

NAUTILUS, INC.  
Form 10-Q  
November 09, 2010  
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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 September 30, 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)

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

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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 the definitions of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>

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 October 31, 2010: 30,744,336

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## PART I. FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

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

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$14,485	\$7,289
Restricted cash	494	—
Trade receivables, net of allowances of \$574 as of September 30, 2010 and \$4,160 as of December 31, 2009	12,580	27,799
Inventories	11,015	13,119
Prepays and other current assets	5,274	5,097
Income taxes receivable	624	13,178
Assets of discontinued operation held-for-sale	794	10,781
Total current assets	45,266	77,263
Restricted cash	—	4,933
Property, plant and equipment, net	4,560	8,042
Goodwill	2,848	2,794
Other intangible assets, net	19,290	20,838
Other assets	1,378	1,302
Total assets	\$73,342	\$115,172
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Trade payables	\$18,807	\$37,107
Accrued liabilities	7,745	10,744
Warranty obligations, current portion	3,886	7,129
Deferred income tax liabilities	821	1,220
Total current liabilities	31,259	56,200
Long-term notes payable to a related party	5,009	—
Income taxes payable	3,015	2,866
Deferred income tax liabilities - non-current	1,341	754
Warranty obligations - non-current	1,009	1,250
Other non-current liabilities	1,519	1,619
Total liabilities	43,152	62,689
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Common stock - no par value, 75,000 shares authorized, 30,744 shares issued and outstanding at September 30, 2010 and December 31, 2009	4,904	4,414
Retained earnings	18,334	41,136
Accumulated other comprehensive income	6,952	6,933
Total stockholders' equity	30,190	52,483
Total liabilities and stockholders' equity	\$73,342	\$115,172

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		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Net sales	\$38,474	\$41,431	\$114,760	\$135,588
Cost of sales	21,856	21,150	61,708	65,194
Gross profit	16,618	20,281	53,052	70,394
Operating expenses:				
Selling and marketing	14,347	14,278	47,935	53,202
General and administrative	4,797	5,240	14,750	18,587
Research and development	699	1,283	2,290	3,917
Restructuring	—	201	—	14,046
Asset impairment losses	—	2,101	—	2,101
Total operating expenses	19,843	23,103	64,975	91,853
Operating loss	(3,225 )	(2,822 )	(11,923 )	(21,459 )
Other income and expense:				
Interest income	4	5	15	15
Interest expense	(9 )	(4 )	(9 )	(152 )
Other income	343	858	284	476
Total other income	338	859	290	339
Loss from continuing operations before income taxes	(2,887 )	(1,963 )	(11,633 )	(21,120 )
Income tax expense (benefit)	(489 )	(440 )	130	505
Loss from continuing operations	(2,398 )	(1,523 )	(11,763 )	(21,625 )
Discontinued operation:				
Loss from discontinued operation	(1,728 )	(23,538 )	(10,778 )	(37,936 )
Income tax expense (benefit) from discontinued operation	180	(643 )	261	(553 )
Loss from discontinued operation, net of tax	(1,908 )	(22,895 )	(11,039 )	(37,383 )
Net loss	\$(4,306 )	\$(24,418 )	\$(22,802 )	\$(59,008 )
Loss per share from continuing operations:				
Basic and diluted	\$(0.08 )	\$(0.05 )	\$(0.38 )	\$(0.71 )
Loss per share from discontinued operation:				
Basic and diluted	\$(0.06 )	\$(0.75 )	\$(0.36 )	\$(1.22 )
Net loss per share:				
Basic and diluted	\$(0.14 )	\$(0.80 )	\$(0.74 )	\$(1.93 )
Weighted average shares outstanding:				
Basic and diluted	30,744	30,681	30,744	30,637

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Loss from continuing operations	\$(11,763	) \$(21,625
Loss from discontinued operation	(11,039	) (37,383
Net loss	(22,802	) (59,008
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,171	8,624
Allowance for doubtful accounts	1,278	1,246
Inventory lower-of-cost-or-market adjustments	2,177	1,281
Stock-based compensation expense	490	1,219
Loss on asset disposals	144	18,334
Reduction of previously-estimated loss on disposal of commercial business	(3,156	) —
Asset impairments	—	5,124
Writeoff of abandoned leasehold improvements and other assets	—	9,516
Deferred income taxes, net of valuation allowances	372	(990
Changes in operating assets and liabilities:		
Trade receivables	13,528	24,478
Inventories	3,694	12,308
Prepaid and other current assets	1,059	192
Income taxes	12,490	11,589
Trade payables	(18,499	) (5,824
Accrued liabilities, including warranty obligations	(5,301	) (9,027
Net cash provided by (used in) operating activities	(9,355	) 19,062
Cash flows from investing activities:		
Proceeds from sale of discontinued operation	6,930	—
Proceeds from other asset sales	16	208
Purchases of equipment	(189	) (1,808
Decrease in restricted cash	4,439	—
Release of escrow deposit	—	2,000
Net cash provided by investing activities	11,196	400
Cash flows from financing activities:		
Net decrease in short-term borrowings	—	(17,944
Proceeds from long-term borrowings from a related party	5,000	—
Bank financing fees	(353	) (75
Net cash provided by (used in) financing activities	4,647	(18,019
Net effect of currency exchange rate changes	708	22
Net increase in cash and cash equivalents	7,196	1,465
Cash and cash equivalents, beginning of period	7,289	5,547
Cash and cash equivalents, end of period	\$14,485	\$7,012

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Supplemental disclosure of cash flow information:

Cash refunded for income taxes	\$12,607	\$10,614
Cash paid for interest	\$—	\$227

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 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 included in its Annual Report on Form 10-K for the year ended December 31, 2009 (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 Company's financial position as of September 30, 2010 and December 31, 2009, results of operations for the three and nine months ended September 30, 2010 and 2009, and cash flows for the nine months ended September 30, 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.

Liquidity

At September 30, 2010, the Company had