NAUTILUS, INC.
Form 11-K
June 27, 2013

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

FORM 11-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
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
TABLE OF CONTENTS

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

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

We have audited the accompanying statements of net assets available for benefits of the Nautilus, Inc. 401(k) Savings Plan (the "Plan") as of December 31, 2012 and 2011, and the related statements of changes in net assets available for benefits for the years ended December 31, 2012 and 2011. 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 audits.

We conducted our audits 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 audits 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 audits provide 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, 2012 and 2011, and the changes in net assets available for benefits for the years ended December 31, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule Form 5500, Schedule H, Line 4i - Schedule of Assets (Held at End of Year) as of December 31, 2012 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Perkins & Company, P.C.

Portland, Oregon
June 27, 2013

NAUTILUS, INC. 401(k) SAVINGS PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2012 AND 2011

	As of December 31,	
	2012	2011
ASSETS		
Investments, at fair value (Note 3)	$15,063,791	$13,318,202
Notes receivable from participants	261,146	202,917
Contributions receivable from employees	8	30,011
NET ASSETS AVAILABLE FOR BENEFITS AT FAIR VALUE	15,324,945	13,551,130
Adjustment from fair value to contract value for T. Rowe Price Stable Value Fund (Note 5)	(40,991)	(36,842)
NET ASSETS AVAILABLE FOR BENEFITS	$15,283,954	$13,514,288

See accompanying notes to financial statements.

NAUTILUS, INC. 401(k) SAVINGS PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	Year ended December 31, 2012	2011
ADDITIONS		
Investment income (loss):		
Net increase (decrease) in fair value of investments (Note 4)	$1,764,097	$(653,918)
Interest and dividends	398,825	325,899
Net investment income (loss)	2,162,922	(328,019)
Interest income on notes receivable from participants	10,622	8,428
Contributions:		
Participants	1,126,471	1,231,797
Employer	17,022	—
Rollover contributions	114,532	5,554
Total contributions	1,258,025	1,237,351
DEDUCTIONS		
Benefits paid to participants	(1,655,824)	(2,215,704)
Administrative expenses	(6,079)	(14,603)
Total deductions	(1,661,903)	(2,230,307)
NET INCREASE (DECREASE) IN NET ASSETS AVAILABLE FOR BENEFITS	1,769,666	(1,312,547)
NET ASSETS AVAILABLE FOR BENEFITS:		
Beginning of year	13,514,288	14,826,835
End of year	$15,283,954	$13,514,288

See accompanying notes to financial statements.

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.

Eligibility - The Plan is available to all full-time employees of the Company 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 $17,000 in 2012 and $16,500 2011, as prescribed by the Internal Revenue Code ("IRC"). Participants may also contribute amounts representing distributions from other qualified defined contribution plans. After tax contributions are not permitted by the Plan. 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. Participants who have attained age 50 before the end of the Plan year are eligible to make catch-up contributions subject to limitations of the IRC. Effective April 19, 2009, the Plan was amended to terminate employer matching contributions. Effective January 1, 2013, the Plan was amended to reinstate a company match. Matching contributions will be subject to certain limitations by the Plan. The Company will contribute and allocate to each eligible participant matching contributions equal to (i) 100% of the participant's elective deferrals that do not exceed 1% of compensation for the allocation period and (ii) 50% of the participant's elective deferrals that exceed of 1% of compensation for the allocation period but do not exceed 6% of 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. The Plan currently offers investments in Nautilus's common stock and 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.

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. Previously, vesting in the Company's matching contribution portion of a participant's account, plus actual earnings thereon, was pursuant to the following vesting schedule.

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

4

Effective April 18, 2009, the Plan was amended to fully vest employer matching contributions for eligible employees who were either active on April 18, 2009 or terminated on or after July 24, 2008 and before April 18, 2009.

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, 2012 and 2011, forfeited non-vested balances totaled $10,457 and $7,208, respectively. During 2012 and 2011, $3,082 and $6,060 in forfeitures, respectively, were utilized to reduce employer corrective 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 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, 2012 bear interest at rates ranging from 4.25% to 6.00%. Loan repayments will be made via payroll deduction on a bi-weekly basis and will be reinvested according to the participant's investment allocation in effect at the time of the loan repayment. Loans are due in full 90 days from the date of a participant's termination of employment with Nautilus.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - 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 generally 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. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Plan at year-end.
The Company's common stock is valued at the closing price reported on the New York Stock Exchange on the last business day of the Plan year.
The Stable Value Fund (see Note 5) is comprised of investment contracts which are stated at fair value (determined based on the net asset value of its underlying investments) and included as a component of investments in the statements of net assets available for benefits; the adjustment from fair value to contract value is reported in a separate line in the statements of net assets available for benefits. The statements of changes in net assets available for benefits are presented on a contract value basis.
Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Notes Receivable from Participants - Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent participant loans are reclassified as distributions in accordance with the terms of the Plan document.

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

Administrative Expenses - Generally, administrative expenses are paid by the Company, except for a nominal annual record-keeping fee charged to terminated employees.

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.

Risks and Uncertainties - The Plan allows for investment in various securities including mutual funds, common/collective trust funds 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.

New Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirement in U.S. GAAP and IFRSs (ASU 2011-04), an amendment to the accounting standards related to fair value measurements and disclosure requirements that result in a consistent definition of fair value and common requirements for the measurement and disclosure of fair value between GAAP and International Financial Reporting Standards. This standard provides certain amendments to the existing guidance on the use and application of fair value measurements and maintains a definition of fair value that is based on the notion of exit price. This standard became effective for the Plan on January 1, 2012 and its adoption did not have a material impact on the Plan's financial statements.

3. FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the price that would be received from selling an asset or the cost to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value for assets and liabilities required to be recorded at fair value, the Plan considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance. The Plan's valuation methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Accounting guidance also establishes a fair value hierarchy that requires the Plan to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. According to guidance, three levels of inputs may be used to measure fair value:

Level 1: quoted prices in active markets for identical assets;

Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets; or

Level 3: unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

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, 2012 and 2011.

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

Mutual funds - Valued at the net asset value as reported on national securities exchanges at the end of each business day.

Common collective trust funds - The Plan holds investments in the T. Rowe Price Stable Value Common Trust Fund, a common/collective trust fund (“the CCT”). T. Rowe Price is the trustee of the CCT. The CCT invests in guaranteed investment contracts, investment contracts, structured or synthetic investment contracts, separate account contracts, and other similar instruments that are intended to maintain a constant net asset value while permitting participant-initiated, benefit-responsive withdrawals. Units in the CCT are valued based on the underlying investments, the majority of which are based on quoted prices in active markets for similar investments. However, units in common collective trust funds are not publicly traded, but rather, are redeemable only by the issuer. The value of the Plan’s investment in common collective trust funds represents the value of the Plan’s interests in the overall value of the common collective trust fund. The CCT is valued at fair value by using the net asset value ("NAV"). The NAV, as provided by the trustee of each common collective trust fund, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by each fund less its liabilities. This practical expedient would not be 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 any common collective trust, each investment advisor reserves the right to temporarily delay withdrawal to ensure that securities liquidation will be carried out in an orderly business manner. The common collective trust funds had a fair value of approximately $994,501 and $1,056,422 as of December 31, 2012 and 2011, respectively, with no unfunded commitments, daily pricing frequency, and full redemption notice periods that require 12 or 30 months of advance written notice.

In accordance with the update to ASC 820, the following table presents investments measured at fair value, categorized on the basis of the investments' nature and risk, as of December 31, 2012:

	Fair Value as of December 31, 2012		
	Level 1	Level 2	Total
Mutual funds:			
U.S. small-cap equities	$704,564		$704,564
U.S. mid-cap equities	1,492,868		1,492,868
U.S. large-cap equities	3,165,681		3,165,681
Non-U.S. large-cap equities	831,535		831,535
Intermediate-term corporate bonds	731,507		731,507
Balanced	6,866,066		6,866,066
Common stock of Nautilus, Inc.	277,069		277,069
Stable Value Fund (Note 5)	—	$994,501	