

NAUTILUS, INC.  
Form 10-Q  
November 09, 2007  
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**UNITED STATES**  
**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, 2007

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**

(Issuer'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.

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Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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 November 1, 2007: 31,557,136

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****NAUTILUS, INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited, in thousands)**

	September 30, 2007	December 31, 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 21,296	\$ 4,262
Trade receivables (net of allowance for doubtful accounts of \$4,154 and \$3,983 at September 30, 2007 and December 31, 2006, respectively)	86,350	137,714
Inventories, net	89,498	75,832
Prepaid expenses and other current assets	13,158	23,093
Income tax receivable	8,622	
Short-term notes receivable	2,562	2,461
Assets held for sale	1,677	1,677
Deferred tax assets	9,393	5,722
Total current assets	232,556	250,761
PROPERTY, PLANT AND EQUIPMENT (at cost, net of accumulated depreciation of \$61,347 and \$51,262 at September 30, 2007 and December 31, 2006, respectively)	51,972	52,658
GOODWILL	65,606	65,037
INTANGIBLE AND OTHER ASSETS, net	103,417	56,486
<b>TOTAL ASSETS</b>	<b>\$ 453,551</b>	<b>\$ 424,942</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$ 47,241	\$ 61,375
Accrued liabilities	29,540	31,444
Short-term borrowings	109,000	47,500
Income taxes payable	1,483	4,551
Customer deposits	2,158	2,229
Current portion of long-term debt	386	259
Total current liabilities	189,808	147,358
LONG TERM DEBT	3,889	4,158
NONCURRENT DEFERRED TAX LIABILITIES	15,247	16,792
LONG-TERM TAXES PAYABLE	3,421	
COMMITMENTS AND CONTINGENCIES (Note 9)		
<b>STOCKHOLDERS EQUITY:</b>		
Common stock no par value, 75,000 shares authorized; 31,545 and 31,482 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	3,958	1,026
Retained earnings	230,759	251,418
Accumulated other comprehensive income	6,469	4,190
Total stockholders equity	241,186	256,634

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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 453,551	\$ 424,942
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See notes to consolidated financial statements.

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## NAUTILUS, INC.

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited, in thousands, except per share amounts)

	Three Months		Nine Months	
	Ended September 30, 2007	2006	Ended September 30, 2007	2006
NET SALES	\$ 133,636	\$ 159,583	\$ 409,548	\$ 482,185
COST OF SALES	80,855	87,493	238,002	270,192
Gross profit	52,781	72,090	171,546	211,993
OPERATING EXPENSES:				
Selling and marketing	52,717	42,621	147,609	137,887
General and administrative	16,175	14,507	42,858	40,399
Research and development	3,630	2,521	9,568	8,321
Royalties	1,903	1,296	4,610	3,991
Litigation settlement			(18,300)	
Total operating expenses	74,425	60,945	186,345	190,598
OPERATING INCOME (LOSS)	(21,644)	11,145	(14,799)	21,395
OTHER INCOME (EXPENSE):				
Interest income	222	296	265	582
Interest expense	(1,852)	(833)	(3,603)	(1,734)
Other income (expense), net	910	(2)	1,697	1,220
Total other income (expense)	(720)	(539)	(1,641)	68
INCOME (LOSS) BEFORE INCOME TAXES	(22,364)	10,606	(16,440)	21,463
INCOME TAX EXPENSE (BENEFIT)	(8,915)	1,230	(6,565)	5,215
NET INCOME (LOSS)	\$ (13,449)	\$ 9,376	\$ (9,875)	\$ 16,248
EARNINGS (LOSS) PER SHARE:				
BASIC	\$ (0.43)	\$ 0.29	\$ (0.31)	\$ 0.50
DILUTED	\$ (0.43)	\$ 0.29	\$ (0.31)	\$ 0.50
WEIGHTED AVERAGE SHARES OUTSTANDING:				
BASIC	31,545	32,138	31,533	32,577
DILUTED	31,545	32,240	31,533	32,732

See notes to consolidated financial statements.

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## NAUTILUS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Nine Months Ended September 30,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (9,875)	\$ 16,248
Adjustments to reconcile net income (loss) to net cash provided (used in) operating activities:		
Depreciation and amortization	12,527	12,815
Stock-based compensation	2,192	2,044
Litigation settlement	(18,300)	
Provision for long-term receivables	4,770	
(Gain) loss on sale of property, plant and equipment	(19)	109
Income tax effect of stock-based compensation	(111)	(36)
Deferred income taxes	(4,590)	1,182
Foreign currency transaction gain	(1,462)	(1,115)
Changes in assets and liabilities:		
Trade receivable	53,944	(2,338)
Inventories	(12,396)	27,559
Prepaid expenses and other current assets	8,984	370
Income taxes receivable	(8,622)	
Trade payables	(14,172)	(12,678)
Accrued liabilities	(2,412)	(4,072)
Income taxes payable	(1,780)	(1,907)
Customer deposits	(99)	(1,523)
Net cash provided by operating activities	8,579	36,658
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(9,299)	(8,372)
Proceeds from sale of property, plant and equipment, and assets held for sale	32	6,064
Increase in other assets	(35,385)	(7,501)
Net increase in notes receivable	(101)	(60)
Net cash used in investing activities	(44,753)	(9,869)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash dividends paid on common stock	(9,465)	(9,760)
Proceeds from exercise of stock options	756	484
Income tax effect of stock-based compensation	111	36
Stock repurchases		(16,653)
Net increase (decrease) in short-term borrowings	61,500	(5,147)
Principal payments on long-term debt	(142)	(1,900)
Net cash (used in) provided by financing activities	52,760	(32,940)
Net effect of foreign currency exchange rate changes	448	1,571
Net increase (decrease) in cash and cash equivalents	17,034	(4,580)
Cash and cash equivalents, beginning of period	4,262	7,984

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Cash and cash equivalents, end of period	\$ 21,296	\$ 3,404
<b>Supplemental Disclosures:</b>		
Cash paid for interest	\$ 2,944	\$ 1,479
Cash paid for income taxes	\$ 8,454	\$ 6,685
<b>Non-cash investing activities:</b>		
Intangible assets received from Litigation Settlement	\$ 18,300	

See notes to consolidated financial statements



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**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 September 30, 2007 and for the three and nine month periods ended September 30, 2007 and 2006. All intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements of the Company 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, 2006.

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 and nine month periods ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year.

**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 disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from those estimates. A description of our significant estimates and assumptions can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

**Reclassifications**

Prior year amounts of interest income and interest expense which were presented net have been reclassified to conform to the current year presentation within the consolidated statements of operations. This change had no impact on previously reported operating income, net income or stockholders' equity.

**New Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ( SFAS 159 ), which expands the scope of what companies may carry at fair value. SFAS 159 offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. The Statement is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that the adoption will have on the Company's results of operations, cash flows or financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS 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 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that the adoption will have on the Company's results of operations, cash flows or financial position.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ( FIN 48 ). The Company adopted the provisions of this interpretation on January 1, 2007. The disclosure requirements and cumulative effect of the adoption of FIN 48 are presented in Note 12.



**Table of Contents****2. SHARE BASED COMPENSATION****Stock Options**

A summary of the Company's stock option plan activity for the nine months ended September 30, 2007 is as follows:

<i>(in thousands, except per share amounts)</i>	<b>Total Shares</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Contractual Life (in years)</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at January 1, 2007	2,568	\$		