

NAUTILUS, INC.
Form 11-K
June 07, 2018

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

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 000-25867

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Nautilus, Inc.
401(k) Savings Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Nautilus, Inc.
17750 SE 6th Way
Vancouver, Washington 98683

NAUTILUS, INC. 401(k) SAVINGS PLAN
2017 FORM 11-K
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All other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Plan Administrator and Participants of the
Nautilus, Inc. 401(k) Savings Plan:

Opinion on the Financial Statements

We have audited the accompanying statement of net assets available for benefits of the Nautilus, Inc. 401(k) Savings Plan (the "Plan") as of December 31, 2017, and the related statement of changes in net assets available for benefits for the year then ended and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2017, and the changes in net assets available for benefits for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Plan in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The supplemental information in the accompanying schedule of assets (held at end of year) as of December 31, 2017 has been subjected to audit procedures performed in conjunction with the audit of Plan's financial statements. The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information in the accompanying schedule, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ KBF CPAs LLP

We have served as the Plan's auditor since 2018.

Portland, Oregon

June 7, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Trustees and Participants of
Nautilus, Inc. 401(k) Savings Plan
Vancouver, Washington

We have audited the accompanying statement of net assets available for benefits of the Nautilus, Inc. 401(k) Savings Plan (the “Plan”) as of December 31, 2016, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2016, and the changes in net assets available for benefits for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Perkins & Company, P.C.

Portland, Oregon
June 22, 2017

NAUTILUS, INC. 401(k) SAVINGS PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2017 AND 2016

	As of December 31,	
	2017	2016
ASSETS		
Investments, at fair value (Note 3)	\$40,835,093	\$26,248,640
Notes receivable from participants	376,375	393,062
NET ASSETS AVAILABLE FOR BENEFITS	\$41,211,468	\$26,641,702

See accompanying notes to financial statements.

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NAUTILUS, INC. 401(k) SAVINGS PLAN
 STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
 YEARS ENDED DECEMBER 31, 2017 AND 2016

	Years Ended December 31,	
	2017	2016
ADDITIONS		
Investment income:		
Net appreciation in fair value of investments	\$4,177,330	\$1,018,200
Interest and dividends	2,003,757	865,959
Net investment income	6,181,087	1,884,159
Interest income on notes receivable from participants	19,428	16,879
Other Income	35,968	—
Contributions:		
Participants	2,711,830	2,098,482
Employer	1,093,472	868,517
Rollover contributions	625,440	81,844
Total Contributions	4,430,742	3,048,843
Total Additions	10,667,225	4,949,881
DEDUCTIONS		
Benefits paid to participants	(2,064,118)	(2,086,124)
Administrative expenses	(10,315)	(2,790)
Total Deductions	(2,074,433)	(2,088,914)
TRANSFERS		
Transfer in from Octane Fitness, LLC 401(k) Profit Sharing Plan	5,976,974	—
NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	14,569,766	2,860,967
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of year	26,641,702	23,780,735
End of year	\$41,211,468	\$26,641,702

See accompanying notes to financial statements.

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NAUTILUS, INC. 401(k) SAVINGS PLAN
NOTES TO FINANCIAL STATEMENTS
(1) DESCRIPTION OF PLAN

The following description of the Nautilus, Inc. 401(k) Savings Plan (the "Plan") is provided for general information purposes only. Participants should refer to the Plan Document for a complete description of the Plan's provisions.

General - The Plan is a defined contribution 401(k) plan maintained for the benefit of all eligible employees of Nautilus, Inc. (the "Company" or "Nautilus"). The Plan was established effective January 1, 1999, and contributions to the Plan began on March 4, 1999. The Plan was amended and restated on January 1, 2009 to comply with the Employee Retirement Income Security Act of 1974 ("ERISA") and to standardize operating procedures.

Transfer - During 2015, Nautilus acquired Octane Fitness, LLC. As a result of the acquisition, on January 4, 2017, the Octane Fitness, LLC 401(k) Profit Sharing Plan was merged into the Plan.

Eligibility - The Plan is available to all full-time employees of the Company, excluding leased employees, collectively bargained employees, residents of Puerto Rico and certain other employees as defined by the Plan document, who are age 18 or older. The Plan is subject to the provisions of ERISA.

Trustee - T. Rowe Price Trust Company ("T. Rowe Price" or "TRP") is the Plan's trustee and holds all investments of the Plan.

Administration of the Plan - The Company is the named fiduciary and administrator of the Plan, as well as the plan sponsor, as defined by ERISA. The Company has contracted with T. Rowe Price to provide record keeping services with respect to the Plan.

Contributions - Participants may voluntarily contribute between 1% and 75% of their eligible compensation. Employee contributions were limited to \$18,000 in 2017 and 2016, as prescribed by the Internal Revenue Code ("IRC"). Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions. Participants may also contribute amounts representing distributions from other qualified defined contribution plans. The Plan was amended January 1, 2017 to allow for Roth contributions. The Plan includes an auto-enrollment provision whereby all newly eligible employees are automatically enrolled in the Plan unless they affirmatively elect not to participate in the Plan. Automatically enrolled participants have their deferral rate set at 3% of eligible compensation and their contributions invested in a designated balanced fund until changed by the participant. The deferral automatically increases by 1%, to a maximum of 6%, annually on January 1.

Matching contributions are subject to certain limitations by the Plan. For each eligible participant, the Company makes safe harbor matching contributions equal to (i) 100% of the participant's elective deferrals up to 1% of compensation for the allocation period and (ii) 50% of the participant's elective deferrals up to the next 5% of eligible compensation for the allocation period.

Investment Options - Participants direct the investment of their contributions and the Company's matching contributions into various investment options offered by the Plan, including Nautilus common stock, a common trust fund, and various mutual funds offered through a registered investment company. Participants may not direct more than 20% of their voluntary contributions or transfer more than 20% of their account balance into Nautilus' common stock.

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Participant Accounts - A separate account is maintained for each participant. Each account is credited with the participant's and Company's matching contributions and allocations of Plan earnings. All amounts in participant accounts are participant directed.

Vesting - Participants are immediately vested in their contributions plus actual earnings thereon. Vesting in the Company's matching contribution portion of a participant's account, plus actual earnings thereon, are pursuant to the following vesting schedule.

Years of Service:	Vesting Percentage
Less than 1	—%
1	25%
2	100%

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Payment of Benefits - Upon termination of service, a participant may receive (i) a lump-sum distribution equal to his or her vested account value, (ii) elect to maintain his or her account in the Plan until a future date, or (iii) elect to receive distributions in the form of installment payments.

Forfeitures - Forfeited non-vested balances are used to reduce future employer matching contributions. As of December 31, 2017 and 2016, forfeited non-vested balances totaled \$1 and \$2,377, respectively, were available to reduce future employer contributions. During 2017 and 2016, \$9,017 and \$5,988 of forfeitures, respectively, were used to reduce employer matching contributions.

Notes Receivable from Participants - The Plan allows participants to borrow from their accounts in amounts ranging from a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Only one loan per participant may be outstanding at any one time. Terms of all loans (other than primary residence loans) are for a period not greater than five years. Primary residence loans are limited to fifteen years. Interest rates are based on the Wall Street Journal's Prime Rate published on the prior business day plus 1%. Loans outstanding as of December 31, 2017 bear interest at a rate of 4.25% to 5.25%. Loan repayments are made via payroll deduction on a bi-weekly basis and are reinvested according to the participant's investment allocation in effect at the time of the loan repayment. Loans are due in full by the end of the last day of the calendar quarter following the calendar quarter in which the participant's employment with the Company was terminated.

(2) SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Investment Valuation and Income Recognition - The Plan's investments are stated at fair value. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For further discussion on valuation see Note 3, Fair Value Measurement.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income and capital gains are recorded on the ex-dividend date. The net appreciation or depreciation in the fair value of investments consists of the realized gains or losses and the unrealized appreciation on investments and reinvested capital gains.

Notes Receivable from Participants - Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Interest income is recorded on the accrual basis. Related fees are recorded as administrative expenses and are expensed when they are incurred. No allowance for credit losses has been recorded as of December 31, 2017 or 2016. If a participant ceases to make loan repayments and the Plan administrator deems the participant loan to be in default, the participant loan balance is reduced and a benefit payment is recorded.

Benefit Payments - Benefit payments are recorded when the funds are distributed.

Administrative Expenses - Certain expenses of maintaining the Plan are paid directly by the Company and are excluded from these financial statements. Fees related to the administration of notes receivable from participants are charged directly to the participant's account and are included in administrative expenses. Investment related expenses are included in net appreciation of fair value of investments.

Revenue Credits - Effective January 1, 2017, the Plan entered into an agreement with the trustee whereby the trustee shares certain revenue generated by the Plan in excess of their fee. These deposits are included in other income on the

statements of changes in net assets available for benefits and are available to pay Plan expenses. Any amounts not used within one year shall be allocated as directed by the Plan administrator.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

(3) FAIR VALUE MEASUREMENTS

Accounting Standards Codification ("ASC") 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly

transaction between market participants on the measurement date. ASC 820 also established a fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 - observable inputs such as quoted prices (unadjusted) in active liquid markets for identical securities as of the reporting date;

Level 2 - other significant directly or indirectly observable inputs, including quoted prices for similar securities, interest rates, prepayment speeds and credit risk; or observable market prices in markets with insufficient volume and/or infrequent transactions; and

Level 3 - significant inputs that are generally unobservable inputs for which there is little or no market data available, including our own assumptions in determining fair value.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

Common stocks - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Common trust fund - The common trust fund is a stable value fund valued at the NAV of units of a bank collective trust that is comprised primarily of fully benefit-responsive investment contracts. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Participant transactions (purchases and sales) may occur daily. Were the Plan to initiate a full redemption of the common trust fund, the investment adviser reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner.

The following table presents investments measured at fair value, categorized on the basis of the investments' nature and risk, as of December 31, 2017:

	Fair Value as of December 31, 2017		
	Level 1	Level 2	Total
Mutual funds	\$38,771,153	\$	—\$38,771,153
Common stock of Nautilus, Inc.	944,649	—	944,649
Total assets in fair value hierarchy	39,715,802	—	39,715,802
Common trust fund measured at net asset value (a)	—	—	1,119,291
Total fair value of investments	\$39,715,802	\$	—\$40,835,093

The following table presents investments measured at fair value, categorized on the basis of the investments' nature and risk, as of December 31, 2016:

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Fair Value as of December 31,
2016

	Level 1	Level 2	Total
Mutual funds	\$23,823,338	\$ —	—\$23,823,338
Common stock of Nautilus, Inc.	1,437,287	—	1,437,287
Total assets in fair value hierarchy	25,260,625	—	25,260,625
Common trust fund measured at net asset value (a)	—	—	988,015
Total fair value of investments	\$25,260,625	\$ —	—\$26,248,640

(a) In accordance with Subtopic 820-10, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the Statements of Net Assets Available for Benefits.

The following table summarizes investments measured at fair value based on NAV per share as of December 31, 2017 and 2016, respectively:

December 31, 2017	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
T. Rowe Price Common Trust Fund	\$1,119,291	n/a	Daily	12 or 30 months
December 31, 2016	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
T. Rowe Price Common Trust Fund	\$988,015	n/a	Daily	12 or 30 months

(4) RELATED-PARTY AND PARTY-IN-INTEREST TRANSACTIONS

The Plan invests in shares of the Company's common stock, at the direction of the participants, and certain mutual funds and a common trust fund managed by Trustee. Certain investment fees are paid to the Trustee, TRP, and are reflected within the net investment income or loss for the year. The Plan also issues loans to participants that are secured by the vested balance of the participants' accounts and certain loan origination fees are paid to TRP. As such, these transactions qualify as party-in-interest transactions, which are exempt from the prohibited transactions rules.

(5) INCOME TAX STATUS

Effective January 1, 2017, the Plan adopted the T. Rowe Price Retirement Plan Service Inc. PDS Premier Volume Submitter 401(k) Savings/PS Plan Document ("Plan Document"). The Plan Document received an opinion letter from the Internal Revenue Service ("IRS") dated March 31, 2014 that the Plan Document, as then designed, was qualified under the applicable requirements of the IRS. Prior to the restatement, the Plan was based on an earlier non-standardized prototype plan document. This earlier prototype plan obtained an opinion letter dated March 31, 2008, in which the Internal Revenue Service ("IRS") stated that the prototype plan, as then designed, was qualified under the applicable requirements of the IRC. The Plan has been amended since receiving the opinion letters. However, the Plan administrator believes the Plan is being operated in compliance with the applicable requirements of the IRC and, therefore, believes that the Plan meets the criteria for qualification under the IRC, and that, the related trust is tax exempt. Accordingly, no provision for income taxes has been included in the Plan's financial statements.

Accounting principles generally accepted in the United States of America require plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would be sustained upon examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require the recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions.

(6) PLAN TERMINATION

While it has not expressed any intent to do so, the Company may terminate the Plan at any time, subject to the provisions of ERISA. In the event of total or partial termination of the Plan, participants will become 100% vested in their accounts.

(7) CONCENTRATIONS, RISKS AND UNCERTAINTIES

The Plan allows for investment in various securities including mutual funds, common trust fund and the Company's common stock. Investment securities are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect (i) participant's account balances and (ii) the amounts reported in the statement of net assets available for benefits and the statement of changes in net assets available for benefits.

NAUTILUS, INC. 401(k) SAVINGS PLAN
 FORM 5500, SCHEDULE H, LINE 4i-
 SCHEDULE OF ASSETS (HELD AT END OF YEAR)
 DECEMBER 31, 2017
 EIN# 94-3002667
 PLAN# 001

(b) Identity of Issue/ (a)(c) Description of Investment	(d) Cost ⁽¹⁾	(e) Current Value
Mutual Funds:		
PIMCO Total Return Fund		\$655,544
Vanguard Total Bond Index Fund		490,298
DFA US Targeted Value 1		597,624
Oakmark International Fund		1,753,912
* RS Small Cap Equity A		998,793
* T. Rowe Price Balanced Fund		2,170,839
* T. Rowe Price Equity Income Fund		1,435,795
* T. Rowe Price Equity Index 500 Fund		1,834,803
* T. Rowe Price Growth Stock Fund		4,176,140
* T. Rowe Price Mid-Cap Growth Fund		3,043,886
* T. Rowe Price Mid-Cap Value Fund		676,396
* T. Rowe Price Retire Bal Inv		51,227
* T. Rowe Price Government Money		27,644
* T. Rowe Price Retirement 2010 Fund		156,490
* T. Rowe Price Retirement 2020 Fund		1,270,513
* T. Rowe Price Retirement 2030 Fund		7,407,412
* T. Rowe Price Retirement 2040 Fund		7,606,981
* T. Rowe Price Retirement 2050 Fund		4,240,017
* T. Rowe Price Retirement 2060 Fund		176,839
Total mutual funds		38,771,153
Common Trust Fund:		
* T. Rowe Price Stable Value Fund Sch E		1,119,291
* Nautilus, Inc. Common Stock		944,649
* Participant Loans - Interest rates of 4.25% to 5.25%, maturing through 2030.	\$	—376,375
		\$41,211,468

* Denotes a party-in-interest with respect to the Plan.

⁽¹⁾ Historical cost information is not required for participant-directed investments.

See accompanying report of independent registered public accounting firm.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the plan administrator of the Nautilus, Inc. 401(k) Savings Plan has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

NAUTILUS, INC. 401(k) SAVINGS PLAN
(Name of Plan)

June 7, 2018 By: /s/ Wayne M. Bolio

Date Wayne M. Bolio
Senior Vice President, Law and Human Resources, General Counsel
Nautilus, Inc.

INDEX TO EXHIBITS

Exhibit

Number Description

23.1 Consent of KBF CPAs LLP, Independent Registered Public Accounting Firm

23.2 Consent of Perkins & Company, P.C., Independent Registered Public Accounting Firm

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