

NAUTILUS, INC.
Form 10-Q
August 11, 2011
Table of Contents

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, 2011

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 "accelerated filer, large accelerated filer and smaller reporting company"

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in Rule 12b-2 of the Exchange Act. (Check one):

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 Act). Yes No

The number of shares outstanding of the registrant's common stock as of July 31, 2011 was 30,746,836 shares.

Table of Contents

NAUTILUS, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

PART I

Item 1.	<u>Financial Statements</u>	<u>3</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	<u>12</u>
Item 4.	<u>Controls and Procedures</u>	<u>23</u>

PART II

Item 1.	<u>Legal Proceedings</u>	<u>23</u>
Item 1A.	<u>Risk Factors</u>	<u>23</u>
Item 6.	<u>Exhibits</u>	<u>24</u>
	<u>Signatures</u>	<u>25</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

NAUTILUS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands)

	As of June 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$15,052	\$14,296
Restricted cash	—	351
Trade receivables, net of allowances of \$374 as of June 30, 2011 and \$301 as of December 31, 2010	7,878	19,633
Inventories	12,518	10,347
Prepays and other current assets	3,645	5,331
Income taxes receivable	1,044	456
Short-term notes receivable	704	832
Assets of discontinued operation held-for-sale	—	292
Deferred income tax assets	55	57
Total current assets	40,896	51,595
Property, plant and equipment, net	4,711	3,795
Goodwill	3,000	2,931
Other intangible assets, net	17,743	18,774
Other assets	920	1,272
	\$67,270	\$78,367
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	\$16,041	\$24,535
Accrued liabilities	6,161	7,045
Warranty obligations, current portion	2,950	3,539
Deferred income tax liabilities	1,187	1,160
Total current liabilities	26,339	36,279
Long-term notes payable	5,365	5,141
Warranty obligations, non-current	408	396
Income taxes payable, non-current	3,472	3,210
Deferred income tax liabilities, non-current	1,355	1,008
Other long-term liabilities	1,358	1,534
Total liabilities	38,297	47,568
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock - no par value, 75,000 shares authorized, 30,747 and 30,744 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively	5,118	5,051
Retained earnings	16,633	18,295
Accumulated other comprehensive income	7,222	7,453
Total stockholders' equity	28,973	30,799
	\$67,270	\$78,367

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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,	
	2011	2010	2011	2010
Net sales	\$34,724	\$30,642	\$83,025	\$76,286
Cost of sales	20,181	17,173	46,395	39,852
Gross margin	14,543	13,469	36,630	36,434
Operating expenses:				
Selling and marketing	12,219	14,645	27,084	33,588
General and administrative	4,277	4,794	8,969	9,953
Research and development	724	788	1,477	1,591
Total operating expenses	17,220	20,227	37,530	45,132
Operating loss	(2,677	) (6,758	) (900	) (8,698
Other income (expense):				
Interest income	8	—	9	11
Interest expense	(113	) —	(232) —
Other	53	(35	) 82	(59
Total other expense	(52	) (35	) (141	) (48
Loss from continuing operations before income taxes	(2,729	) (6,793	) (1,041	) (8,746
Income tax (benefit) expense	(533	) 201	34	619
Loss from continuing operations	(2,196	) (6,994	) (1,075	) (9,365
Discontinued operation:				
Loss from discontinued operation before income taxes	(1,035	) (3,663	) (490	) (9,050
Income tax expense of discontinued operation	37	48	97	81
Loss from discontinued operation	(1,072	) (3,711	) (587	) (9,131
Net loss	\$(3,268	) \$(10,705	) \$(1,662	) \$(18,496
Loss per share from continuing operations - basic and diluted	\$(0.07	) \$(0.23	) \$(0.03	) \$(0.30
Loss per share from discontinued operation - basic and diluted	\$(0.04	) \$(0.12	) \$(0.02	) \$(0.30
Net loss per share - basic and diluted	\$(0.11	) \$(0.35	) \$(0.05	) \$(0.60
Weighted average shares outstanding - basic and diluted	30,745	30,744	30,745	30,744

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Six months ended June 30,	
	2011	2010
Cash flows from operating activities:		
Loss from continuing operations	\$(1,075	) \$(9,365
Loss from discontinued operation	(587	) (9,131
Net loss	(1,662	) (18,496
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation and amortization	2,081	3,510
Allowance for doubtful accounts	(17	) 1,043
Inventory lower-of-cost-or-market adjustments	127	1,595
Stock-based compensation expense	(7	) 254
Loss on asset disposals	—	181
Reduction of previously estimated asset disposal loss	(627	) (2,338
Deferred income taxes, net of valuation allowances	470	388
Changes in operating assets and liabilities:		
Trade receivables	11,586	16,090
Inventories	(2,289	) (1,204
Prepays and other current assets	1,937	1,166
Income taxes	(569	) 12,872
Trade payables	(8,530	) (18,830
Accrued liabilities, including warranty obligations	(961	) (4,737
Net cash provided by (used in) operating activities	1,539	(8,506
Cash flows from investing activities:		
Proceeds from sale of discontinued operation	1,006	3,825
Proceeds from other asset sales	—	16
Purchases of software and equipment	(1,884	) (116
Net decrease in restricted cash	351	586
Net cash provided by (used in) investing activities	(527	) 4,311
Cash flows from financing activities:		
Financing costs	(36	) (271
Proceeds from exercise of stock options	4	—
Net cash used in financing activities	(32	) (271
Net effect of currency exchange rate changes	(224	) 1,664
Net increase (decrease) in cash and cash equivalents	756	(2,802
Cash and cash equivalents, beginning of year	14,296	7,289
Cash and cash equivalents, end of period	\$15,052	\$4,487
Supplemental disclosure of cash flow information:		
Cash refunded for income taxes, net of payments	\$20	\$12,708
See accompanying notes to condensed consolidated financial statements.		

Table of Contents

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, 2010 (the "2010 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 2010 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, 2011 and December 31, 2010, and results of operations and cash flows for the three and six months ended June 30, 2011 and 2010. 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.

Unless indicated otherwise, all information regarding the Company's operating results pertains to its continuing operations.

New Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update No. 2011-05 (the "ASU"), Presentation of Comprehensive Income, which revises the manner in which entities present comprehensive income in their financial statements. For public entities, the ASU's amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Since the ASU's requirements relate only to presentation, its adoption will not have any effect on the Company's financial position, results of operations or cash flows.

(2) DISCONTINUED OPERATION

On September 25, 2009, in light of continuing operating losses in its Commercial business and in order to focus exclusively on managing its Direct and Retail consumer businesses, the Company committed to a plan for the complete divestiture of its Commercial business, which qualified for held-for-sale accounting treatment. The Commercial business is presented as a discontinued operation in the Company's condensed consolidated statements of operations for all periods. Following is a summary of the operating results of the Company's former Commercial

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business for the three and six months ended June 30, 2011 and 2010 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Revenue	\$40	\$1,392	\$141	\$11,227
Loss before income taxes	\$(1,323)	\$(4,783)	\$(1,117)	\$(11,388)
Reduction of previously-estimated disposal loss	288	1,120	627	2,338
Income tax expense	(37)	(48)	(97)	(81)
Loss from discontinued operation	\$(1,072)	\$(3,711)	\$(587)	\$(9,131)

6

Table of Contents

Disposal of the Commercial business was completed in April 2011. Revenue in the three and six months ended June 30, 2011 consisted of sales of small quantities of discontinued product and spare parts inventories which were not acquired by buyers of components of the Commercial business. The Company may incur additional expenses in future periods in connection with the settlement of contingencies arising from and directly related to the Commercial business prior to its disposal. For further information regarding contingencies related to the Company's former Commercial business, see Note 12, Commitments and Contingencies.

The following table presents gain or loss recognized on completed disposal transactions for the six months ended June 30, 2011 (in thousands):

	Previously Estimated Disposal Loss as of 12/31/10	)	Gain (Loss) on Completed Disposals	)	Reduction of Previously Estimated Disposal Loss	)	Disposal Loss Impairment as of 6/30/11
Sales of real property	\$ (666	)	\$ (658	)	\$ 8)	\$ —
Adjustments of previously completed disposal transactions	—)))	