

NAUTILUS, INC.  
Form 10-Q  
May 12, 2010

**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, 2010**

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)

Edgar Filing: NAUTILUS, INC. - Form 10-Q

Washington  
(State or other jurisdiction of  
incorporation or organization)

94-3002667  
(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 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, 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, 2010: 30,744,336

---

NAUTILUS, INC.

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	3
Item 1. <u>Financial Statements:</u>	3
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 4. <u>Controls and Procedures</u>	16
<u>PART II. OTHER INFORMATION</u>	17
Item 1. <u>Legal Proceedings</u>	17
Item 1A. <u>Risk Factors</u>	17
Item 6. <u>Exhibits</u>	17
<u>Signatures</u>	18

**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****NAUTILUS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited and in thousands)**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,953	\$ 7,289
Trade receivables, net of allowances of \$4,424 in 2010 and \$4,160 in 2009	18,905	27,799
Inventories	14,809	13,119
Prepays and other current assets	5,322	5,097
Income taxes receivable	238	13,178
Assets of discontinued operation held-for-sale	4,184	10,781
<b>Total current assets</b>	<b>55,411</b>	<b>77,263</b>
Restricted cash	4,353	4,933
Property, plant and equipment, net	6,792	8,042
Goodwill	2,876	2,794
Other intangible assets, net	20,322	20,838
Other assets	1,424	1,302
<b>Total assets</b>	<b>\$ 91,178</b>	<b>\$ 115,172</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Trade payables	\$ 24,443	\$ 37,107
Accrued liabilities	7,586	10,744
Accrued warranty obligations, current portion	5,849	7,129
Deferred income tax liabilities	1,099	1,220
<b>Total current liabilities</b>	<b>38,977</b>	<b>56,200</b>
Income taxes payable	2,947	2,866
Deferred income tax liabilities non-current	1,291	754
Other non-current liabilities	2,677	2,869
<b>Total liabilities</b>	<b>45,892</b>	<b>62,689</b>
Commitments and contingencies (Note 12)		
Stockholders equity:		
Common stock no par value, 75,000 shares authorized, 30,744 shares issued and outstanding at March 31, 2010 and December 31, 2009	4,570	4,414
Retained earnings	33,345	41,136
Accumulated other comprehensive income	7,371	6,933
<b>Total stockholders equity</b>	<b>45,286</b>	<b>52,483</b>

Edgar Filing: NAUTILUS, INC. - Form 10-Q

Total liabilities and stockholders' equity	\$ 91,178	\$ 115,172
--------------------------------------------	-----------	------------

See accompanying notes to condensed consolidated financial statements.

## NAUTILUS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited and in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2010	2009
Net sales	\$ 45,644	\$ 54,055
Cost of sales	22,679	23,751
Gross profit	22,965	30,304
Operating expenses:		
Selling and marketing	18,943	22,659
General and administrative	5,159	7,888
Research and development	803	1,423
Restructuring		2,049
Total operating expenses	24,905	34,019
Operating loss	(1,940)	(3,715)
Other income and expenses:		
Interest income	11	9
Interest expense		(147)
Other expense	(24)	(292)
Total other expenses	(13)	(430)
Loss from continuing operations before income taxes	(1,953)	(4,145)
Income tax expense	418	1,279
Loss from continuing operations	(2,371)	(5,424)
Discontinued operation:		
Loss from discontinued operation	(5,387)	(7,929)
Income tax expense from discontinued operation	33	466
Loss from discontinued operation, net of tax	(5,420)	(8,395)
Net loss	\$ (7,791)	\$ (13,819)
Loss per share from continuing operations:		
Basic and diluted	\$ (0.08)	\$ (0.18)
Loss per share from discontinued operation:		
Basic and diluted	\$ (0.17)	\$ (0.27)
Loss per share:		
Basic and diluted	\$ (0.25)	\$ (0.45)
Weighted average shares outstanding:		
Basic and diluted	30,744	30,614

See accompanying notes to condensed consolidated financial statements.



## NAUTILUS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Loss from continuing operations	\$ (2,371)	\$ (5,424)
Loss from discontinued operation	(5,420)	(8,395)
Net loss	(7,791)	(13,819)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,772	3,038
Allowance for doubtful accounts	556	883
Inventory lower-of-cost-or-market adjustments	1,686	549
Stock-based compensation expense	156	424
Loss on asset disposals	17	1,417
Reduction of previously-estimated loss on disposal of commercial business	(1,218)	
Deferred income taxes, net of valuation allowances	580	951
Other		33
Changes in operating assets and liabilities:		
Trade receivables	8,460	21,492
Inventories	(147)	3,156
Prepaid and other current assets	134	(1,287)
Income taxes	12,715	631
Trade payables	(12,415)	(3,426)
Accrued liabilities, including warranty obligations	(3,572)	(1,262)
Net cash provided by operating activities	933	12,780
Cash flows from investing activities:		
Proceeds from sale of discontinued operation	2,651	
Proceeds from other asset sales	10	128
Purchases of equipment	(37)	(818)
Net decrease in restricted cash	580	
Net cash provided by (used in) investing activities	3,204	(690)
Cash flows from financing activities:		
Net decrease in short-term borrowings		(14,701)
Bank financing costs	(144)	
Other		(33)
Net cash used in financing activities	(144)	(14,734)
Net effect of currency exchange rate changes	671	220
Net increase (decrease) in cash and cash equivalents	4,664	(2,424)
Cash and cash equivalents, beginning of period	7,289	5,547
Cash and cash equivalents, end of period	\$ 11,953	\$ 3,123



Edgar Filing: NAUTILUS, INC. - Form 10-Q

Supplemental disclosure of cash flow information:

Cash refunded (paid) for income taxes	\$ 12,743	\$ (98)
Cash paid for interest	\$	\$ 186

See accompanying notes to condensed consolidated financial statements.

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 results of operations, financial position 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 are adequate to make the information presented not misleading. However, you should read these condensed consolidated financial statements in conjunction with the Company's consolidated financial statements and notes thereto for the year ended December 31, 2009, included in its Annual Report on Form 10-K (the 2009 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 2009 Form 10-K.

In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments necessary to present fairly the financial position of Nautilus as of March 31, 2010 and December 31, 2009, and the results of operations and cash flows for the three months ended March 31, 2010 and 2009. 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***

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

***Reclassifications***

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

**(2) Discontinued operation**

On September 25, 2009, in light of continuing operating losses in its commercial business and in order to focus exclusively on management of its direct and retail consumer businesses, 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 statement of operations for all periods.

In the first quarter of 2010, the Company recognized a \$1.2 million reduction in the amount of pre-tax loss previously estimated in connection with the disposal of its commercial business. Following is a summary of the operating results of the discontinued commercial business for the three months ended March 31, 2010 and 2009:

<i>(In thousands)</i>	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
Revenue	\$ 9,835	\$ 18,031
Loss before income taxes	(6,605)	(7,929)
Reduction of previously-estimated disposal loss	1,218	
Income tax expense	(33)	(466)
Loss from discontinued operation	\$	