NAUTILUS, INC.
Form 10-Q/A
November 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

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

For the quarterly period ended September 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	94-3002667
(State or other jurisdiction of incorporation or organization)	(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 [x] 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 [x] 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” in Rule 12b-2 of the Exchange Act.
Large accelerated filer [ ] Accelerated filer [ ]
Non-accelerated filer [ ] (do not check if a smaller reporting company) Smaller reporting company [x]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [x]
The number of shares outstanding of the registrant's common stock as of October 31, 2011 was 30,746,836 shares.

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EXPLANATORY NOTE

This amendment on Form 10-Q/A is being filed to amend Nautilus, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2011, filed with the Securities and Exchange Commission on November 9, 2011 (the “Original Filing”). The purpose of the amendment is to correct a typographical error which resulted in the inadvertent omission of several words from a sentence in Management's Discussion and Analysis of Financial Condition and Results of Operation. The error appeared on page 20 of the Original Filing, in the second sentence of the first paragraph under "Retail Business" in "Comparison of Operating Results for the Nine Months Ended September 30, 2011 and 2010."

This amendment corrects the sentence to read as follows:

The decrease in Retail net sales was attributable primarily to a $3.5 million, or 12.0%, decline in net sales of cardio products owing to (i) a third quarter 2010 sales promotion that was not repeated in 2011, (ii) a shift in the timing of certain customer orders from the third quarter to the fourth quarter of 2011 and (iii) overall soft demand among retailers.

We are not amending any other part of the Original Filing. This Form 10-Q/A speaks as of the date of the Original Filing and does not reflect events that occurred subsequent to the date of the Original Filing.

NAUTILUS, INC.
AMENDMENT NO. 1
TO FORM 10-Q FOR THE
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

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PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion and analysis is based upon our financial statements as of the dates and for the periods presented in this section. You should read this discussion and analysis in conjunction with the financial statements and notes thereto found in Part I, Item 1 of this Form 10-Q and our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010 (the "2010 Form 10-K"). All references to the third quarters of 2011 and 2010 mean the three-month periods ended September 30, 2011 and 2010, respectively. Unless the context otherwise requires, "Nautilus," "we," "us" and "our" refer to Nautilus, Inc. and its subsidiaries Unless indicated otherwise, all information regarding our operating results pertains to our continuing operations.

Our results of operations may vary significantly from period-to-period. Our revenues typically fluctuate due to the seasonality of our industry, customer buying patterns, product innovation, the nature and level of competition for health and fitness products, our ability to procure products to meet customer demand, the level of spending on, and effectiveness of, our media and advertising programs and our ability to attract new customers and maintain existing sales relationships. In addition, our revenues are highly susceptible to economic factors, including, among other things, the overall condition of the economy and the availability of consumer credit in both the United States and Canada. Our profit margins may vary in response to the aforementioned factors and our ability to manage product costs. Profit margins may also be affected by fluctuations in the costs or availability of materials used to manufacture our products, product warranty costs, higher or lower fuel prices, and changes in costs of other distribution or manufacturing-related services. Our operating profits or losses may also be affected by the efficiency and effectiveness of our organization. Historically, our operating expenses have been influenced by media costs to produce and air television advertisements of our products, facility costs, operating costs of our information and communications systems, product supply chain management, customer support and new product development activities. In addition, our operating expenses have been affected from time-to-time by asset impairment charges, restructuring charges and other significant unusual or infrequent expenses.

As a result of the above and other factors, our period-to-period operating results may not be indicative of future performance. You should not place undue reliance on our operating results and should consider our prospects in light of the risks, expenses and difficulties typically encountered by us and other companies, both within and outside our industry. We may not be able to successfully address these risks and difficulties and, consequently, we cannot assure you of any future growth or profitability. For more information, see our discussion of Risk Factors located at Part I, Item 1A of our 2010 Form 10-K.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "plan," "expect," "aim," "believe," "project," "intend," "estimate," "will," "should," "could," and other terms of similar meaning typically identify forward-looking statements. The forward-looking statements in this Form 10-Q include, without limitation, anticipated declines in sales of strength products, anticipated sales increases of cardio-oriented products and the expectation that increased sales of the TreadClimber® product line will offset anticipated declines in sales of legacy strength products; potential improvement in consumer credit financing approval rates; the continuance of promotional programs and the impact of such programs on profit margins; our new product development strategies; and our plans for achieving future profitability. Forward-looking statements also include any statements related to our expectations regarding future business and financial performance or conditions, anticipated sales growth across markets, distribution channels and product categories, expenses and gross margins, profits or losses, losses from discontinued operation, settlements of warranty obligations, new product introductions, financing and working capital requirements and resources. These forward-looking statements, and others we make from time-to-time, are subject to a number of risks and uncertainties. Many factors could cause actual results to differ materially from those projected in forward-looking statements, including the risks described in Part I, Item 1A, “Risk Factors,” in our 2010 Form 10-K as supplemented or modified in our quarterly reports on Form 10-Q. We do not undertake any duty to update forward-looking statements after the date they are made or to conform them to actual results or to changes in circumstances or expectations.

Available Information

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, available free of charge on our website, www.nautilusinc.com. In addition, our Code of Business Conduct and Ethics, corporate governance policies, and the charters of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are available on our corporate website. The information presented on our website is not part of this report.

OVERVIEW

Nautilus is committed to providing innovative, quality solutions to help people achieve a fit and healthy lifestyle. Our principal business activities include designing, developing, sourcing and marketing high-quality cardiovascular and strength fitness products and related accessories for consumer home use, primarily in the United States and Canada. Our products are sold under some of the most recognized brand names in the fitness industry, including Nautilus®, Bowflex®, Schwinn®, Schwinn Fitness™ and Universal®.

We market our products through two distinct distribution channels, Direct and Retail, which we consider to be separate business segments. Our Direct business offers products to consumers through television advertising, the Internet and catalogs. Our Retail business offers our products through a network of third-party retailers with stores and websites located in the United States and internationally.

Net sales for the third quarter ended September 30, 2011 were $37.4 million, a decrease of $1.1 million, or 2.8%, as compared to net sales of $38.5 million for the third quarter of 2010. The decrease in net sales primarily reflected a decline of $2.4 million, or 14.9%, in our Retail segment compared to the third quarter of 2010. Lower Retail sales were primarily attributable to a 2010 third quarter sales promotion that was not repeated in the third quarter this year, a shift in the timing of certain customer orders and generally soft demand from national retailers. Net sales in our Direct segment for the third quarter of 2011 rose $1.1 million, or 5.3% compared to the 2010 third quarter, largely due to continued strong demand for our TreadClimbers. This increase was offset in part by comparably lower sales for home gyms and other strength products. Growth in TreadClimber sales continues to be driven by consumer acceptance, more effective media advertising and improving consumer credit approval rates. Based on sales trends observed during the last three quarters, we expect that increased sales of cardio products should more than offset anticipated declines in strength product sales for the full year 2011.

Income from continuing operations was $0.3 million for the third quarter ended September 30, 2011, compared to a loss from continuing operations of $2.4 million for the third quarter of 2010. Diluted income per share from continuing operations for the third quarter of 2011 was $0.01, compared to a diluted loss per share of $(0.08) for the same quarter of 2010. The significant improvement in results of continuing operations for the third quarter of 2011 was primarily attributable to a 16.8% reduction in operating expenses achieved through more cost efficient media advertising expenditures. Selling and marketing expenses for the third quarter of 2011, as a percent of net sales, declined to 30.8% from 37.3% for the comparable 2010 period.
Net loss for the third quarter ended September 30, 2011 was $0.1 million, an improvement of $4.2 million, or 97.9%, over net loss of $4.3 million for the third quarter of 2010. Basic and diluted net loss per share for the third quarter of 2011 was breakeven $(0.00), as compared to basic and diluted net loss per share of $(0.14) for the same quarter of 2010.

During the third quarter of 2011, we continued to allocate a larger portion of our media expenditures toward our TreadClimber product line, compared to 2010, and we expect to direct the majority of such expenditures to this product category and a new product introduction during the remainder of this year. In addition, we began implementing a lower cost Internet-based advertising strategy for our home gyms in 2011, which is designed to capitalize on the extensive product awareness that currently exists among consumers for our Bowflex rod-based home gyms.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

The following table compares selected financial information in our condensed consolidated statements of operations for the three months ended September 30, 2011 and 2010 (unaudited and in thousands):

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	Three months ended September 30,		Change	
	2011	2010	$	%
Net sales	$37,402	$38,474	$(1,072)	(2.8)%
Cost of sales	21,605	21,856	(251)	(1.1)%
Gross margin	15,797	16,618	(821)	(4.9)%
Operating expenses:				
Selling and marketing	11,517	14,347	(2,830)	(19.7)%
General and administrative	4,134	4,797	(663)	(13.8)%
Research and development	859	699	160	22.9 %
Total operating expenses	16,510	19,843	(3,333)	(16.8)%
Operating loss	(713)	(3,225)	2,512	77.9 %
Other income (expense):				
Interest income	5	4	1	25.0 %
Interest expense	(116)	(9)	(107)	n.m.
Other	(65)	343	(408)	n.m.
Total other income (expense)	(176)	338	(514)	n.m.
Loss before income taxes	(889)	(2,887)	1,998	69.2 %
Income tax benefit	(1,170)	(489)	(681)	(139.3)%
Income (loss) from continuing operations	281	(2,398)	2,679	n.m.
Loss from discontinued operation, net of tax	(373)	(1,908)	1,535	80.5 %
Net loss	$(92)	$(4,306)	$4,214	97.9 %

The following table compares the net sales and gross margins of our business segments for the three months ended September 30, 2011 and 2010 (unaudited and in thousands):

	Three months ended September 30,		Change	
	2011	2010	$	%
Net sales:				
Direct	$22,645	$21,504	$1,141	5.3 %
Retail	13,710	16,118	(2,408)	(14.9)%
Royalty income	1,047	852	195	22.9 %
	$37,402	$38,474		