarter of 2007 in connection with the elimination of Borrowers' EV9.16 product line, (xvi) a non-cash charge of up to $300,000 taken during the fourth Fiscal Quarter of 2007 in connection with the elimination of Borrowers' fitness advisor product, (xvii) up to $3,000,000 in expenses actually incurred during the first and second Fiscal Quarters of 2008 in connection with Borrowers' future employee reductions, (xviii) a non-cash charge of up to $1,100,000 taken during the fourth Fiscal Quarter of 2007 in connection with the elimination of Borrowers' TC9.16 product line, (xix) a non-cash warranty accrual taken during the fourth Fiscal Quarter of 2007 relating to discontinued items in an amount up to $1,000,000, (xx) a non-cash write-off of up to $3,000,000 taken during the fourth Fiscal Quarter of 2007 in connection with the abandonment or non-use of certain ICON patents; (xxi) an accrual taken in the first Fiscal Quarter of 2008 in connection with future warranty costs resulting from outsourcing of warranty processing in an amount up to $3,000,000; (xxii) a non-cash write-off in an amount not to exceed $19,400,000 taken during the fourth Fiscal Quarter of 2007 relating to costs and payments incurred in connection with the LandAmerica Acquisition; (xxiii) a warranty accrual taken during the fourth Fiscal Quarter of 2007 relating to the discontinued Treadclimber 9.16 line in an amount up to $12,000,000; and (xxiv) a payment in the amount of up to $8,000,000 made during the first or second Fiscal Quarter of 2008 as final settlement of the unconsummated LandAmerica Acquisition."

(c) The definition of "Required Lenders" in Section 1.1 of the Loan Agreement is hereby amended and restated to read as follows:

"Required Lenders: Lenders (subject to **Section 4.2**) having (a) Revolver Commitments and Term Loans equal to or greater than 66% of the aggregate Revolver Commitments and Term Loans; and (b) if the Revolver Commitments have terminated, Loans equal to or greater than 66% of all outstanding Loans."

2. Consent to Stock Repurchase. Agent and the Lenders hereby consent to the Stock Repurchase and agree that the Stock Repurchase shall not constitute a prohibited Distribution under the Loan Agreement so long as: (i) no Default or Event of Default exists at the time the Stock Repurchase is consummated or would occur as a result of the Stock Repurchase; and (ii) for the period of 30 days prior to the Stock Repurchase (or such lesser period from the date of the Disclosed Sale if the Stock Repurchase is consummated less than 30 days after the Disclosed Sale) Borrowers have maintained Excess Availability of not less than $25,000,000 and after giving effect to the Stock Repurchase Borrowers have Excess Availability of not less than $25,000,000.

3. Trigger Period Reset. Agent and the Lenders hereby agree that as of the effective date of this Amendment, no Trigger Period shall be deemed to be in effect under the Loan Agreement. Nothing contained in this Amendment shall affect the Loan Agreement provisions relating to Trigger Periods and cash dominion for all periods following the effective date of this Amendment.

4. Effectiveness of this Amendment. The following shall have occurred before this Amendment is effective:

(a) Amendment. Agent shall have received this Amendment and the Acknowledgment of Guarantor attached hereto fully executed in a sufficient number of counterparts for distribution to all parties.

(b) Payment of Fees. Agent shall have received an amendment fee in the amount of $35,000, which fee is fully earned and due and payable in full on the effective date of this Amendment.

(c) Representations and Warranties. The representations and warranties set forth herein must be true and correct.

(d) No Default. No event has occurred and is continuing that constitutes an Event of Default.

(e) Other Required Documentation. All other documents and legal matters in connection with the transactions contemplated by this Amendment shall have been delivered or executed or recorded and shall be in form and substance satisfactory to Agent.

5. Representations and Warranties. Each Borrower represents and warrants as follows:

(a) Authority. Such Borrower has the requisite corporate power and authority to execute and deliver this Amendment, and to perform its obligations hereunder and under the Loan Documents (as amended or modified hereby) to which it is a party. The execution, delivery and performance by such Borrower of this Amendment have been duly approved by all necessary corporate action and no other corporate proceedings are necessary to consummate such transactions.

(b) Enforceability. This Amendment has been duly executed and delivered by such Borrower. This Amendment and each Loan Document to which such Borrower is a party (as amended or modified hereby) is the legal, valid and binding obligation of such Borrower, enforceable against such Borrower in accordance with its terms, and is in full force and effect.

(c) Representations and Warranties. The representations and warranties contained in each Loan Document to which such Borrower is a party (other than any such representations or warranties that, by their terms, are specifically made as of a date other than the date hereof) are correct on and as of the date hereof as though made on and as of the date hereof.

(d) Due Execution. The execution, delivery and performance of this Amendment are within the power of such Borrower, have been duly authorized by all necessary corporate action, have received all necessary governmental approval, if any, and do not contravene any law or any contractual restrictions binding on Borrower.

(e) No Default. No event has occurred and is continuing that constitutes an Event of Default.

6. Choice of Law. The validity of this Amendment, its construction, interpretation and enforcement, the rights of the parties hereunder, shall be determined under, governed by, and construed in accordance with the internal laws of the State of California, without giving effect to any conflict of law principles (but giving effect to Federal laws relating to national banks). The consent to forum and arbitration provisions set forth in Section 14.14 of the Loan Agreement are hereby incorporated in this Amendment by reference.

7. Counterparts. This Amendment may be executed in any number of counterparts and by different parties and separate counterparts, each of which when so executed and delivered, shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telefacsimile or a substantially similar electronic transmission shall have the same force and effect as the delivery of an original executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by telefacsimile or a substantially similar electronic transmission shall also deliver an original executed counterpart, but the failure to do so shall not affect the validity, enforceability or binding effect of such agreement.

8. Reference to and Effect on the Loan Documents.

(a) Upon and after the effectiveness of this Amendment, each reference in the Loan Agreement to “this Agreement”, “hereunder”, “hereof” or words of like import referring to the Loan Agreement, and each reference in the other Loan Documents to “the Loan Agreement”, “thereof” or words of like import referring to the Loan Agreement, shall mean and be a reference to the Loan Agreement as modified and amended hereby.

(b) Except as specifically amended above, the Loan Agreement and all other Loan Documents, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed and shall constitute the legal, valid, binding and enforceable obligations of Borrowers to Agent and the Lenders.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of Agent or any Lender under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

(d) To the extent that any terms and conditions in any of the Loan Documents shall contradict or be in conflict with any terms or conditions of the Loan Agreement, after giving effect to this Amendment, such terms and conditions are hereby deemed modified or amended accordingly to reflect the terms and conditions of the Loan Agreement as modified or amended hereby.

9. Ratification. Each Borrower hereby restates, ratifies and reaffirms each and every term and condition set forth in the Loan Agreement, as amended hereby, and the Loan Documents effective as of the date hereof.

10. Estoppel. To induce Lenders to enter into this Amendment and to continue to make advances to Borrowers under the Loan Agreement, each Borrower hereby acknowledges and agrees that, as of the date hereof, there exists no right of offset, defense, counterclaim or objection in favor of such Borrower as against Agent or any Lender with respect to the Obligations.

11. Integration. This Amendment, together with the other Loan Documents, incorporates all negotiations of the parties hereto with respect to the subject matter hereof and is the final expression and agreement of the parties hereto with respect to the subject matter hereof.

12. Severability. In case any provision in this Amendment shall be invalid, illegal or unenforceable, such provision shall be severable from the remainder of this Amendment and the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

[Remainder of Page Left Intentionally Blank]

IN WITNESS WHEREOF, the parties have entered into this Amendment as of the date first above written.

BORROWERS

NAUTILUS, INC., a Washington corporation

By: _____
Name: _____
Title: _____

NAUTILUS INTERNATIONAL S.A., a Swiss private share company

By: _____
Name: _____
Title: _____

AGENT AND LENDERS

BANK OF AMERICA, N.A., as Agent and as sole Lender

By: _____
Name: _____
Title: _____

Exhibit 10.4

SUPPLY AGREEMENT

THIS SUPPLY AGREEMENT ("**Agreement**") is entered into as of May 2, 2008, by and between:

1. **NAUTILUS, INC.,** a Washington corporation ("Purchaser");
2. Treuriver Investments LIMITED**,** a British Virgin Islands company ("Treuriver" or a "**Supplier**");
3. **LAND AMERICA HEALTH AND FITNESS CO., LTD**, a wholly foreign-owned enterprise organized under the laws of the People's Republic of China ("**Land America**" or a "**Supplier**"); and

PRELIMINARY STATEMENTS:

A. Purchaser and Suppliers have established a long term, cooperative relationship pursuant to which Purchaser has sourced from Suppliers, and Suppliers have manufactured to Purchaser's specification and supplied to Purchaser, a range of exercise and fitness equipment products marketed by Purchaser under its Bowflex and other trademarks and trade names. Purchaser and Supplier are currently parties to a Supply Agreement dated June 30, 2006.

B. Purchaser wishes to continue and to expand its relationship with Suppliers to include the procurement of certain additional branded products from Suppliers and Suppliers are willing to manufacture and supply such existing and additional products. Pursuant to that request Purchaser and Supplier desire to replace the Supply Agreement dated June 30, 2006 with this Supply Agreement.

C. Purchaser and Suppliers wish to set forth in this Agreement the terms and conditions of their relationship with respect to Purchaser's procurement from Suppliers, and Suppliers manufacture and supply, of the products described below.

NOW, THEREFORE, in consideration of the mutual agreements and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE 1
DEFINITIONS

The following terms as used in this Agreement shall have the meanings set forth below:

"Affiliate" means, as to any Party, any other Person that, directly or indirectly, controls, is controlled by or is under common control with, such Person. The term "control" (including the terms "controlled by" or "under the common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of an equity interest or by contract or otherwise.

“Confidential Information” has the meaning given such term in Section 19.1.

“Derivative Documents” has the meaning given such term in Section 19.1.

“Inventions” has the meaning given such term in Section 19.6.

“Marks” has the meaning given such term in Section 19.6.

“New Products”: As used throughout this Agreement shall mean fitness and exercise components or products sold by the Purchaser that are not (1) listed as “Product” on Exhibit A or any subsequent amendments to Exhibit A; or (2) were not previously produced or designed by the Supplier for Purchaser. “New Products” shall not mean new equipment which is substantially identical to Products listed on Exhibit A in that the only changes to the product consists of a change to a less or more expensive model by deleting or adding a feature or changing the grade of material or model number, name, color, or other cosmetic change.

“Party” shall mean each of Purchaser, Land America and Treuriver Investments , which are sometimes collectively referred to as the “Parties”.

“Person” means an individual, partnership, corporation, Joint Stock Company, Limited Liability Company, joint venture or other entity.

“Products” means all of the Purchaser’s Bowflex home gym line of products and any other products sold by Suppliers to Purchaser as listed in the Unit Price Schedule, as the same may be amended in writing by the Parties from time to time.

“Recommendations” has the meaning given such term in Section 18.6.

“RMB” or **“Renminbi”** means the currency of the People’s Republic of China.

“Termination Event” has the meaning given such term in Article 16 hereof.

“Unit Price Schedule” has the meaning given such term in Article 3 hereof.

“U.S. Dollars,” “US$”** or **“$” means the currency of the United States of America.

“Works” has the meaning given such term in Section 18.6.

ARTICLE 2
CONTRACT MANUFACTURING RELATIONSHIP

Purchaser hereby engages Suppliers as independent contract manufacturers to supply Products to Purchaser. The Products shall be made exclusively for Purchaser's and it's Affiliates' use. Suppliers shall not subcontract for goods and services in connection with the performance of its obligations hereunder without the prior written consent of Purchaser.

ARTICLE 3
PRICE

The per unit purchase price payable by Purchaser to Suppliers for each Product purchased hereunder is set forth in a confidential memorandum that has been approved and agreed upon by the Parties in connection with the negotiation of this Agreement (the "Unit Price Schedule"). The Prices set forth in the Unit Price Schedule attached as Exhibit A shall be valid for all shipments made for 6 months beginning April 1, 2008. Thereafter, during the remainder of the term of this Supply Agreement the parties will meet every 6 months to review and if necessary adjust prices for each product listed on Exhibit A. The Parties shall periodically mutually agree and amend in writing the Unit Price Schedule when Products are added, retired or modified. Pricing shall remain in effect for a minimum of six month intervals as set forth below and so long as Purchaser is in compliance with Article 5 and is current on all payments for product shipped.

3.1 All calculations involving the determination of unit costs shall be made in accordance with U.S. GAAP. In determining the U.S. Dollar equivalent of a cost or expense incurred in RMB, the exchange rate used shall be the average of the buy and sell exchange rates (or mid-rate) announced by the People's Bank of China for U.S. Dollars and RMB for the date on which the relevant RMB cost or expense was incurred. An average of the daily exchange rates may be used for transactions within one month (the rate for non-business days assumed to be the rate for the most recent previous day published.)

3.2 For purposes of determining whether an adjustment to the pricing of Products is required, reference shall be made to the "Base Cost". The "Base Cost" shall be the Suppliers' per unit cost in U.S. Dollars as of April 1, 2008 and as set forth in Schedule A to this Agreement (the "Base Cost Date"). Said costs shall remain in effect until October 1, 2008.

3.3 At six month intervals beginning on October 1, 2008 Purchaser and Supplier shall meet to discuss adjustments to the Base Cost for the Products. * If the parties are unable to agree on any price adjustment within fifteen (15) days from submission of documentation of changes in base cost information, then the matter shall be referred to immediate arbitration in accordance with Article 24 below.

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* A portion of this section, which contains confidential pricing information, has been purposely omitted and separately filed with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such portion of this Agreement

3.4 The Parties agree to work together to identify opportunities to remove cost from the Products. In the event Purchaser institutes design changes to the Products to reduce costs, Suppliers will use best efforts to incorporate those changes in a timely manner. In recognition that there is a significant incremental cost to both Purchaser and Suppliers associated with design and implementation of such changes, the associated Product's unit price will be reduced in a manner designed to share the impact of the adjustment equally between Purchaser and Suppliers. For example, if Product A's bill of material is changed in a way that reduces the Product's cost by $100, the unit price in the Unit Price Schedule will be reduced by $50.

ARTICLE 4
PURCHASE ORDERS

Purchaser shall initiate all purchases hereunder by submitting written purchase orders to Treuriver. All purchase orders submitted to Treuriver, and all sales made to Purchaser hereunder, shall be governed by and subject to the terms and conditions of this Agreement, and nothing contained in any purchase order, confirmation, or other document used by any Party shall in any way modify the terms and conditions of this Agreement.

ARTICLE 5
VOLUME GUARANTEES

At the conclusion of each year covered by these volume guarantees, Purchaser will provide Suppliers with a report detailing the total requirements for each Product. The Supplier will be provided the right to inspect the books of Purchaser in order to verify the accuracy of such data. The amounts required to be sourced through Supplier in any given year will be reduced by the amount of sales, if any, made by Supplier to companies other than Purchaser of products competitive to those Products sold to Purchaser under this Agreement; notwithstanding the foregoing, sales made by Supplier to Original Equipment Manufacturers will not reduce Purchaser's volume commitments.*

ARTICLE 6
DELIVERY; RISK OF LOSS; INSURANCE

6.1 Unless otherwise specified in writing by Purchaser, all sales of Products to Purchaser under this Agreement shall be FOB, Port of Xiamen, China. Delivery of Products shall be in accordance with the schedule and quantities set forth in Purchaser's purchase orders unless otherwise agreed by Purchaser. If Suppliers fail to make scheduled deliveries within Suppliers' published lead time, which is

* A portion of this section, which contains confidential volume requirement information, has been purposely omitted and separately filed with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such portion of this Agreement.

90 days after receipt of order to Purchaser's place of destination, Purchaser may, without limiting its other rights or remedies, either (a) direct expedited routing, and any excess costs incurred thereby shall be paid by Suppliers and subject to offset by Purchaser; or (b) terminate all or part of the affected purchase order. Products which are delivered in advance of schedule may, at Purchaser's option, either (a) have payment withheld by Purchaser until the date that the Products are actually scheduled for delivery; or (b) be placed in storage at Suppliers' expense until the scheduled delivery date(s).

6.2 All Products shall be suitably packed, marked and shipped in accordance with the requirements of common carriers in a manner to secure lowest transportation costs unless otherwise specified. Packing slips shall be placed in each shipment. No packing or cartage shall be allowed except where specifically agreed upon. Itemized invoices shall be mailed in duplicate with shipping papers to Purchaser at the address identified on the face of the applicable purchase order. Transportation and insurance charges, as agreed to in writing by Purchaser, shall be listed separately on the invoice. Such charges shall be substantiated with a copy of the freight and insurance bill.

ARTICLE 7
PAYMENT

7.1 All payments hereunder shall be in U.S. Dollars by wire transfer to Treuriver's financial institution. For calendar years 2008, 2009, and 2010 payment terms are net thirty (30) days and due on the Thursday of the week following the due date of the invoice, and absent a dispute regarding the amount of an invoice or an amount otherwise due under this Agreement. In the event of such dispute, Purchaser shall have the right to withhold disputed amounts from such payments but Purchaser will pay any amounts not in dispute. The payment date for payments otherwise due during the last fifteen (15) days of a calendar quarter may be extended at Purchaser's option to the second (2nd) day of the following calendar quarter. Payment for the Products delivered hereunder shall not constitute acceptance thereof. Purchaser reserves the right to inspect Products within a reasonable time after delivery, not to exceed seven (7) days, but such inspection does not relieve Suppliers of its obligations under this Agreement.

7.2 In the event Purchaser fails to make timely full payment for undisputed product shipped within 40 days of the due date of the invoice in Section 7.1, Supplier may thereafter, upon providing prior written notice to Purchaser, suspend further shipments of product until all payments are brought current. All late payments beyond the 40 day time frame in this Article 7.2 will accrue interest at the rate of LIBOR plus 3% per annum until paid.

7.3 In the event of a dispute regarding the accuracy of any invoice, Purchaser and Suppliers shall meet and attempt to resolve the dispute. Such meeting shall be held no later than thirty (30) days following the delivery of the disputed invoice to Purchaser. If the Parties are unable to resolve the dispute, the matter shall be submitted to arbitration in accordance with Article 24 below.

7.4 .*

ARTICLE 8
CERTAIN AGREEMENTS REGARDING PRODUCTS

8.1 Purchaser will provide adequate drawings and specifications of Products, at detailed part level, to Suppliers for the purposes of assuring defect-free Products, and to preclude field failure. Suppliers will provide Purchaser with quality control plans, to be approved by Purchaser, which Suppliers shall utilize to assure conformance of Products with drawings and specifications previously supplied by Purchaser. All drawings and specifications will remain the property of Purchaser. Any additional drawings or designs created by Suppliers will become the property of Purchaser. Each Supplier agrees that it will not reproduce, copy or use any of such drawings or specifications in the manufacture or design of any goods for any other third party or disclose the contents or nature of the same without Purchaser's prior written consent.

8.2 Purchaser shall pay for all tooling which Purchaser and Supplier have agreed should be purchased under this Agreement and upon presentation of invoices from Suppliers as provided herein

8.3 Suppliers are responsible for the integration of all of Purchaser's owned and tooled parts, ensuring that all tooled parts meet Purchaser's requirements for design, function and fit.

8.4 While any tooling used by Suppliers remains in Suppliers' control, Suppliers shall store and maintain such tooling so as to prevent damage to and deterioration of the tooling. Suppliers shall immediately report to Purchaser any maintenance performed on the tooling. Purchaser may, upon receipt of such report, request a first article sample from Suppliers for Purchaser's approval. Suppliers shall ensure that the quality of any and all manufactured Products shall not be affected by any such maintenance. Suppliers agrees to provide Purchaser with an annual report, which lists the location, condition, physical shape and approximate life expectancy of the tooling. Purchaser may require Suppliers to move the tooling to a location of Purchaser's choice at any time at Purchaser's expense.

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* A portion of this section, which contains confidential financial information, has been purposely omitted and separately filed with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such portion of this Agreement.

ARTICLE 9
QUALITY

9.1 Suppliers shall employ adequate resources to ensure that only defect free Products are shipped to Purchaser. Suppliers shall maintain a documented quality control system during the term of this Agreement which assures that all Products conform to Purchaser's specifications and purchase order requirements. Suppliers shall perform all inspections and tests required to confirm that the Products conform to approved drawings, specifications and purchase order requirements. Suppliers shall allow Purchaser's personnel access to its facilities in order to inspect Products at different stages of manufacture for purposes of confirming Suppliers' compliance with the quality control plan relating to the Products and authorizing shipment of the Products. Suppliers agree to provide office space free of charge for Purchaser's quality control/assurance personnel at Suppliers' facilities.

9.2 Purchaser shall have the right to make changes to drawings, specifications or instructions for work, in methods of shipments and packaging and schedules and place of delivery or inspection as to any Product covered by this Agreement and Suppliers agree to comply with such change notices. Such change notices will be in writing and signed by a duly authorized representative of Purchaser. Purchaser will be responsible for payment of any increase in costs occasioned by requested changes and the impact of any cost reductions will be shared as provided in Section 3.4 above.

9.3 If the inspection reject rate (arising solely from inspections occurring at Suppliers' facility in Xiamen, China) of a single Product reaches an unacceptable level (which shall occur if five percent (5%) or more of the Products produced within a given purchase order are rejected by Purchaser for non-conformance), Purchaser may recommend or institute corrective actions. If within 90 days following written notice of the aforementioned corrective action (the "Corrective Notice"), the Supplier fails to reduce the failure rate below five percent (5%), Purchaser's minimum purchase obligation as set forth in Article 5 shall be adjusted as follows: (a) if the Corrective Notice is given in calendar year 2008, Purchaser's minimum purchase obligations for each of calendar years 2009 and 2010 shall be reduced in an amount equal to the Sales Volume Reduction (as defined below) and the minimum purchase obligation for 2008 shall be reduced in an amount equal to a percentage of the Volume Reduction equal to the percentage of calendar year 2008 remaining from the date of the Corrective Notice; (b) if the Corrective Notice is given in calendar year 2009, Purchaser's minimum purchase obligation for calendar year 2010 shall be reduced in an amount equal to the Sales Volume Reduction and the minimum purchase obligation for 2009 shall be reduced in an amount equal to a percentage of the Volume Reduction equal to the percentage of calendar year 2009 remaining from the date of the Corrective Notice; and (c) if the Corrective Notice is given in the calendar year 2010, Purchaser's minimum purchase obligation for 2010 shall be reduced in an amount equal to a percentage of the Volume Reduction equal to the percentage of calendar year 2010 remaining from the date of the Corrective Notice. As used in this Section 10.3, "Volume Reduction" shall be a dollar amount equal to double the amount of Purchaser's purchase orders for the Product described in the Corrective Notice for the six (6) month period preceding the date of the Corrective Notice.

The Parties further agree that upon reduction of Purchaser's minimum purchase obligation as provided in this Section 10.3, purchases of the Product described in the Corrective Notice that are completed from and after the date of the Corrective Notice shall count against satisfaction of Purchaser's minimum purchase obligations only to the extent that such purchases exceed the amount of the Volume Reduction for the year in which such purchases are made.

9.4 Suppliers shall prepare a quality control plan to ensure all Products are in conformity to drawings prior to shipment and Suppliers shall be responsible for tracking and reporting inspection results to Purchaser at frequent intervals to be determined at Purchaser's discretion. Suppliers shall not make any change in design, manufacturing or assembly processes or source of supply which would affect form, fit, function or performance of the Products without the express written approval of Purchaser.

9.5 Suppliers and Purchaser will abide by an agreed upon quality standard, including the Product rejection criteria to be applied in inspection of the Suppliers' Product shipments, as described in Section 10.3 above, and provide support for new Product introductions by submitting first article samples for approval and engaging in pilot production runs and other procedures meeting Purchaser's requirements. Purchaser shall commence evaluation and testing within ten (10) days after Suppliers' notification to Purchaser that Products are ready for evaluation. Suppliers shall provide such support, assistance and consultation as may be reasonably necessary to facilitate acceptance testing by Purchaser and shall make all revisions necessary to bring Products into compliance with the applicable specifications at Suppliers' sole expense. Purchaser's quality policies will be provided in writing to Suppliers for each Product manufactured by Suppliers. Quality inspections shall be performed at Suppliers' factory where the products are produced.

ARTICLE 10
REPORTING

Suppliers shall furnish Purchaser with timely reports with respect to Suppliers' progress in purchase orders. Such reports shall include information on: (i) work in progress, (ii) available capacity, (iii) shipments in transit, (iv) Products on quality hold, and (v) issues or other supply disruptions with Suppliers' vendors.

ARTICLE 11
SCHEDULE SHARING

Purchaser and Suppliers agree to engage in schedule sharing procedures such that each Party has advance knowledge of Purchaser's forecast for the delivery of Products and Suppliers' ability to comply with said forecast including manufacturing capacity and other resource availability. Purchaser and Suppliers will maintain a rolling six (6) month forecast/capacity matrix and routinely communicate all relevant requirements. Suppliers

agree to reserve sufficient capacity to meet all of Purchaser's forecasted demand, including provision for level-loaded production with warehousing for surplus Products during off-season and dedicated manufacturing cells adequately staffed with engineering and technical resources.

ARTICLE 12
SPARES

Suppliers agree to manufacture the warranty and spare parts necessary to ensure that Purchaser will be able to provide warranty service on each Product for at least seven (7) years following the last production date of each of the Products, and to fill an "end-of-life" spare parts order for Purchaser. The Parties agree jointly to determine the quantities necessary to fulfill this obligation.

ARTICLE 13
WARRANTIES

Each Supplier warrants that: (i) services rendered will be performed in a workmanlike manner and (ii) all Products furnished hereunder, unless otherwise specified, will be new, of first class materials, free from defects in material or workmanship (including damage due to unsatisfactory packaging by Suppliers), and conforming to the specifications, samples or drawings, as approved in writing by Purchaser. The period of this warranty shall be for twelve (12) months after delivery to Purchaser or for such longer period as may be offered by Suppliers or Suppliers' suppliers. If, after inspection, a defect not normally discoverable by visual inspection becomes apparent, Purchaser may reject the Products in question. In the event Suppliers deliver non-conforming Products, Purchaser will provide Suppliers with a corrective action request. If Suppliers are unable to take corrective action and cure the non-conformities within forty-five (45) days, Purchaser may pursue such remedies as may be available, including, without limitation, returning the non-conforming Products to Suppliers at Suppliers' expense (including charges for packaging and transportation both ways) and requiring Supplier to promptly credit Purchaser in an amount equal to the invoice amount of such non-conforming Products (pending resolution).

ARTICLE 14
INDEMNIFICATION AND PRODUCT LIABILITY INSURANCE

Each Supplier shall defend, indemnify and hold Purchaser harmless from and against any and all claims, liabilities, and costs, including reasonable attorneys' fees, to the extent such arise from or relate to the manufacture, materials and workmanship related to the Products, or for any recall or any costs associated with a recall of any Products caused by a manufacturing defect and to pay all costs and damages arising out of any such claim(s). Suppliers will maintain insurance against product liability claims in form satisfactory to Purchaser in an amount of not less than Three Million U.S. Dollars ($3 million). Such insurance shall name Purchaser as an additional insured.

ARTICLE 15
TERMINATION EVENTS

15.1 Each Supplier agrees that any of the following events as defined below (a "Termination Event") shall give Purchaser the right to terminate this Agreement or exercise other remedies provided in Article 16 below:

(a) A Supplier becomes insolvent, becomes the subject of a voluntary or involuntary bankruptcy proceeding or any other form of winding up or liquidation proceeding, enters into any arrangement with creditors or otherwise is unable to pay its debts as they become due; or

(b) A Supplier fails to perform any of its obligations set forth in Sections 19 and 27 under this Agreement.

15.2 Purchaser agrees that Suppliers shall have the right to terminate this Agreement in the event Purchaser fails to perform its payment obligations as set forth in Section 7 and such failure remains unremedied for fifteen days after written notice thereof shall have been given.

15.3 For any alleged material breach of this Agreement other than those set forth in Sections 15.1 and 15.2 above, the Party alleging any such breach will provide the other Party notice in writing within thirty (30) days of the conduct or action giving rise to the breach. That notice will specify the nature of the breach and the provision of this Agreement that is claimed to have been breached. Over the next thirty (30) days following delivery of such a notice, the Parties agree to meet and confer, either in person or otherwise, in good faith to resolve any disputed issues or agree on a course of action to resolve any issues. In the event the Parties are unable to mutually agree, either Party may submit the matter to binding arbitration in accordance with Article 24 below. The Parties agree to mutually request that such arbitration proceedings be expedited with the intent of resolving any such dispute within forty-five (45) days of either Party's request for arbitration.

ARTICLE 16
TERMINATION

16.1 If a Termination Event as set forth in Section 15.1 occurs, Purchaser shall have the right and option, in its sole discretion, (a) immediately to terminate this Agreement by sending written notice of termination to Suppliers, in which event the effective date of such termination shall be the date the notice of termination is sent and/or (b) to terminate outstanding purchase orders in whole or in part by sending written notice thereof to Suppliers.

16.2 Upon the termination of this Agreement by Purchaser, (a) Suppliers shall immediately return to Purchaser any and all deposit or down-payment monies held by Suppliers on its account and (b) Purchaser may exercise any and all other remedies permitted by law.

16.3 Upon termination of this Agreement by Suppliers pursuant to Section 15.2 above, Suppliers may exercise any and all remedies permitted by law.

ARTICLE 17
FORCE MAJEURE

Either Party to this Agreement shall be excused from its obligations hereunder when and to the extent that performance is delayed or prevented by any event of Force Majeure. “Force Majeure” shall mean any circumstance or event which is unforeseen and beyond the reasonable control of the Party affected, and shall include, without limitation, force of nature, fire, explosion, geological change, storm, flood, earthquake, lightning, act of war or public enemy, or total or partial failure of the sources of supply of materials or energy or of means of transportation. The Party or Parties affected by Force Majeure which seeks to excuse its performance under this Agreement or under any of the provisions hereunder shall promptly notify the other Party to this Agreement advising of the excuse and the steps it will take to complete such performance. Each Party seeking to excuse its performance will be excused from such performance to the extent such performance is delayed or prevented provided that the Party so affected shall use its best efforts to complete such performance. Notwithstanding the foregoing, Purchaser may terminate any purchase order, without liability, upon the occurrence of any event of Force Majeure affecting the performance of Suppliers.

ARTICLE 18
CONFIDENTIALITY

18.1 As used in this Agreement, “Confidential Information” shall mean all technical and commercial information relating to Purchaser’s business disclosed to Suppliers by Purchaser and its directors, officers, employees and agents and/or by third parties at the direction of Purchaser, either directly or indirectly, whether disclosed before or after the date hereof, and whether learned by Suppliers from observation or from materials submitted to Suppliers or from disclosures made by Purchaser, which information may include, but is not limited to, business plans, financial statements or projections, reports, analyses, budgets, forecasts, evaluations (including demand projections), projects, programs, processes, products (and including, as to specific processes or products, information relating to the formulation, composition, methods of manufacture, potential uses or their technical or scientific features), product plans, samples, prototypes, agreements with third parties, patents, patent applications, trade secrets, know-how, intellectual property, data, research and development, services, suppliers, customers and prospective customers, customer requirements, methods of customer solicitation, customer and prospective customer information, prices, costs, profits and sales, markets, software, developments, inventions, technology,

designs, drawings, engineering, hardware configuration, licenses, manufacturing information, raw material ordering and usage, and marketing plans. For purposes of this Agreement, the term “Confidential Information” shall also include all documents which are prepared by or for Suppliers, including all correspondence, memoranda, notes, summaries, analyses, studies, models, extracts of documents and records, reflecting, based on or derived from such Confidential Information whether in writing or stored in or by electronic, magnetic or other means. All such documents and writings are sometimes referred to in this Agreement as “Derivative Documents.”

18.2 Each Supplier acknowledges that (a) the Confidential Information disclosed by Purchaser to it would not be available to it except by disclosure from Purchaser and constitutes Purchaser’s valuable trade secret; (b) Purchaser has taken steps that are reasonable under the circumstances to maintain the confidentiality of such information; (c) such information derives independent economic value from not being generally known to and/or readily ascertainable by others; and (d) is protected from unauthorized use or disclosure by various laws including without limitation, the Uniform Trade Secrets Act and the Economic Espionage Act of the United States, and The Law Against Unfair Competition of the People’s Republic of China. In addition, each Supplier acknowledges that the Confidential Information may include information contained in patent filings or filings with other government agencies that is not public, and that use or disclosure of such information other than as specifically authorized under this Agreement would jeopardize Purchaser’s rights with respect to such information and filings and cause Purchaser irreparable harm. Each Supplier therefore agrees that:

(a) it will hold in confidence all Confidential Information;

(b) it will take all reasonable steps to restrict the disclosure of Confidential Information within its own organization only to those persons (i) who are directly involved in carrying out its obligations under this Agreement, (ii) who have been informed of its obligations under this Agreement, and (iii) who have entered into a written agreement with it to protect the confidentiality of such Confidential Information on terms no less protective of the Confidential Information than that set forth herein (which written agreement need not mention or specifically reference Purchaser). Notwithstanding anything else contained herein, under no circumstances shall any Supplier disclose any Confidential Information to any person or entity that might reasonably be expected to use such Confidential Information in any manner in competition with Purchaser or otherwise for any purpose not authorized under this Agreement. Each Supplier hereby acknowledges and agrees that such restrictions are necessary for the purposes of protecting Purchaser’s trade secrets and other interests in the Confidential Information;

(c) except as permitted in clause Sections 19.2(b) and 19.7, it shall not, without the prior written consent of Purchaser, disclose to or permit access to the Confidential Information (or any part thereof) by any person or entity without the prior written consent of Purchaser, and shall remain responsible for any breach of the use and disclosure restrictions set forth herein by any person to whom it is so disclosed;

(d) it will not make copies of any Confidential Information, other than copies necessary for those of its employees and suppliers, as described in Section 19.7, who have an actual need to know the Confidential Information in order to carry out its obligations under this Agreement and subject to Section 19.2(b), without the prior written approval of Purchaser;

(e) it will not remove, obscure or alter any notice of patent, copyright, trade secret or other proprietary right from any Confidential Information without Purchaser's prior written authorization;

(f) it will not use Confidential Information except for the purpose of performing its obligations under this Agreement; and

(g) it will notify Purchaser promptly in writing of any breach of this Agreement by it or any third party, and cooperate with Purchaser, at its expense, in reclaiming any Confidential Information and preventing further unauthorized use or disclosure of any Confidential Information.

18.3 The non-disclosure obligations set forth above shall not apply to information that:

(a) was known to such Supplier prior to, or is developed by such Supplier independently of, any disclosure by Purchaser as evidenced by suitable written documentation, provided, that if such information was received from a third party, it was received in conformance with Section 19.3(c); or

(b) is or shall be placed in the public domain by Purchaser; or

(c) is received by such Supplier in good faith from a third party having no secrecy, nondisclosure or confidentiality obligation to Purchaser.

Each Supplier understands and agrees that information that may not qualify for protection from disclosure as the result of (a) through (c) above, may nevertheless be protected from unauthorized use or disclosure by patent, copyright, trademark, trade secret, and other applicable law and that nothing in this Agreement is intended or shall be construed as limiting Purchaser's rights thereunder or granting it rights to use such information in any manner other than as specifically set forth herein.

18.4 Upon request, each Supplier shall return to Purchaser all Confidential Information in written or tangible form, including all copies thereof, whether made by such Supplier or by any third party and, upon written request, shall return to Purchaser or destroy all the Derivative Documents.

18.5 It is understood that nothing in this Agreement shall be construed as granting to any Supplier any right, license or interest with respect to the Confidential Information or other information disclosed pursuant to this Agreement, except as expressly set forth herein, and the Confidential Information remains the confidential, proprietary trade secret property of Purchaser and is protected under copyright, patent and other applicable law.

18.6 Each Supplier acknowledges that, in addition to and without limitation of Purchaser's rights in the Confidential Information, Purchaser owns exclusive right, title and interest, including without limitation all intellectual property rights (including copyright), in and to (a) all works of authorship created by or for Purchaser relating to Purchaser's business, including mock-ups, prototypes, power point presentations, and marketing materials ("Works") (b) the trademarks "Nautilus" and "Bowflex" and the Chinese characters and translations thereof ("Marks") and (c) all inventions, ideas and designs, (collectively, "Inventions") disclosed by Purchaser, and any modification, improvement or derivative thereof created or developed, in whole or in part, by it or any other party, and further acknowledges that all recommendations, suggestions, or improvements (collectively, "Recommendations") provided by it to Purchaser regarding Purchaser's existing or future products or services are provided to Purchaser without charge or royalty of any kind. Each Supplier hereby assigns to Purchaser any interest it may have in the Works, Marks, Inventions or Recommendations, and agrees to execute, without further consideration, any document reasonably requested by Purchaser to further evidence or attest to the vesting of such rights in Purchaser. Each Supplier agrees not to use or exploit any Works, Marks, Inventions or Recommendations except as expressly agreed in writing by Purchaser and agrees not to use or apply for registration, directly or indirectly, of any trademark that is confusingly similar to the Marks. Further, each Supplier covenants and agrees to pay such compensation to its employees as may be necessary to effectuate and complete the above assignment of rights to Purchaser under copyright, patent and other applicable laws of the People's Republic of China.

18.7 Each Supplier may, notwithstanding the restrictions in Section 19.2(c), disclose portions of the Confidential Information to subsidiaries, affiliates, and suppliers or subcontractors on an as needed basis. Prior to providing Confidential Information to any such third party, Suppliers agree to use best efforts to require each such third party to execute a confidentiality agreement for the protection of Purchaser's Confidential Information.

ARTICLE 19
NON-COMPETITION

Except as otherwise set forth herein, each Supplier agrees that for so long as this Agreement remains in effect and for a period of three (3) years thereafter, that it will not, and it will ensure that none of its respective Affiliates will, directly or indirectly, engage or invest in, own, manage, operate, finance, control or participate in the ownership, management, operation, financing or control of, be employed by, associated with or in any manner connected with, or render services or advice or other aid to, or guarantee any

obligation of, any Person engaged in or planning to become engaged in the manufacture of rod based home gyms. Suppliers and their Affiliates will not manufacture any Nautilus patent protected products so long as any applicable patents, trademark or other intellectual property rights, remain in force and effect covering those products. Otherwise Suppliers are not limited in any other manner with respect to conducting their manufacturing business. Each Supplier agrees that this covenant is reasonable with respect to its duration, geographical area and scope. * If Purchaser in its sole discretion elects not to enforce this term in any of the three years following termination of this Agreement, Supplier will not be precluded from manufacturing rod based home gyms that do not infringe upon Purchaser's intellectual property covering such rod based home gyms.

ARTICLE 20
DURATION OF AGREEMENT

The initial term of this Agreement shall commence on the date hereof and end on December 31, 2010, unless sooner terminated as provided herein. This Agreement may be extended for one or more renewal terms, each of one year's duration, by mutual written consent of the Parties. Should either Party wish to extend the term of this Agreement, it shall notify the other Party to this effect in writing at least 30 days prior to the expiry thereof, to which the other Party shall respond in writing within 10 days thereafter.

ARTICLE 21
PUBLIC STATEMENTS OR RELEASES

No Party shall make any public announcement with respect to the existence or terms of this Agreement or the transactions provided for herein without the prior written approval of the other Parties, which shall not be unreasonably withheld or delayed**.** Notwithstanding the foregoing, nothing in this Article shall prevent any Party from making any public announcement it considers necessary in order to satisfy its obligations under applicable law or the rules of any securities exchange or market, provided such Party, to the extent practicable, provides the other Parties with an opportunity to review and comment on any proposed public announcement before it is made.

ARTICLE 22
AUTHORIZATION

Each Party represents and warrants to Purchaser that (i) it is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (ii) the execution, delivery and performance of this Agreement have been duly authorized by all requisite action of such Supplier; (iii) this Agreement constitutes a legal valid and

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binding contract of such Supplier enforceable in accordance with its terms; and (iv) it is in compliance with all relevant laws and that all Products sold to Purchaser will be manufactured in compliance with all relevant laws and meet all quality and other applicable standards required by relevant laws.

ARTICLE 23
GOVERNING LAW

This Agreement, its validity, interpretation and the settlement of any disputes arising hereunder shall be governed by, and construed in accordance with, the laws of the State of Washington, U.S.A., without regards to its conflict of laws principles.

ARTICLE 24
ARBITRATION

24.1 All disputes arising in connection with or relating to this agreement shall be finally settled by binding arbitration in accordance with the International Arbitration Rules of the American Arbitration Association. The tribunal shall be composed of a sole arbitrator. The laws of the State of Washington, U.S.A., exclusive of choice-of-law rules, shall govern the interpretation and application of the agreement, and the arbitration shall be conducted in the English language at San Francisco, California, USA under the Federal Arbitration Act.

24.2 Judgment upon the award rendered by the arbitration tribunal may be entered by any competent court. Each Party consents to the jurisdiction of any court where enforcement may be sought by the other Parties, and waives any objection to recognition, enforcement or execution of the award based on forum non conveniens or sovereign immunity.

24.3 Any Party may, without inconsistency with this Agreement to arbitrate, seek from a court any provisional remedy that may be necessary to preserve its rights, to protect intellectual property or to prevent the disposal of assets at any time before, during or after the arbitration proceedings.

24.4 To the extent this Article is deemed to be a separate agreement independent from this Agreement, Article 23 concerning governing law and Article 29 concerning notices are incorporated herein by reference.

ARTICLE 25
ENTIRE AGREEMENT; AMENDMENT

This Agreement, together with all exhibits, schedules and other documents referenced herein or attached hereto, is the entire, final and complete agreement and understanding of the Parties relating to the subject matter herein and supersedes and replaces all written and oral agreements and understandings previously made with respect to the subject matter hereof. This Agreement may be amended only by an instrument in writing executed by a duly authorized representative of each Party.

ARTICLE 26
SEVERABILITY

If any provision of this Agreement should or become fully or partly invalid, illegal or unenforceable in any respect for any reason whatsoever, the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

ARTICLE 27
NO ASSIGNMENT WITHOUT CONSENT

Supplier shall not assign, pledge, subcontract, or otherwise transfer any rights or obligations under this Agreement without Purchaser's prior written consent during the first year of this Agreement, or at any time to a competitor of Purchaser in the fitness equipment industry. After the first year of the Agreement Supplier may assign, pledge, subcontract or otherwise transfer any rights or obligations under this Agreement (1) as part of an estate plan of Michael Bruno or his spouse Yang Lin Qing; (2) in connection with the sale of the business to a private equity purchaser or other passive investment vehicle; or (3) as part of an initial public or equity offering; provided that in any of the preceding situations Michael Bruno signs an employment contract or consulting contract at the time of closing such transaction providing for a continuous management or operating role for a period of not less than 12 months from the time of such closing. It is expressly agreed that this provision will not be construed as restricting the Suppliers right to convey, without consent, any portion of its businesses unrelated to production of Purchaser's fitness equipment.

ARTICLE 28
WAIVER

No waiver of any breach of this Agreement shall constitute a waiver of any other breach of the same or other provisions of this Agreement. No waiver shall be effective unless made in writing.

ARTICLE 29
NOTICES

Any notice or other communication required or permitted by this Agreement shall be in writing and shall be deemed given on the date of transmission when sent by facsimile transmission with sending machine confirmation, on the fifth day after the date of mailing when mailed by certified mail, postage prepaid, return receipt requested, on the third day after deposit with a commercial overnight courier, with written verification of receipt, or the date of actual delivery, whichever is the earliest, and shall be sent to Purchaser or Suppliers, as the case may be, at the address set forth below, or to whatever other address the Party receiving the communication may hereafter designate by written notice to the other.

Notices and communications shall be delivered to:

If to Purchaser:	Nautilus, Inc. 16400 SE Nautilus Drive Vancouver, WA 98683 Attention: Wayne M. Bolio Facsimile Number: (360) 859-5915
with a copy to:	Bruce A. Robertson Garvey Schubert Barer 1191 Second Avenue, 18th Floor Seattle, WA 98101 Fax: (206) 464-0125
If to Suppliers:	Treuriver Investments Limited 1st Floor CNAC Group Building No. 10 Queens Road Central Hong Kong Attention: Michael Bruno Facsimile Number: 011 86 592 621 8275
	Land America Health and Fitness Co., Ltd. 25 North 2nd Road Xiamen, Xinglin, China 361022 Attention: Michael Bruno Facsimile Number: 011 86 592 621 8275
with a copy to:	C. Reed Brown 1232 Lexington Street Washington, UT 84780 Facsimile Number: 435-627-2194

ARTICLE 30
SURVIVAL OF COVENANTS

The provisions of Articles 18 (Confidentiality) and 19 (Non-Competition), and any other obligations and duties which by their nature extend beyond the termination or expiry of this Agreement, shall survive any termination or expiry of this Agreement and remain in effect.

ARTICLE 31
SCHEDULES; HEADINGS; COUNTERPARTS

All Schedules attached to this Agreement are an integral part hereof and are incorporated herein by reference as though set forth in full. The headings used in this Agreement are for convenience only and shall not be used in the interpretation of any provision of this Agreement or affect any right or obligation under this Agreement. This Agreement may be executed in any number of counterparts and by different Parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.

(The remainder of this page intentionally left blank.)

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the date first above written.

PURCHASER:

NAUTILUS, INC.

By: _____
Signature
Print Name: _____
Title: _____

SUPPLIERS:

Treuriver Investments LIMITED

By: _____
Signature
Print Name: _____
Title: _____

LAND AMERICA HEALTH AND FITNESS CO., LTD.

By: _____
Signature
Print Name: _____
Title: _____

Acknowledged and agreed as to Article 19 above:

MICHAEL BRUNO

YANG LIN QING

EXHIBIT A

UNIT PRICE SCHEDULE

This Schedule which contains confidential pricing information, has been purposely omitted and separately filed with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such portion of this Agreement.

ATTACHMENT B

BASE COST

This Schedule which contains confidential pricing information, has been purposely omitted and separately filed with the Securities and Exchange Commission. Confidential treatment has been requested with respect to such portion of this Agreement.

Exhibit 10.5

CONFIDENTIAL SETTLEMENT AGREEMENT

THIS SETTLEMENT AGREEMENT (the "Agreement") is entered into this 5th day of May , 2008, by and between Land America Health and Fitness Co. Ltd., Treuriver Investments Limited, Michael C. Bruno, and Yang Lin Qing (hereinafter "Claimants") and Nautilus, Inc. ("Nautilus" or "Respondents") (collectively, the "Parties"). Claimants and Nautilus are parties to several agreements and understandings in relation to the proposed acquisition by Nautilus of the assets of Land America Health and Fitness Co. Ltd and Treuriver Investments and other issues related to Nautilus' proposed acquisition, ownership, and operation of fitness equipment business and assets of Claimants (hereinafter the "Transaction."). The Parties enter into this Agreement in settlement of any and all claims, known or unknown, including but not limited to those that are, or could have been, related to the Transaction, including any and all such claims relating to the failure of the Transaction to close (hereinafter defined below as "Released Claims".)

1. Payment. Nautilus shall pay to Claimants the gross sum of $8,000,000.00 [eight million dollars and no/100] ("Settlement Payment") on June 15, 2008. Payment shall be made in accordance with Paragraph 2 below.

2. Payment Method. Nautilus will issue a check in the amount of $8,000,000.00 to [insert]. Nautilus will have no further obligation or liability with respect to the Settlement Payment or any portion thereof. Claimants acknowledge and agree that they consulted with tax, legal and other professionals of their own choosing prior to instructing Nautilus to disburse the Settlement Payment in the manner provided herein, and that Nautilus has not provided them with any advice regarding those instructions. Claimants also acknowledge and agree that Nautilus has no responsibility, implied or otherwise, with regard to the manner of payment of the Settlement Payment, and in particular that Nautilus is not responsible for any past, present or future, known or unknown, tax consequences, penalties (civil and/or criminal), loss, and/or liability of any kind whatsoever, that may result from Nautilus's making the Settlement Payment in the manner provided for herein or from the receipt by any person of any portion of such Settlement Payment.

3. Releases. In consideration of the Settlement Payment and for other good and valuable consideration, the receipt of which is hereby acknowledged, Claimants each hereby release Nautilus and each of the Additional Released Parties from all Released Claims and Nautilus hereby releases Claimants from all Released Claims.

(a) "Released Claims" means and includes any and all covenants, controversies, agreements, promises, claims, demands, causes of action, actions, suits, rights, liabilities, payments or penalties, damages, and attorneys' fees and costs, whatsoever, at law or in equity or otherwise, whether direct or indirect, known or unknown, foreseen or unforeseen, anticipated or unanticipated, or suspected or unsuspected, which either party now owns or holds, or has at any time heretofore owned or held, against the other party, in any capacity, which: (i) were or could have been alleged in any lawsuit or other proceeding arising out of the Transaction or the failure of the Transaction to close; (ii) are or may be based upon any facts, acts, omissions, representations, events, agreements, or matters of any kind occurring or existing at any time on or before the date of this Agreement relating to the Transaction; or (iii) relate in any way, directly or indirectly, to the Transaction. Without limiting the generality of the foregoing, "Released Claims" include, but are not limited to, claims for: monetary and equitable relief; breach of express and implied contract or warranty; loss of profits or revenue; rebates; breach of the covenant of good faith and fair dealing; frivolity; costs or expenses incurred in

reliance on, or in anticipation of, the fact that the Transaction would close; fraud; punitive damages under any theory; attorney fees; costs or expenses including those of any consultants or service providers retained by Claimants; and any all claims under any of the contracts or agreements relating to the Transaction under the laws of any state or country.

(b) "Additional Released Parties" means and includes all of Nautilus' past and present shareholders, officers, directors, agents, employees, representatives, attorneys, insurers, employee benefit plans, parents, subsidiaries, consultants, affiliates, predecessors, successors, transferees, assigns, and related entities thereof, and all past and present shareholders, officers, directors, agents, employees, marital communities, representatives, and attorneys of any of those persons and entities.

(c) Claimants represent, warrant and agree that: (i) they understand that they are releasing potentially unknown claims; (ii) these releases are fairly and knowingly made with the advice of counsel and/or other professionals (including without limitation tax professionals); (iii) they are aware that they may have limited knowledge with respect to certain of the Released Claims; and (iv) they have specifically assumed the risk of any mistake in entering into this Agreement.

(d) Upon the complete execution of this Settlement Agreement and payment of the amounts set forth in Paragraph 2, the Parties agree that their counsel shall no legal proceeding or arbitration proceeding shall be filed by any party with reference to the Transaction or the failure of that transaction to close.

(e) Notwithstanding the foregoing, these releases do not extend to any claims that arise out of this Agreement.

4. No Admission of Liability. The parties agree that the payment of the Settlement Payment represents a full and complete settlement of any and all disputed claims. Such payment and the execution of the Agreement do not represent and are not to be construed as an admission of liability on the part of Nautilus or any of the Additional Released Parties.

5. No Other Claims or Assignment of Claims. Claimants represent on behalf of themselves that none of them has not filed or initiated any lawsuit, arbitration or other proceeding of any kind against Nautilus, or any of the Additional Released Parties, that has not been dismissed or otherwise completely terminated, and further represent that Claimants solely own and have not assigned or given to anyone any Released Claim they have, or ever had or claimed to have, against Nautilus or any of the Additional Released Parties.

6. Confidentiality. Claimants and Nautilus agree to keep confidential the terms of this Agreement, and not reveal, disclose, convey, discuss, relay, or in any other manner permit to be known by any other person or entity, either directly or indirectly, in whole or in part, any of the terms of this Agreement. Subject to the exceptions listed below, Claimants may only disclose to third persons the fact that the parties resolved their dispute pursuant to a confidential settlement agreement. The only exceptions to this covenant of confidentiality are that the Parties may disclose the terms of this Agreement to their attorneys and accountants for legitimate business purposes, where necessary to enforce the provisions of this Agreement, or where otherwise required by law, so long as such persons also agree to abide by this covenant. Claimants also warrant and represent that they have not already made any disclosure that violates the letter or spirit of this covenant of confidentiality.

7. Independent Legal Counsel. The Parties acknowledge, represent and agree that they: (i) have read this Agreement; (ii) fully understand its terms; (iii) have been fully advised by legal counsel and/or other professionals (including tax professionals); and (iv) have had the opportunity to participate in the drafting of this Agreement. The Parties waive the general rule of construction that an agreement is to be construed against its drafter.

8. Each Party to Bear Own Fees, Costs and Expenses. Nautilus and Claimants, respectively, are solely responsible for all costs, expenses and fees of their own counsel or of any other costs, fees or expenses they have incurred in connection with or arising from this dispute.

9. Binding on Successors. This Settlement Agreement shall be binding upon the parties and their heirs, executors, administrators, successors, and assigns.

10. Integrated Agreement. This Settlement Agreement contains the entire agreement and understanding of the parties hereto and is intended to be a complete, integrated contract. No party knows of any undertaking, agreement or promise not contained fully within the terms of this Settlement Agreement. No party is entering into this Agreement in reliance on any oral or written promises, inducements, representations, understandings, interpretations or agreements other than those contained in this Agreement. This Agreement may be modified only by a written addendum signed by each party.

11. Miscellaneous. The Agreement is governed by Washington law, without giving effect to principles or provisions of those laws relating to conflicts or choice of laws. The Parties agree that the state and federal courts located in Washington shall have exclusive jurisdiction and venue over any dispute arising out of or in relation to this Agreement. The Agreement is binding upon, and inures to the benefit of, the Parties and their respective heirs, legatees, representatives, successors, transferees and assigns.

12. Facsimile and Counterparts Execution. This Agreement may be executed in any number of separate or counterpart originals. The Parties also agree that facsimile signatures and executed facsimile copies of the Agreement shall be treated as original and shall be binding; and the parties further agree that the executed facsimile copies shall be promptly replaced by original signed copies of the Agreement.

— Continued on page 4 —

The persons signing this Agreement declare under the penalty of perjury and the laws of the state of Washington and the state in which they sign this Agreement, that they are authorized to sign this document and agreement on their own behalf and on behalf of the entities that they represent, and that they sign it as their free and voluntary act and deed.

NAUTILUS, INC.

By _____
Its _____

[Claimant Parties]

By _____
Its _____

[Claimant Parties]

By _____
Its _____

[Claimant Parties]

By _____
Its _____

Exhibit 10.6

EMPLOYMENT AGREEMENT

This Employment Agreement (this "Agreement") is entered into as of May 6, 2008, by and between Nautilus Inc., a Washington corporation (the "Company" or "Employer"), and Sebastien Goulet ("Employee"). In consideration of the premises and the mutual covenants and agreements hereinafter set forth, the Company and Employee hereby agree as follows:

1. Employment. Employee is being hired as Senior Vice-President Operations. Employee shall (a) devote his professional entire time, attention, and energies to his position, (b) use his best efforts to promote the interests of Employer; (c) perform faithfully and efficiently his responsibilities and duties, and (d) refrain from any endeavor outside of employment which interferes with his ability to perform his obligations hereunder. Employee shall report to the Chief Executive Officer and Chairman of the Board, and perform his job duties subject to his general supervision, orders, advice and direction. Employee shall perform the duties normally associated with the position and/or such duties as delegated and assigned by the Company. The Company retains the sole discretion to change Employee's position and/or duties as it deems appropriate.

Employee additionally agrees to abide by any general employment guidelines or policies adopted by Employer such as those detailed in an employer's handbook, as such guidelines or policies may be implemented and/or amended from time to time.

2. Salary. As compensation for services to be rendered hereunder, the Company shall pay Employee an initial annual salary in the gross amount of three hundred thirty thousand dollars ($330,000). Said salary will be paid in accordance with the Company's existing payroll policies, and shall be subject to normal and/or authorized deductions and withholdings. Employee will be eligible to participate in the Company's incentive program at an annual bonus targeted of one hundred percent (100%) of Employee's base salary. The amount of such bonus (if any) is determined at the discretion of the Company. Employee shall also be entitled to receive a one-time payment in the gross amount of $16,500, payable with the first paycheck following date of hire. Should Employee resign from the Company for any reason before one year, he agrees to immediately re-pay the amount of the bonus.

3. Stock Options. Pursuant to the Company's current 2005 Long Term Incentive Plan (the "Plan"), the Company shall recommend that Employee receive options ("Options") to purchase 200,000 shares of the Company's stock. These options will vest as to 25% of the total shares after one year of employment, an additional 25% after the second year of employment and an additional 50% after 3 years of employment. The terms of any option grant shall be governed by the Plan and a Stock Option Agreement (the "Option Agreement"). Employee acknowledges that any stock options granted do not, and will not, constitute wages or compensation. Unless otherwise provided in the Plan or required by law, the Board of Directors of Company shall have sole discretion regarding the grant of options, price of options, and all other terms and conditions of the option grant.

4. Expenses. The Company will reimburse Employee for all necessary, reasonable, and approved travel, entertainment and other business expenses incurred by him in the performance of his duties hereunder, upon receipt of signed itemized lists of such expenditures with appropriate back-up documentation, and/or in accordance with such other reasonable procedures as the Company may adopt generally from time to time. The Company will reimburse Employee for reasonable travel expenses to travel to and from Employee's home in Livermore, CA in accordance with such policies as the Company may from time to time have in effect.

5. Health and Welfare Benefits. Upon satisfaction of eligibility criteria, the Employee shall be eligible to receive employee benefits, if any, generally provided to its employees by Employer, including, if provided, medical and dental insurance, and paid-time off. Such benefits may be amended or discontinued by Employer at any time.

6. Termination. The parties acknowledge that Employee's employment with the Company is "at-will" and may be terminated by either party with or without cause. No one other than the Chief Executive Officer and Chairman of the Company or the Board of Directors has the power to change the at-will character of the employment relationship. As discussed below, however, the various possible ways in which Employee's employment with the Company may be terminated will determine the payments that may be due to Employee under this Agreement. As used in this Agreement, the following terms have the following meanings:

(a) Cause. As used in this Agreement, Cause means (i) Employee's indictment or conviction in a court of law for any crime or offense that in Employer's reasonable judgment makes Employee unfit for continued employment, prevents Employee from performing Employee's duties or other obligations or adversely affects the reputation of Employer; (ii) dishonesty by Employee related to his employment; (iii) violation of a key Employer policy or this Agreement by Employee (including, but not limited to, acts of harassment or discrimination, use of unlawful drugs or drunkenness on Employer's premises during normal work hours); (iv) insubordination (i.e. conduct such as refusal to follow direct orders of the CEO or other individuals(s) to whom Employee reports); (v) dereliction of duty by Employee (e.g., failure to perform minimum duties after warning and reasonable opportunity to correct); (vi) Employee's competition with Employer, diversion of any corporate opportunity or other similarly serious conflict of interest or self-dealing incurring to Employee's direct or indirect benefit and Employer's detriment; (vii) intentional or grossly negligent conduct by Employee that is significantly injurious to Employer or its affiliates; (viii) Employee's failure to meet the minimum goals of his position if such are provided in writing to Employee, and as such goals may be amended from time to time; and (ix) Employee's death or disability (i.e., Employee's inability to perform the essential job functions of the position with or without a reasonable accommodation).

(b) At-Will. At-will termination shall mean a termination by the Company where it does not seek to establish Cause or by Employee for any reason. If Employee exercises his right to terminate his employment, the Employee agrees to provide the Company with 21 days' prior written notice of the termination of his employment (Notice of Termination). After receiving such Notice from the Employee, the Company retains the right to accept Employee's resignation, and hence, terminate the employment relationship without the need for further payments, at an earlier date than provided in the Employee's Notice of Termination.

7. Severance Upon Termination.

(a) Upon termination of Employee's employment under this Agreement by the Company without Cause and subject to Section 7 (d) below, then, in lieu of any further salary, bonus, or other payments for periods subsequent to the Date of Termination, the Company shall pay to the Employee severance equal to nine months average monthly annual base salary. Such severance payment shall be made according to the Company's normal payroll process spread out equally over the severance period. Under this Section 7 (a) the Company will also pay the Employee's COBRA premium for medical and dental benefits for a period of nine months immediately following termination. During that period Employee will be responsible for paying the standard employee contributions for such benefits on the same basis as if he was an active employee. Violation of this Agreement or the Business Protection Agreement and/or failure to sign the Release and Waiver Agreement shall immediately relieve the Company from its payment obligation under this paragraph and entitle it to recover any amounts paid under this paragraph.

(a) If the Company terminates the Employee's employment during the term of this Agreement for Cause or if the Employee resigns or terminates his employment for any reason, then the Company shall have no further payment obligations to Employee.

(b) Except as it relates to the receipt of severance (which shall be solely granted under the terms of this Agreement), this Agreement shall not affect any payments due to Employee under applicable law as a result of the termination of his employment (such as payment of earned wages if required by state law).

(d) The severance amounts in Section 7 (a) will immediately cease in the event that Employee becomes employed at any time during the 9 month period following the Date of Termination at a salary equal to or greater than $330,000. In the event the Employee is employed during that 9 month period at an annual salary less than $330,000 the Company will provide a maximum severance benefit reflecting the difference between that salary and $330,000 over the severance period. In either event continued health care benefits will cease if Employee accepts employment during the nine months following termination with Company. Following termination by the Company, Employee will exercise reasonable efforts to seek, obtain, and accept comparable employment.

8. Return of Documents. Employee understands and agrees that all equipment, records, files, manuals, forms, materials, supplies, computer programs, and other materials furnished to the Employee by Employer or used on Employer's behalf, or generated or obtained during the course of his/her employment shall remain the property of Employer. Upon termination of this Agreement or at any other time upon the Company's request, Employee agrees to return all documents and property belonging to the Company in his possession including, but not limited to, customer lists, contracts, agreements, licenses, business plans, equipment, software, software programs, products, work-in-progress, source code, object code, computer disks, Confidential Information, books, notes and all copies thereof, whether in written, electronic or other form. In addition, Employee shall certify to the Company in writing as of the effective date of termination that none of the assets or business records belonging to the Company is in his/her possession, remain under his control, or have been transferred to any third person.

9. Confidential Information/Non-Competition. By virtue of his employment, Employee will have access to confidential, proprietary and trade secret information, the ownership and protection of which is very important to the Company. Employee hereby agrees to enter into a Business Protection Agreement with the Company concurrent with his entry into this Agreement. The Business Protection Agreement is attached as Exhibit A hereto.

10. Release of Claims. As a precondition to receipt of the severance provided in Section 7 of this Agreement, Employee acknowledges and understands that he must sign a Waiver and Release of Claims Agreement. Such Agreement shall be substantially similar to the Agreement attached as Exhibit B. Employee understands that he will not be entitled to receive any payments under this Agreement until he executes and delivers the Waiver and Release of Claims Agreement, and the revocation period set forth in the Waiver and Release of Claims Agreement has run.

11. Assignment. This Agreement is personal, and is being entered into based upon the singular skill, qualifications and experience of Employee. Employee shall not assign this Agreement or any rights hereunder without the express written consent of Employer which may be withheld with or without reason. This Agreement will bind and benefit any successor of the Employer, whether by merger, sale of assets, reorganization or other form of business acquisition, disposition or business reorganization.

12. Notices. Any Notice of Termination or notice of good reason shall be in writing and shall be deemed to have been given or submitted (i) upon actual receipt if delivered in person or by facsimile transmission with confirmation of transmission, (ii) upon the earlier of actual receipt or the expiration of two (2) business days after sending by express courier (such as U.P.S. or Federal Express), and (iii) upon the earlier of actual receipt or the expiration of seven (7) business days after mailing if sent by registered or certified mail, postage prepaid, to the parties at the following addresses:

To the Company:	Nautilus, Inc. 16400 SE Nautilus Drive Vancouver, WA 98683 Attention: SVP HR
With a Copy to:	Garvey, Schubert & Barer 1191 Second Avenue, 18 th Floor Seattle, WA 98101-2939 Attention: Bruce Robertson
To Employee:	Employee: Sebastien Goulet At the last address and fax number Shown on the records of the Company

Employee shall be responsible for providing the Company with a current address. Either party may change its address (and facsimile number) for purposes of notices under this Agreement by providing notice to the other party in the manner set forth above within ten business days.

13. Effect of Waiver. The waiver by either party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach hereof. No waiver shall be valid unless in writing.

14. Entire Agreement. This Agreement, along with Exhibit A and B, sets forth the entire agreement of the parties hereto and supersedes any and all prior agreements and understandings concerning Employee's employment by the Company. This Agreement may be changed only by a written document signed by Employee and the Company.

15. Governing Law/Jurisdiction/Venue. This Agreement shall be governed by, and construed and enforced in accordance with, the substantive and procedural laws of the State of Washington without regard to rules governing conflicts of law. For all disputes under this Agreement, the parties agree that any suit or action between them shall be instituted and commenced exclusively in the state courts in Clark County Washington (U.S.A) or the United States District Court for the Western District of Washington, sitting in Seattle, Washington. Both parties waive the right to change such venue and hereby consent to the jurisdiction of such courts for all potential claims under this Agreement.

16. Acknowledgment. The Employee acknowledges that he has read and understands this Agreement, that he has had the opportunity to consult with an attorney regarding the terms and conditions hereof, and that he accepts and signs this Agreement as his own free act and in full and complete understanding of its present and future legal effect.

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

Employer: NAUTILUS, INC.

By _____ Date _____
Its _____

_____ _____
Employee Date

EXHIBIT 31.1

CERTIFICATION

I, Edward J. Bramson, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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.

May 12, 2008
Date

By: /s/ Edward J. Bramson
Edward J. Bramson,
Chairman and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, William D. Meadowcroft, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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.

May 12, 2008
Date

By: /s/ William D. Meadowcroft
William D. Meadowcroft,
Chief Financial Officer (Principal 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 Quarterly Report on Form 10-Q for the period ended March 31, 2008 (the "Form 10-Q") 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-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 12, 2008
Date

By: /s/ Edward J. Bramson
Edward J. Bramson,
Chairman and Chief Executive Officer
(Principal Executive Officer)

To my knowledge, the Quarterly Report on Form 10-Q for the period ended March 31, 2008 (the "Form 10-Q") 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-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 12, 2008
Date

By: /s/ William D. Meadowcroft
William D. Meadowcroft,
Chief Financial Officer (Principal Financial Officer)