

NAUTILUS, INC.  
Form 10-Q  
August 09, 2012  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-31321

NAUTILUS, INC.  
(Exact name of Registrant as specified in its  
charter)

Washington  
(State or other jurisdiction of  
incorporation or organization)  
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)

94-3002667  
(I.R.S. Employer  
Identification No.)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company"

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in Rule 12b-2 of the Exchange Act:

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

(do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

The number of shares outstanding of the registrant's common stock as of July 31, 2012 was 30,887,294 shares.

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NAUTILUS, INC.  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## NAUTILUS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands)

	As of June 30, 2012	December 31, 2011
<b>ASSETS</b>		
Cash and cash equivalents	\$16,131	\$17,427
Trade receivables, net of allowances of \$40 as of June 30, 2012 and \$300 as of December 31, 2011	10,627	23,780
Inventories	12,591	11,601
Prepays and other current assets	3,057	4,433
Income taxes receivable	620	454
Short-term notes receivable	243	317
Deferred income tax assets	82	75
Total current assets	43,351	58,087
Property, plant and equipment, net	5,460	4,405
Goodwill	2,859	2,873
Other intangible assets, net	15,691	16,716
Other assets	639	732
Total assets	\$68,000	\$82,813
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Trade payables	\$16,926	\$28,563
Accrued liabilities	6,489	7,218
Warranty obligations, current portion	1,939	1,803
Deferred income tax liabilities	1,184	1,064
Total current liabilities	26,538	38,648
Long-term notes payable	—	5,598
Warranty obligations, non-current	214	214
Income taxes payable, non-current	3,555	3,658
Deferred income tax liabilities, non-current	1,665	1,434
Other long-term liabilities	1,412	1,308
Total liabilities	33,384	50,860
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock - no par value, 75,000 shares authorized, 30,878 and 30,747 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively	5,742	5,360
Retained earnings	22,071	19,715
Accumulated other comprehensive income	6,803	6,878
Total stockholders' equity	34,616	31,953
Total liabilities and stockholders' equity	\$68,000	\$82,813

See accompanying notes to condensed consolidated financial statements.



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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net sales	\$39,583	\$34,724	\$90,845	\$83,025
Cost of sales	22,415	20,181	49,772	46,395
Gross profit	17,168	14,543	41,073	36,630
Operating expenses:				
Selling and marketing	12,557	12,219	28,623	27,084
General and administrative	4,291	4,277	8,301	8,969
Research and development	919	724	1,919	1,477
Total operating expenses	17,767	17,220	38,843	37,530
Operating income (loss)	(599)	) (2,677)	) 2,230	(900)
Other income (expense):				
Interest income	7	8	13	9
Interest expense	(3)	) (113)	) 75	(232)
Other	(84)	) 53	(86)	) 82
Total other income (expense)	(80)	) (52)	) 2	(141)
Income (loss) from continuing operations before income taxes	(679)	) (2,729)	) 2,232	(1,041)
Income tax expense (benefit)	(193)	) (533)	) 71	34
Income (loss) from continuing operations	(486)	) (2,196)	) 2,161	(1,075)
Discontinued operation:				
Income (loss) from discontinued operation before income taxes	237	(1,035)	) 114	(490)
Income tax expense (benefit) of discontinued operation	(85)	) 37	(83)	) 97
Income (loss) from discontinued operation	322	(1,072)	) 197	(587)
Net income (loss)	\$(164)	) \$(3,268)	) \$2,358	\$(1,662)
Income (loss) per share from continuing operations:				
Basic	\$(0.02)	) \$(0.07)	) \$0.07	\$(0.03)
Diluted	(0.02)	) (0.07)	) 0.07	(0.03)
Income (loss) per share from discontinued operation:				
Basic	\$0.01	\$(0.04)	) \$0.01	\$(0.02)
Diluted	0.01	(0.04)	) 0.01	(0.02)
Net income (loss) per share:				
Basic	\$(0.01)	) \$(0.11)	) \$0.08	\$(0.05)
Diluted	(0.01)	) (0.11)	) 0.08	(0.05)
Weighted average shares outstanding:				
Basic	30,878	30,745	30,878	30,745
Diluted	30,878	30,745	30,987	30,745

See accompanying notes to condensed consolidated financial statements.



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NAUTILUS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited and in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income (loss)	\$ (164	) \$ (3,268	) \$ 2,358	) \$ (1,662
Other comprehensive income (loss), net of tax:				
Foreign currency translation	(254	) 220	(75	) (231
Total comprehensive income (loss)	\$ (418	) \$ (3,048	) \$ 2,283	) \$ (1,893

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended June 30,	
	2012	2011
Cash flows from operating activities:		
Income (loss) from continuing operations	\$2,161	\$(1,075 )
Income (loss) from discontinued operation	197	(587 )
Net income (loss)	2,358	(1,662 )
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	1,528	2,081
Bad debt expense reduction	(123 )	(17 )
Stock-based compensation expense	294	(7 )
Loss on asset disposals	14	—
Reduction of previously estimated asset disposal loss	(77 )	(627 )
Deferred income taxes, net of valuation allowances	385	470
Changes in operating assets and liabilities:		
Trade receivables	13,234	11,586
Inventories	(993 )	(2,162 )
Prepays and other current assets	1,445	1,937
Income taxes	(200 )	(569 )
Trade payables	(11,645 )	(8,530 )
Accrued liabilities, including warranty obligations	(1,676 )	(961 )
Net cash provided by operating activities	4,544	1,539
Cash flows from investing activities:		
Proceeds from sale of discontinued operation	217	1,006
Purchases of software and equipment	(1,110 )	(1,884 )
Net increase in restricted cash	—	351
Net cash used in investing activities	(893 )	(527 )
Cash flows from financing activities:		
Repayment of long-term borrowings	(5,000 )	—
Financing costs	—	(36 )
Proceeds from exercise of stock options	89	4
Net cash provided by (used in) financing activities	(4,911 )	(32 )
Effect of exchange rate changes on cash and cash equivalents	(36 )	(224 )
Net increase in cash and cash equivalents	(1,296 )	756
Cash and cash equivalents, beginning of year	17,427	14,296
Cash and cash equivalents, end of period	\$16,131	\$15,052
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$524	\$—
Cash refunded for income taxes, net	(119 )	(20 )
See accompanying notes to condensed consolidated financial statements.		

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NAUTILUS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
(1) GENERAL INFORMATION

Basis of Consolidation and Presentation

The accompanying condensed consolidated financial statements present the financial position, results of operations and cash flows of Nautilus, Inc. and its subsidiaries (collectively, “Nautilus” or the “Company”), all of which are wholly owned. Intercompany transactions and balances have been eliminated in consolidation.

The accompanying condensed consolidated financial statements have not been audited. Nautilus has condensed or omitted certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Management believes the disclosures contained herein are adequate to make the information presented not misleading. However, these condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in its Annual Report on Form 10-K for the year ended December 31, 2011 (the “2011 Form 10-K”).

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 and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Further information regarding significant estimates can be found in the Company's 2011 Form 10-K.

In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments necessary to present fairly the Company's financial position as of June 30, 2012 and December 31, 2011, results of operations for the three and six months ended June 30, 2012 and 2011 and cash flows for the six months ended June 30, 2012 and 2011. Interim results are not necessarily indicative of results for a full year. The Company's revenues typically vary seasonally and this seasonality can have a significant effect on operating results, inventory levels and working capital needs.