NAUTILUS, INC.
Form 10-Q
May 08, 2018

false--12-31Q1201810-Q0001078207Accelerated FilerNAUTILUS, INC.
119000133000007500000075000000303050003016100030305000301610007000700014000120000300072000280001200018
0001078207 2018-01-01 2018-03-31 0001078207 2018-04-30 0001078207 2018-03-31 0001078207 2017-12-31 0001078207 2017-01-01 2017-03-31 0001078207 2016-12-31 0001078207 2017-03-31 0001078207 country:CA 2018-01-01 2018-03-31 0001078207 country:US 2018-01-01 2018-03-31 0001078207 country:CA 2017-01-01 2017-03-31 0001078207 country:US 2017-01-01 2017-03-31 0001078207 nls:AllOtherCountriesMember 2017-01-01 2017-03-31 0001078207 nls:AllOtherCountriesMember 2018-01-01 2018-03-31 0001078207 nls:DirectOrdersMember 2018-03-31 0001078207 nls:RetailOrdersMember 2018-03-31 0001078207 nls:OtherProductsAndServicesMember 2017-01-01 2017-03-31 0001078207 nls:ProductSalesMember 2018-01-01 2018-03-31 0001078207 nls:ExtendedWarrantiesAndServicesMember 2017-01-01 2017-03-31 0001078207 nls:OtherProductsAndServicesMember 2018-01-01 2018-03-31 0001078207 nls:ExtendedWarrantiesAndServicesMember 2018-01-01 2018-03-31 0001078207 nls:ProductSalesMember 2017-01-01 2017-03-31 0001078207 us-gaap:FairValueMeasurementsRecurringMember us-gaap:CommercialPaperMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0001078207 us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:ForeignExchangeForwardMember us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:MoneyMarketFundsMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:CommercialPaperMember 2017-12-31 0001078207 us-gaap:InterestRateSwapMember us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2017-12-31 0001078207 us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:FairValueMeasurementsRecurringMember us-gaap:CertificatesOfDepositMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:FairValueMeasurementsRecurringMember us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:CertificatesOfDepositMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:USTreasuryAndGovernmentMember 2017-12-31 0001078207 us-gaap:FairValueMeasurementsRecurringMember us-gaap:MoneyMarketFundsMember 2017-12-31 0001078207 us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:InterestRateSwapMember us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:InterestRateSwapMember us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:MoneyMarketFundsMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:CommercialPaperMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:MoneyMarketFundsMember 2017-12-31 0001078207 us-gaap:InterestRateSwapMember us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2017-12-31 0001078207 us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2017-12-31

0001078207 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:CorporateBondSecuritiesMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel2Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:CertificatesOfDepositMember 2017-12-31 0001078207
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:CommercialPaperMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel1Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:CertificatesOfDepositMember 2017-12-31 0001078207
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel2Member
us-gaap:FairValueMeasurementsRecurringMember 2017-12-31 0001078207 us-gaap:FairValueInputsLevel3Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2018-03-31
0001078207 us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:CertificatesOfDepositMember 2018-03-31 0001078207 us-gaap:ForeignExchangeForwardMember
us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2018-03-31 0001078207
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:USTreasuryAndGovernmentMember 2018-03-31 0001078207 us-gaap:FairValueInputsLevel1Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:USTreasuryAndGovernmentMember 2018-03-31
0001078207 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:MoneyMarketFundsMember 2018-03-31 0001078207 us-gaap:InterestRateSwapMember
us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember 2018-03-31 0001078207
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel2Member
us-gaap:FairValueMeasurementsRecurringMember 2018-03-31 0001078207 us-gaap:FairValueInputsLevel3Member
us-gaap:FairValueMeasurementsRecurringMember 2018-03-31 0001078207
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueInputsLevel3Member
us-gaap:FairValueMeasurementsRecurringMember 2018-03-31 0001078207 us-gaap:FairValueInputsLevel2Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember 2018-03-31
0001078207 us-gaap:FairValueMeasurementsRecurringMember 2018-03-31 0001078207
us-gaap:InterestRateSwapMember us-gaap:FairValueInputsLevel2Member
us-gaap:FairValueMeasurementsRecurringMember 2018-03-31 0001078207 us-gaap:FairValueInputsLevel1Member
us-gaap:FairValueMeasurementsRecurringMember 2018-03-31 0001078207
us-gaap:ForeignExchangeForwardMember us-gaap:FairValueMeasurementsRecurringMember 2018-03-31
0001078207 us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember 2018-03-31
0001078207 us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:CorporateBondSecuritiesMember 2018-03-31 0001078207
us-gaap:FairValueMeasurementsRecurringMember us-gaap:USTreasuryAndGovernmentMember 2018-03-31
0001078207 us-gaap:FairValueMeasurementsRecurringMember us-gaap:MoneyMarketFundsMember 2018-03-31
0001078207 us-gaap:FairValueMeasurementsRecurringMember us-gaap:CorporateBondSecuritiesMember
2018-03-31 0001078207 us-gaap:FairValueMeasurementsRecurringMember us-gaap:CertificatesOfDepositMember
2018-03-31 0001078207 us-gaap:FairValueInputsLevel3Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:USTreasuryAndGovernmentMember 2018-03-31 0001078207 us-gaap:FairValueInputsLevel1Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:CertificatesOfDepositMember 2018-03-31 0001078207
us-gaap:FairValueInputsLevel2Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:CertificatesOfDepositMember 2018-03-31 0001078207 us-gaap:InterestRateSwapMember
us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember 2018-03-31 0001078207
us-gaap:FairValueInputsLevel1Member us-gaap:FairValueMeasurementsRecurringMember
us-gaap:MoneyMarketFundsMember 2018-03-31 0001078207 us-gaap:InterestRateSwapMember
us-gaap:FairValueMeasurementsRecurringMember 2018-03-31 0001078207 us-gaap:FairValueInputsLevel3Member
us-gaap:FairValueMeasurementsRecurringMember us-gaap:MoneyMarketFundsMember 2018-03-31 0001078207
2017-01-01 2017-12-31 0001078207 us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember 2018-01-01 2018-03-31 0001078207
us-gaap:NondesignatedMember nls:IncomeTaxBenefitMember 2017-01-01 2017-03-31 0001078207
us-gaap:NondesignatedMember nls:IncomeTaxBenefitMember 2018-01-01 2018-03-31 0001078207
us-gaap:NondesignatedMember us-gaap:OtherOperatingIncomeExpenseMember 2018-01-01 2018-03-31

0001078207 us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestExpenseMember 2017-01-01 2017-03-31
0001078207 us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:InterestExpenseMember 2018-01-01 2018-03-31
0001078207 us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember 2017-01-01 2017-03-31 0001078207
us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember nls:IncomeTaxBenefitMember 2018-01-01 2018-03-31
0001078207 us-gaap:NondesignatedMember us-gaap:OtherOperatingIncomeExpenseMember 2017-01-01
2017-03-31 0001078207 us-gaap:InterestRateSwapMember us-gaap:CashFlowHedgingMember
us-gaap:DesignatedAsHedgingInstrumentMember nls:IncomeTaxBenefitMember 2017-01-01 2017-03-31
0001078207 us-gaap:OtherAssetsMember us-gaap:InterestRateSwapMember
us-gaap:DesignatedAsHedgingInstrumentMember 2017-12-31 0001078207 us-gaap:InterestRateSwapMember
us-gaap:DesignatedAsHedgingInstrumentMember 2017-12-31 0001078207 us-gaap:OtherAssetsMember
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-03-31 0001078207
us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember us-gaap:InterestRateSwapMember
us-gaap:DesignatedAsHedgingInstrumentMember 2018-03-31 0001078207 us-gaap:ForwardContractsMember
us-gaap:FairValueMeasurementsRecurringMember us-gaap:NondesignatedMember 2017-12-31 0001078207
us-gaap:ForwardContractsMember us-gaap:FairValueMeasurementsRecurringMember
us-gaap:NondesignatedMember 2018-03-31 0001078207 us-gaap:PrepaidExpensesAndOtherCurrentAssetsMember
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2017-12-31 0001078207
us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember 2018-03-31 0001078207
us-gaap:InterestRateSwapMember us-gaap:LondonInterbankOfferedRateLIBORMember 2018-03-31 0001078207
us-gaap:InterestRateSwapMember 2018-03-31 0001078207 us-gaap:ForeignExchangeForwardMember 2018-03-31
0001078207 us-gaap:AutomobilesMember 2018-03-31 0001078207 us-gaap:LeaseholdImprovementsMember
us-gaap:MaximumMember 2018-01-01 2018-03-31 0001078207 us-gaap:ComputerEquipmentMember
us-gaap:MaximumMember 2018-01-01 2018-03-31 0001078207 us-gaap:ComputerEquipmentMember 2018-03-31
0001078207 us-gaap:ComputerEquipmentMember us-gaap:MinimumMember 2018-01-01 2018-03-31 0001078207
us-gaap:FurnitureAndFixturesMember us-gaap:MinimumMember 2018-01-01 2018-03-31 0001078207
us-gaap:AutomobilesMember us-gaap:MinimumMember 2018-01-01 2018-03-31 0001078207
us-gaap:ConstructionInProgressMember 2018-03-31 0001078207 us-gaap:LeaseholdImprovementsMember
2018-03-31 0001078207 us-gaap:ConstructionInProgressMember 2017-12-31 0001078207
us-gaap:AutomobilesMember 2017-12-31 0001078207 us-gaap:FurnitureAndFixturesMember
us-gaap:MaximumMember 2018-01-01 2018-03-31 0001078207 us-gaap:MachineryAndEquipmentMember
us-gaap:MinimumMember 2018-01-01 2018-03-31 0001078207 us-gaap:LeaseholdImprovementsMember
us-gaap:MinimumMember 2018-01-01 2018-03-31 0001078207 us-gaap:FurnitureAndFixturesMember 2017-12-31
0001078207 us-gaap:MachineryAndEquipmentMember 2018-03-31 0001078207
us-gaap:ComputerEquipmentMember 2017-12-31 0001078207 us-gaap:FurnitureAndFixturesMember 2018-03-31
0001078207 us-gaap:MachineryAndEquipmentMember us-gaap:MaximumMember 2018-01-01 2018-03-31
0001078207 us-gaap:LeaseholdImprovementsMember 2017-12-31 0001078207
us-gaap:MachineryAndEquipmentMember 2017-12-31 0001078207 us-gaap:AutomobilesMember
us-gaap:MaximumMember 2018-01-01 2018-03-31 0001078207 nls:RetailMember 2018-03-31 0001078207
nls:RetailMember 2017-01-01 2017-12-31 0001078207 nls:DirectMember 2018-03-31 0001078207
nls:DirectMember 2016-12-31 0001078207 nls:DirectMember 2017-01-01 2017-12-31 0001078207
nls:RetailMember 2017-12-31 0001078207 nls:RetailMember 2018-01-01 2018-03-31 0001078207 nls:DirectMember
2018-01-01 2018-03-31 0001078207 nls:RetailMember 2016-12-31 0001078207 nls:DirectMember 2017-12-31
0001078207 us-gaap:TrademarksMember us-gaap:MaximumMember 2017-12-31 0001078207
us-gaap:CustomerRelationshipsMember us-gaap:MinimumMember 2018-01-01 2018-03-31 0001078207
us-gaap:CustomerRelationshipsMember us-gaap:MaximumMember 2017-12-31 0001078207 us-gaap:PatentsMember
us-gaap:MaximumMember 2018-03-31 0001078207 us-gaap:PatentsMember us-gaap:MaximumMember 2017-12-31
0001078207 us-gaap:TrademarksMember us-gaap:MaximumMember 2018-01-01 2018-03-31 0001078207

us-gaap:PatentsMember us-gaap:MaximumMember 2018-01-01 2018-03-31 0001078207
us-gaap:CustomerRelationshipsMember us-gaap:MaximumMember 2018-01-01 2018-03-31 0001078207
us-gaap:TrademarksMember us-gaap:MinimumMember 2018-01-01 2018-03-31 0001078207
us-gaap:PatentsMember us-gaap:MinimumMember 2018-01-01 2018-03-31 0001078207
us-gaap:TrademarksMember us-gaap:MaximumMember 2018-03-31 0001078207
us-gaap:CustomerRelationshipsMember us-gaap:MaximumMember 2018-03-31 0001078207
us-gaap:MinimumMember 2018-01-01 2018-03-31 0001078207
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-03-31 0001078207
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0001078207
us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2018-01-01 2018-03-31
0001078207 us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2017-12-31
0001078207 us-gaap:AccumulatedTranslationAdjustmentMember 2018-03-31 0001078207
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2018-01-01 2018-03-31 0001078207
us-gaap:AccumulatedTranslationAdjustmentMember 2018-01-01 2018-03-31 0001078207
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-12-31 0001078207
us-gaap:AccumulatedTranslationAdjustmentMember 2017-12-31 0001078207
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2018-03-31 0001078207
us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2018-03-31 0001078207
us-gaap:AccumulatedTranslationAdjustmentMember 2017-01-01 2017-03-31 0001078207
us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2016-12-31 0001078207
us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2017-01-01 2017-03-31
0001078207 us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-01-01 2017-03-31 0001078207
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-03-31 0001078207
us-gaap:AccumulatedTranslationAdjustmentMember 2017-03-31 0001078207
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-03-31 0001078207
us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-12-31 0001078207
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2016-12-31 0001078207
us-gaap:AccumulatedNetGainLossFromDesignatedOrQualifyingCashFlowHedgesMember 2017-03-31 0001078207
us-gaap:AccumulatedTranslationAdjustmentMember 2016-12-31 0001078207 us-gaap:CommonStockMember
2017-10-01 2017-12-31 0001078207 us-gaap:CommonStockMember 2018-01-01 2018-03-31 0001078207
us-gaap:CommonStockMember 2016-10-01 2017-06-30 0001078207
nls:A15MillionAuthorizationExpiringApril252019Member us-gaap:CommonStockMember 2018-01-01 2018-03-31
0001078207 nls:A10MillionAuthorizationExpansionExpiringMay42018Member us-gaap:CommonStockMember
2018-03-31 0001078207 nls:A15MillionAuthorizationExpansionExpiringApril252019Member
us-gaap:CommonStockMember 2017-04-25 0001078207 us-gaap:CommonStockMember 2018-02-21 0001078207
us-gaap:EmployeeStockOptionMember 2018-01-01 2018-03-31 0001078207
us-gaap:RestrictedStockUnitsRSUMember 2017-01-01 2017-03-31 0001078207
us-gaap:EmployeeStockOptionMember 2017-01-01 2017-03-31 0001078207
us-gaap:RestrictedStockUnitsRSUMember 2018-01-01 2018-03-31 0001078207 us-gaap:OperatingSegmentsMember
nls:RetailMember 2018-01-01 2018-03-31 0001078207 us-gaap:MaterialReconcilingItemsMember 2018-01-01
2018-03-31 0001078207 us-gaap:OperatingSegmentsMember nls:DirectMember 2018-01-01 2018-03-31 0001078207
us-gaap:MaterialReconcilingItemsMember 2018-01-01 2018-03-31 0001078207 us-gaap:OperatingSegmentsMember
nls:UnallocatedRoyaltyIncomeMember 2017-01-01 2017-03-31 0001078207
us-gaap:MaterialReconcilingItemsMember 2017-01-01 2017-03-31 0001078207 us-gaap:OperatingSegmentsMember
2017-01-01 2017-03-31 0001078207 us-gaap:OperatingSegmentsMember 2018-01-01 2018-03-31 0001078207
us-gaap:OperatingSegmentsMember nls:DirectMember 2017-01-01 2017-03-31 0001078207
us-gaap:OperatingSegmentsMember nls:UnallocatedRoyaltyIncomeMember 2018-01-01 2018-03-31 0001078207
us-gaap:OperatingSegmentsMember nls:RetailMember 2017-01-01 2017-03-31 0001078207
us-gaap:MaterialReconcilingItemsMember 2017-01-01 2017-03-31 0001078207 us-gaap:SalesRevenueNetMember
us-gaap:CustomerConcentrationRiskMember nls:LargestCustomerMember 2018-01-01 2018-03-31 0001078207
us-gaap:InventoriesMember 2018-03-31 xbrli:shares iso4217:USD nls:segment xbrli:pure iso4217:USD xbrli:shares

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018
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.)

17750 S.E. 6th Way
Vancouver, Washington 98683
(Address of principal executive offices, including zip code)

(360) 859-2900
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [x]	Non-accelerated filer [ ]	Smaller reporting company [ ]	Emerging growth company [ ]
		(Do not check if a smaller reporting company)		If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

The number of shares outstanding of the registrant's common stock as of April 30, 2018 was 30,414,512 shares.

NAUTILUS, INC.
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	As of March 31, 2018	December 31, 2017 *
Assets		
Cash and cash equivalents	$23,747	$27,893
Available-for-sale securities	68,905	57,303
Trade receivables, net of allowances of $133 and $119	29,796	42,685
Inventories	37,699	53,354
Prepaids and other current assets	7,132	7,240
Income taxes receivable	30	17
Total current assets	167,309	188,492
Property, plant and equipment, net	16,591	15,827
Goodwill	61,963	62,030
Other intangible assets, net	56,933	57,743
Deferred income tax assets, non-current	287	—
Other assets	704	684
Total assets	$303,787	$324,776
Liabilities and Shareholders' Equity		
Trade payables	$41,724	$66,899
Accrued liabilities	12,126	10,764
Warranty obligations, current portion	3,900	3,718
Note payable, current portion, net of unamortized debt issuance costs of $7 and $7	15,993	15,993
Total current liabilities	73,743	97,374
Warranty obligations, non-current	2,158	2,399
Income taxes payable, non-current	3,103	2,955
Deferred income tax liabilities, non-current	9,687	8,558
Other non-current liabilities	2,208	2,315
Note payable, non-current, net of unamortized debt issuance costs of $12 and $14	27,988	31,986
Total liabilities	118,887	145,587
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Common stock - no par value, 75,000 shares authorized, 30,161 and 30,305 shares issued and outstanding	230	—
Retained earnings	184,939	179,448
Accumulated other comprehensive loss	(269)	(259)
Total shareholders' equity	184,900	179,189
Total liabilities and shareholders' equity	$303,787	$324,776

*See Note 2.

See accompanying Notes to Condensed Consolidated Financial Statements.

1

Table of Contents

NAUTILUS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in thousands, except per share amounts)

	Three Months Ended March 31,	
	2018	2017 *
Net sales	$114,813	$113,252
Cost of sales	55,942	51,507
Gross profit	58,871	61,745
Operating expenses:		
Selling and marketing	36,763	37,665
General and administrative	6,910	7,486
Research and development	4,501	3,911
Total operating expenses	48,174	49,062
Operating income	10,697	12,683
Other income (expense):		
Interest income	272	131
Interest expense	(293)	(444)
Other, net	(13)	(47)
Total other expense, net	(34)	(360)
Income from continuing operations before income taxes	10,663	12,323
Income tax expense	2,523	4,138
Income from continuing operations	8,140	8,185
Discontinued operations:		
Loss from discontinued operations before income taxes	(17)	(1,626)
Income tax expense (benefit) of discontinued operations	64	(534)
Loss from discontinued operations	(81)	(1,092)
Net income	$8,059	$7,093
Basic income per share from continuing operations	$0.27	$0.27
Basic loss per share from discontinued operations	—	(0.04)
Basic net income per share	$0.27	$0.23
Diluted income per share from continuing operations	$0.27	$0.26
Diluted loss per share from discontinued operations	—	(0.04)
Diluted net income per share[1]	$0.26	$0.23
Shares used in per share calculations:		
Basic	30,314	30,713
Diluted	30,591	31,127

*See Note 2.
[1] May not add due to rounding.

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

NAUTILUS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited and in thousands)

	Three Months Ended March 31,	
	2018	**2017** *
Net income	$8,059	$7,093
Other comprehensive income (loss):		
Unrealized loss on available-for-sale securities, net of income tax benefit of $18 and $12	(37)	(19)
Gain on derivative securities, effective portion, net of income tax expense of $28 and $72	144	119
Foreign currency translation, net of income tax benefit of $3 and $0	(117)	71
Other comprehensive income (loss)	(10)	171
Comprehensive income	$8,049	$7,264

*See Note 2.

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended March 31, 2018		2017 *	
Cash flows from operating activities:				
Income from continuing operations	$8,140		$8,185	
Loss from discontinued operations	(81	)	(1,092	)
Net income	8,059		7,093	
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization	2,439		2,244	
Provision for allowance for doubtful accounts	21		83	
Inventory lower-of-cost-or-market/NRV adjustments	52		95	
Stock-based compensation expense	479		625	
Deferred income taxes, net of valuation allowance	838		(435	)
Other	21		5	
Changes in operating assets and liabilities:				
Trade receivables	12,864		20,471	
Inventories	15,283		12,564	
Prepaids and other current assets	230		1,060	
Income taxes receivable	(13	)	1,524	
Trade payables	(26,016	)	(27,232	)
Accrued liabilities, including warranty obligations	1,339		(1,077	)
Net cash provided by operating activities	15,596		17,020	
Cash flows from investing activities:				
Purchases of available-for-sale securities	(22,054	)	(36,665	)
Proceeds from maturities of available-for-sale securities	10,395		7,355	
Purchases of property, plant and equipment	(1,262	)	(45	)
Net cash used in investing activities	(12,921	)	(29,355	)
Cash flows from financing activities:				
Payments on long-term debt	(4,000	)	(4,000	)
Payments for stock repurchases	(2,718	)	(3,427	)
Proceeds from exercise of stock options	100		120	
Tax payments related to stock award issuances	(198	)	(741	)
Net cash used in financing activities	(6,816	)	(8,048	)
Effect of exchange rate changes on cash and cash equivalents	(5	)		

L. Richard Flury, Chairman
Larry D. McVay
Anthony J. Nocchiero
John C. Wallace

The following table sets forth certain information with respect to the CEO and CFO of the Company and the three most highly compensated Named Officers of the Company serving in such positions as of December 31, 2012.

Summary Compensation Table

Name and Principal Position	Year	Annual Salary ($)		Cash Bonus ($)		Stock Awards ($)		All Other Compen-sation ($)(11)	Total ($)
Fred L. Callon	2012	509,880		446,250	(3)	1,811,388	(7)	51,280	2,818,798
Chairman, President and	2011	464,520		464,520		1,156,650	(5)	48,563	2,134,253
Chief Executive Officer	2010	464,520		575,000		944,063	(6)	47,557	2,031,140
B. F. Weatherly	2012	364,000		278,460	(3)	769,842	(7)	36,177	1,448,479
Executive Vice President, Chief Financial	2011	364,000		327,600		788,625	(5)	28,952	1,509,177
Officer and Corporate Secretary	2010	364,000		420,000		755,250	(6)	27,020	1,566,270
Gary A. Newberry	2012	350,000		267,750	(3)	498,128	(7)	32,945	1,148,823
Senior Vice President - Operations	2011	350,000		315,000		525,750	(5)	30,930	1,221,680
	2010	250,077	(1)	100,000	(4)	273,000	(8)	27,323	1,325,400
				300,000		375,000	(9)		
Stephen F. Woodcock	2012	198,000	(12)	--		--		14,238	212,238
Vice President, Exploration	2011	286,000		171,600		420,600	(5)	27,787	905,987
	2010	286,000		171,600		566,438	(6)	37,412	1,061,450
Vince Borrello	2012	250,000		127,500	(3)	271,709	(7)	26,939	676,148
Vice President and General Manager –	2011	187,500	(2)	150,000		140,200	(5)	18,606	847,756
Permian Basin Operations(15)						351,450	(10)		
Joseph C. Gatto, Jr.	2012	225,000	(13)	178,500	(3)	160,336	(7)	27,600	1,184,436
Senior Vice President, Corporate Finance						593,000	(14)		

(1) Mr. Newberry's employment date was April 1, 2010 and initial annual salary was $320,000. Upon his promotion in September 2010, his annual salary was increased to $350,000.

(2) Mr. Borrello's employment date was April 4, 2011 and his annual salary was $250,000.

(3) Cash bonus awarded in March 2013 in recognition of 2012 performances.

30

(4) Represents a sign-on bonus paid in April 2010 as an additional incentive for employment.

(5) Represents the grant date fair value of the restricted stock units and performance-based phantom units granted to the Named Officers on May 12, 2011 computed in accordance with FASB ASC Topic 718. The assumptions utilized in the calculation of these amounts are set forth in footnotes 9 and 10 to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 14, 2012.

(6) Represents the grant date fair value of the restricted stock units and performance-based phantom units granted to the Named Officers on May 7, 2010 computed in accordance with FASB ASC Topic 718. The assumptions utilized in the calculation of these amounts are set forth in footnotes 9 and 10 to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 15, 2011.

(7) Represents the grant date fair value of the restricted stock units and performance-based phantom units granted to the Named Officers on May 10, 2012 computed in accordance with FASB ASC Topic 718. The assumptions utilized in the calculation of these amounts are set forth in footnotes 8 and 9 to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 14, 2013.

(8) Represents the grant date fair value of the restricted stock units granted to the Named Officer on April 1, 2010 computed in accordance with FASB ASC Topic 718. The assumptions utilized in the calculation of these amounts are set forth in footnotes 9 and 10 to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 15, 2011.

(9) Represents the grant date fair value of the restricted stock units granted to the Named Officer on September 22, 2010 computed in accordance with FASB ASC Topic 718. The assumptions utilized in the calculation of these amounts are set forth in footnotes 9 and 10 to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on March 15, 2011.

(10) Represents the grant date fair value of the restricted stock units granted to the Named Officer on April 4, 2011 computed in accordance with FASB ASC Topic 718. The assumptions utilized in the calculation of these amounts are set forth in footnotes 9 and 10 to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 14, 2012.

(11) See the Table of All Other Compensation and related footnotes below for reconciliation of All Other Compensation.

(12) Mr. Woodcock retired from the Company effective September 7, 2012 and thus did not receive his full annual salary.

(13) Mr. Gatto's employment date was April 5, 2012 and his annual salary was $300,000.

(14) Represents the grant date fair value of the restricted stock units granted to the Named Officer on April 5, 2012 as an additional incentive for employment, computed in accordance with FASB ASC Topic 718. The assumptions utilized in the calculation of these amounts are set forth in footnotes 8 and 9 to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 14, 2013.

(15) Mr. Borrello has submitted his resignation to the Company effective April 15, 2013.

Table of All Other Compensation

Name	Year	Company Contributed Cash to 401(k) ($)	Company Contributed Common Stock to 401(k) ($)(1)	Company Provided Auto ($)(2)	Company Paid Other ($)	Total ($)

Fred L. Callon	2012	18,500	6,250	11,625	14,905	(3)	51,280
	2011	18,375	6,125	9,374	14,689	(3)	48,563
	2010	18,375	6,125	8,368	14,689	(3)	47,557
B. F. Weatherly	2012	18,500	6,250	11,427	--		36,177
	2011	18,375	6,125	4,452	--		28,952
	2010	18,375	6,125	2,520	--		27,020
Gary A. Newberry	2012	18,500	6,250	8,195	--		32,945
	2011	18,375	6,125	6,430	--		30,930
	2010	18,375	6,125	2,823	--		27,323
Stephen F. Woodcock (5)	2012	5,940	4,950	3,348	--		14,238
	2011	18,375	6,125	3,287	--		27,787
	2010	18,375	6,125	3,333	9,579	(4)	37,412
Vince Borrello(6)	2012	18,500	6,250	2,189	--		26,939
	2011	12,981	4,327	1,298	--		18,606
Joseph C. Gatto, Jr.	2012	16,875	5,625	5,100	--		27,600

(1) Subject to IRS limits, Company contributions to each person's 401(k) account consist of a basic contribution equal to five percent (5%) of eligible annual base salary (funded one-half in cash and one-half in equivalent-valued common stock) plus a matching amount (limited to five percent (5%) of eligible annual base salary if such employee individually contributed at least eight percent (8%) of their eligible annual base salary). The number of shares contributed is determined on a monthly basis by dividing one-half of the total basic cash contribution by the closing market price on the last trading day of the month.
(2) Represents annual depreciation based on a three-year life, plus insurance, fuel, maintenance and repairs, pursuant to IRS Reg §1.61-21, Taxation of Fringe Benefits.
(3) Represents premiums paid by the Company on a personal life insurance policy for which Mr. Callon is the sole beneficiary.
(4) Represents taxable income associated with the purchase of a Company automobile at book value, an amount less than the estimated fair market value.
(5) Mr. Woodcock retired from the Company effective September 7, 2012.
(6) Mr. Borrello has submitted his resignation to the Company effective April 15, 2013.

Grant of Plan-Based Awards During 2012

The following table presents grants of equity awards during the fiscal year ending December 31, 2012:

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards (1) Thresh-old (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units		Grant Date Fair Value ($)(5)
Fred L. Callon	05/10/12	--	--	--	151,246	(2)	769,842
	05/10/12	--	--	--	26,690	(3)	135,852
	05/10/12	--	177,936	355,872	--		905,694
B. F. Weatherly	05/10/12	--	--	--	64,280	(2)	327,185
	05/10/12	--	--	--	11,343	(3)	57,736
	05/10/12	--	75,623	151,246	--		384,921
Gary A. Newberry	05/10/12	--	--	--	41,592	(2)	211,703
	05/10/12	--	--	--	7,340	(3)	37,361
	05/10/12	--	48,932	97,864	--		249,064
Stephen F. Woodcock (6)	05/10/12	--	--	--	--		--
	05/10/12	--	--	--	--		--
	05/10/12	--	--	--	--		--
Vince Borrello(7)	05/10/12	--	--	--	22,687	(2)	115,477
	05/10/12	--	--	--	4,004	(3)	20,380
	05/10/12	--	26,690	53,380	--		135,852
Joseph C. Gatto, Jr.	04/05/12	--	--	--	100,000	(4)	593,000
	05/10/12	--	--	--	17,850		90,857
	05/10/12	--	--	--	3,150		16,034
	05/10/12	--	10,500	21,000	--		53,445

32

(1) Amount represents performance-based phantom units payable in cash on the vesting date and which will be adjusted between 0% and 200% based on certain performance metrics when compared to the Company specified peer group. The adjusted performance-based phantom units will vest on December 31, 2014.
(2) Amount represents restricted stock units vesting on May 10, 2015 and will be settled in Company common stock.
(3) Amount represents restricted stock units vesting on May 10, 2015 and will be settled in cash based on the average of the opening and closing NYSE market price of the Common Stock on the vesting date.
(4) Amount represents restricted stock units awarded as an inducement for employment. These units will ratably vest one-third on each July 1 beginning 2013.
(5) This column shows the grant date fair value of the awards granted to the Named Officers on the date indicated computed in accordance with FASB ASC Topic 718. The assumptions utilized in the calculation of these amounts are set forth in footnotes 8 and 9 to the Company's consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 14, 2013.
(6) Mr. Woodcock retired from the Company effective September 7, 2012.
(7) Mr. Borrello has submitted his resignation to the Company effective April 15, 2013. All unvested awards on the effective date of Mr. Borrello's retirement shall forfeit and not vest.

Stock-Based Incentive Compensation Plans

The 2011 Omnibus Incentive Plan (the "2011 Omnibus Plan") was approved by stockholders on May 12, 2011. Prior to that date, the Company maintained five common stock-based incentive plans for its officers, directors and employees: the 1994 Plan, the 1996 Plan, the 2002 Plan, the 2006 Plan, and the 2009 Plan (collectively, the "Prior Plans"). These Prior Plans expired and any shares not reserved for future awards under the Prior Plans on the adoption date of the 2011 Omnibus Plan were transferred to and available under the 2011 Omnibus Plan. Any and all shares that may have become available as a result of future stock option exercises or share award vesting under the Prior Plans were also transferred to and available under the 2011 Omnibus Plan. No future grants will be made under the Prior Plans.

2011 Omnibus Plan. The 2011 Omnibus Plan was approved by the stockholders on May 12, 2011. Pursuant to the 2011 Omnibus Plan, the total number of shares available for awards shall be equal to the sum of: (a) 2,300,000 shares; (b) any and all Shares that are available for awards under the Prior Plans as of the approval date that are not reserved for outstanding awards that were granted under the Prior Plans on the approval date; and (c) any and all shares that may become available for awards under the Prior Plans on or after the approval date that were reserved for outstanding awards that were granted under the Prior Plans before the approval date, as provided in Section 4.2(b). Awards available under the 2011 Omnibus Plan include grants of stock options, stock appreciation rights or units, restricted stock, restricted stock units, or performance shares or units. As of March 22, 2013, 1,669,132 shares remain unissued within the 2011 Omnibus Plan.

Long-Term Incentive Plan Awards

The Company does not have a long-term incentive plan for its employees other than the stock-based incentive compensation plans mentioned above and in the Compensation Discussion and Analysis.

Outstanding Equity Awards at Fiscal Year-End

The following table contains information concerning all unexercised and unvested stock awards at December 31, 2012 for the Named Officers:

	Option Awards			Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not vested ($)(14)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that Have Not Vested ($)(14)
Fred L. Callon	--	--	--	106,250 (2)	499,375	18,750 (5)	88,125
	--	--	--	93,500 (3)	439,450	16,500 (6)	77,550
	55,000 (7)	--	--	--	--	--	258,500
	26,690 (8)	--	--	151,246 (4)	710,856	--	125,443
	177,936 (9)	--	--	--	--	--	836,299
B. F. Weatherly	5,000 (1)	5.12	05/02/2013	85,000 (2)	399,500	15,000 (5)	70,500
	--	--	--	63,750 (3)	299,625	11,250 (6)	52,875
	37,500 (7)	--	--	--	--	--	176,250
	11,343 (8)	--	--	64,280 (4)	302,116	--	53,312
	75,623 (9)	--	--	--	--	--	355,428
Gary A. Newberry	--	--	--	85,000 (10)	399,500	15,000 (14)	70,500
	--	--	--	42,500 (3)	199,750	7,500 (6)	35,250
	25,000 (7)	--	--	--	--	--	117,500
	7,340 (8)			41,592 (4)	195,482	--	34,498
	48,932 (9)					--	229,980
Vince Borrello(15)	--	--	--	30,000 (11)	141,000	--	--
	--	--	--	17,000 (3)	79,900	3,000 (6)	14,100
	4,004 (8)			22,687 (4)	106,629	--	18,819
	26,690 (9)					--	125,443
Joseph C. Gatto, Jr.	--	--	--	100,000 (12)	470,000	--	--

3,150	(8)	17,850	(4)	83,895	--	14,805
10,500	(9)				--	49,350

(1) Represents vested stock options awarded on May 8, 2002.

(2) Represents restricted stock units awarded May 7, 2010 and are settleable in stock on the May 7, 2013 vesting date.

34

(3) Represents restricted stock units awarded May 12, 2011 and are settleable in stock on the May 12, 2014 vesting date.
(4) Represents restricted stock units awarded May 10, 2012 and are settleable in cash on the May 10, 2015 vesting date.
(5) Represents restricted stock units awarded May 7, 2010 and are settleable in cash on the May 7, 2013 vesting date.
(6) Represents phantom stock units awarded May 12, 2011 and are settleable in cash on the May 12, 2014 vesting date.
(7) Amount represents performance-based phantom units settleable in cash on the vesting date and which will be adjusted between 0% and 150% based on the Company's total shareholders return when compared to the Company specified peer group. The adjusted performance-based phantom units will vest on December 31, 2013.
(8) Represents phantom shares awarded May 10, 2012 and are settleable in cash on the May 12, 2015 vesting date.
(9) Amount represents performance-based phantom units settleable in cash on the vesting date and which will be adjusted between 0% and 200% based on the Company's total shareholders return compared to the Company specified peer group. The adjusted performance-based phantom units will vest on December 31, 2014.
(10) Represents restricted stock units awarded September 22, 2010 and are settleable in stock on the May 7, 2013 vesting date.
(11) Represents restricted stock units awarded April 4, 2011 and are settleable in stock. Units vest one-third on each subsequent anniversary date following the award date.
(12) Represents restricted stock units awarded April 5, 2012 and are settleable in stock. Units ratably vest one-third on each July 1 beginning 2013.
(13) Represents restricted stock units awarded September 22, 2010 and are settleable in cash on the May 7, 2013 vesting date.
(14) Amounts calculated based on the December 31, 2012 the Company's common stock closing price as quoted on the NYSE of $4.70 per share.
(15) Mr. Borrello has submitted his resignation to the Company effective April 15, 2013. All unvested awards on the effective date of Mr. Borrello's retirement shall forfeit and not vest.

Option Exercises and Stock Vested

The following table provides information about the value realized by the Named Officers on option exercises, vesting of restricted stock units and performance-based phantom unit award payouts during 2012:

	Option Awards			Stock Awards			
Name	Number of Shares Acquired on Exercise (#)(1)	Value Realized On Exercise ($)(2)		Number of Shares Acquired on Vesting (#)(3)		Value Realized on Vesting ($)(4)	
Fred L. Callon	12,625	453,417		200,000		1,038,000	
B. F. Weatherly	--	344,250		127,500		272,475	
Gary A. Newberry	--	--		--		--	
Stephen F. Woodcock(5)	8,500	552,030	(6)	143,000	(6)	860,280	(6)
Vince Borrello(7)	--	--		--		--	

Joseph C. Gatto, Jr.	--	--	--	--

35

(1) Represents stock options awarded August 23, 2002 and exercised on August 21, 2012.
(2) Includes the value of the: 1) exercise of stock options; and/or (2) vesting of performance-based phantom units on December 31, 2012 and settled in cash. The value realized reflects the taxable value to the Named Officer as of the date of the option exercise or vesting of performance-based phantom unit awards.
(3) Represents restricted stock awarded August 14, 2009 and vested August 14, 2012.
(4) Represents the aggregate dollar amount realized on the date of the vesting of the restricted stock based on the market price of a share of Company stock on the NYSE on August 14, 2012.
(5) Mr. Woodcock retired from the Company effective September 7, 2012.
(6) Mr. Woodcock's value includes the accelerated vesting of awards pursuant to his retirement agreement.
(7) Mr. Borrello has submitted his resignation to the Company effective April 15, 2013.

Potential Payments Upon Termination or Change-in-Control

The following table shows the estimated gross taxable compensation payable upon termination following a change in control or upon death, disability or retirement. No amounts would be payable upon termination for other causes. The information assumes, in each case, that the officer's termination was effective as of December 31, 2012. In presenting this disclosure, we describe amounts earned through December 31, 2012 and, in those cases where the actual amounts to be paid out can only be determined at the time of such executive's separation from the Company, the estimates are of the amounts which would be paid out to the executives upon their termination.

Name and Reason for Termination	Base Salary ($)(3)	Cash Bonus ($)(3)	Accelerated Stock Award Vesting ($)(4)	Continued Employee Benefits ($)(5)(6)	Total ($)
Fred L. Callon					
Change in Control (1)	1,529,640	1,529,640	3,035,598	134,306	6,229,184
Death, Disability, or Retirement (2)	--	--	3,035,598	--	3,035,598
B. F. Weatherly					
Change in Control (1)	728,000	655,200	1,709,606	60,189	3,152,995
Death, Disability, or Retirement (2)	--	--	1,709,606	--	1,709,606
Gary A. Newberry					
Change in Control (1)	700,000	630,000	1,282,461	60,189	2,672,650
Death, Disability, or Retirement (2)	--	--	1,282,461	--	1,282,461
Vince Borrello(7)					
Change in Control (1)	500,000	300,000	485,891	60,189	1,346,080
Death, Disability, or Retirement (2)	--	--	485,891	--	485,891
Joseph C. Gatto, Jr.	600,000	420,000	618,050	60,189	1,698,239
Change in Control (1)			618,050		618,050
Death, Disability, or Retirement (2)	--	--			

36

(1) The Company entered into a Severance Compensation Agreement with each of the Named Officers listed in the table above. See "Employment Agreements, Termination of Employment and Change-in-Control Arrangements."
(2) "Disability" is generally defined as the employee's inability to carry out the normal and usual duties of his employment on a full-time basis for an entire period of six (6) continuous months together with the reasonable likelihood, as determined by the Board after consultation of a qualified physician, he will be unable to carry out his normal and usual duties of employment. "Retirement" is generally defined as the employee's attainment of an age which the Board determines to be consistent with normal retirement age.
(3) In accordance with Mr. Callon's Severance Compensation Agreement, the computation uses a three-year multiple with respect to the severance amount relating to salary and target bonus while a two-year multiple is used for the other Named Officers. See "Employment Agreements, Termination of Employment and Change-in-Control Arrangements."
(4) The amounts are computed based on unvested stock awards at December 31, 2012 using the closing price of the Company's common stock on the NYSE on the last trading day of 2012, at $4.70 per share.
(5) Benefits consist of thirty-six (36) months of employer provided family medical and dental insurance, life insurance, dependent life insurance, accidental death coverage and disability coverage for Mr. Callon and twenty-four (24) months for the other Named Officers in the table.
(6) Mr. Callon's amount includes an additional allotment for each of the three years representing premiums paid on a life insurance policy for which the Company does not have any beneficial interest.
(7) Mr. Borrello has submitted his resignation to the Company effective April 15, 2013.

Employment Agreements, Termination of Employment and Change-in-Control Arrangements

Employment Agreements. The Company has no employment agreements with any executive officer.

Severance Compensation Agreements. The Company entered into Severance Compensation Agreements ("SCA") with each of the Named Officers. The SCA will terminate, except to the extent that any obligation of the Company hereunder remains unpaid as of such time, upon the earliest of: (1) December 31, 2013, provided, however, that, on each anniversary date thereafter (each such date, an "Anniversary Date"), the expiration date shall automatically be extended for one additional year unless, immediately prior to such Anniversary Date, either party shall have given written notice that it does not wish to extend this SCA, but in no event shall the expiration date be earlier than the second anniversary of the effective date of a change of control; (2) the termination of the Named Officer's employment with Callon based on death, Disability (as defined in Section 3.1 of the SCA), or Cause (as defined in Section 3.2 of the SCA; and (3) the voluntary resignation of the Named Officer for any reason other than Good Reason (as defined in Section 3.3 of the SCA).

Pursuant to the SCA, if the executive incurs a "separation from service" from the Company (as such term is defined in final Treasury Regulations issued under Code Section 409A and other authoritative guidance issued there under) without cause by the Company or for good reason by him within two years following a change of control of the Company (or in certain cases, prior to a change of control), then the executive is entitled to a single lump-sum cash payment (payable on the date that is six months following the triggering event) in an amount equal to three times the sum (with respect to Mr. Callon) of: (a) the annual base salary in effect immediately prior to the change of control or, if higher, in effect immediately prior to the separation from service, and (b) the greater of the average bonus earned with respect to the three most recently completed full fiscal years or the target bonus for the fiscal year in which the change of control occurs, based on a forecast that has been approved by the Board of the results for the fiscal year in which the change of control occurs. For the remaining Named Officers, the salary and bonus multiple is two times. In addition, the Company must maintain at its expense until thirty-six (36) months after a separation from service all life, disability, medical, dental, accident, and health insurance coverage for Mr. Callon. For the remaining Named Officers, the continued benefit period is twenty-four (24) months. If the executive's employment is terminated because of his death or Disability, the Company is only required to make such payments if the termination occurred within six months after a change of control. “Good reason” is generally defined in the SCA as a change in compensation, benefits, position, responsibilities, or location. A change of control is generally defined in the SCA as: (i) any person or group of persons acting in concert shall have become the beneficial owner of more than 50% of the outstanding common stock of the Company; (ii) the stockholders of the Company shall cause a change in the majority of the members of the Board within a twelve-month period; or (iii) the Company or its stockholders shall enter into an agreement to dispose of all or substantially all of the assets or outstanding capital stock of the Company.

The SCA’s also provide that, upon a change of control, all stock options shall automatically become fully exercisable and all performance shares, restricted stock, stock appreciation rights and other similar rights held by the executive shall become fully vested, provided, however, that such acceleration of vesting shall not occur if it would be an impermissible acceleration under Section 409A of the Code. If the Company cannot provide for acceleration of vesting as a result of provisions in existence prior to a Change of Control, any plan or agreement, or Section 409A, the Company must provide in lieu thereof a lump-sum cash payment equal to the total value of the outstanding and unvested stock rights as of the date of separation from service.

The SCA's incorporate a provision to provide for the possible impact of the federal excise tax on excess parachute payments. The so-called "golden parachute" tax rules subject "excess parachute payments" to a dual penalty: the imposition of a 20 percent excise tax upon the recipient and non-deductibility of such payments by the paying corporation. While the excise tax is seemingly evenhanded, the excise tax can discriminate against long-serving employees in favor of new hires, against individuals who do not exercise stock options in favor of those who do and against those who elect to defer compensation in favor of those who do not. For these reasons, we believe that the "net-best" provision included in the SCA is appropriate. If any payment is subject to any excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended, the payment will be reduced so that no portion of the payment is subject to such excise tax if the net benefit payable would be at least as much as it would have been if no reduction was made.

Compensation of Non-Management Directors

Each non-management director receives an annual retainer of $40,000 per year with an additional $20,000 per year for the chairman of the Audit Committee, an additional $15,000 per year to the chairman of the Compensation Committee, an additional $10,000 per year to the chairman of the Nominating and Corporate Governance Committee, and an additional $10,000 to the chairman of the Strategic Planning Committee. Each non-management director is reimbursed for reasonable out-of-pocket costs incurred to attend Board meetings. In addition to cash compensation, the Compensation Committee may, from time to time, grant performance shares. During 2012, the Compensation Committee awarded shares of restricted stock with equivalent value equal to $125,000 each to Messrs. Flury, McVay, Wallace and Nocchiero. The restricted stock shall vest on the earlier of: (a) the first anniversary of the Grant Date, provided that Grantee continues to be a member of the Board (or is otherwise providing services to the Company as an employee) through such date; or (b) the date Grantee ceases to provide any services to the Company as an employee or director, other than for Cause, after reaching age sixty (60). The Compensation Committee may determine in its sole discretion that the restricted stock shall vest on a "qualified separation from service." For purposes hereof, a "qualified separation from service" is defined as a Separation from Service, other than for Cause, following a minimum of five (5) years of tenure on the Board and occurring within five (5) years prior to Grantee attaining the age sixty (60). The table below indicates the total compensation earned and paid during 2012 for each non-management director:

Non-Management Director Compensation for 2012

Name	Fees Earned or Paid in Cash ($)(1)		Stock Awards ($)(6)		Option Awards ($)	All Other Compensation ($)	Total ($)
L. Richard Flury	55,000	(2)	125,000		--	--	180,000
Larry D. McVay	50,000	(3)	125,000		--	--	175,000
John C. Wallace	60,000	(4)	125,000	(7)	--	--	60,000
Anthony J. Nocchiero	50,000	(5)	125,000		--	--	175,000

(1) Does not include reimbursement of expenses associated with attending the Board meetings.

(2) Represents annual retainer of $40,000 and an additional $15,000 for acting as chairman of the Compensation Committee.

(3) Represents annual retainer of $40,000 and an additional $10,000 for acting as chairman of the Strategic Planning Committee.
(4) Represents annual retainer of $40,000 and an additional $20,000 per year for acting as chairman of the Audit Committee.
(5) Represents annual retainer of $40,000 and an additional $10,000 for acting as chairman of the Nominating and Corporate Governance Committee.
(6) Amounts calculated utilizing the provisions of FASB ASC Topic 718. See notes 9 and 10 of the consolidated financial statements in the Company’s Annual Report for the year ended December 31, 2012 regarding assumptions underlying valuation of equity awards.
(7) Mr. Wallace elected to have his restricted stock award deferred pursuant to the terms of a Deferred Compensation Plan for non-employee directors, under which participants may elect to defer the receipt of the proceeds in cash until separation of service as a director.

Fred L. Callon serves as Chairman of the Board, but does not receive any additional compensation for his services in this capacity and therefore has been omitted from the table above. Mr. Weatherly also serves as a member of the Board and does not receive any additional compensation associated with those services.

The Company has established ownership requirements for its outside directors. Each director is required to achieve a minimum value of common stock equal to at least 5 times the annual retainer within the next five years.

PROPOSAL 2

ADVISORY VOTE TO APPROVE
NAMED EXECUTIVE OFFICER COMPENSATION

Callon is required by Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act and rules promulgated under Section 14A of the Exchange Act, to seek a non-binding advisory vote from its stockholders to approve the compensation paid to its Named Officers (sometimes referred to as "say on pay") as disclosed in this proxy statement. We encourage stockholders to read the "Compensation Discussion and Analysis" and "Executive Compensation and Other Related Information" sections of this proxy statement for a more detailed discussion of the Company's compensation programs and policies, the compensation and governance-related actions taken in 2012, and the compensation awarded to the Company's Named Officers. In determining whether to approve this proposal, we believe that stockholders should consider the following:

Independent Compensation Committee. Executive compensation is reviewed and established by a Compensation Committee of the Board consisting solely of independent directors. The Compensation Committee meets in executive session, without executive officers present, in determining annual compensation. The Compensation Committee receives data, analysis and input from an independent compensation consultant that is not permitted to perform any additional services for Callon management.

Performance-Based Incentive Compensation. Elements of performance-based, incentive compensation are largely aligned with financial and operational objectives established in the Board-approved annual operating plan.

Elimination of Tax Gross-ups. Started in 2011, executive officers are not eligible for a tax related gross-up on any element of current and future compensation.

"Double Trigger" Severance Agreements with Fixed Term. Callon's change in control severance agreements with executive officers require an actual or constructive termination of employment before benefits are paid following any change in control.

Equity Plans. The Company's equity plans generally include three-year minimum vesting periods for time-based awards, prohibit repricing or exchange of outstanding option awards, and require options be granted with exercise prices at fair market value on the date of grant.

Stock Ownership Guidelines. The Company's Named Officers are subject to stock ownership guidelines described in "Compensation Discussion and Analysis."

For these reasons, the Board recommends that stockholders vote in favor of the following resolution:

"RESOLVED, that the compensation paid to Callon's Named Officers, as disclosed in Callon's 2013 proxy statement (including the Compensation Discussion and Analysis, the compensation tables and related footnotes and narrative disclosures under the heading "Executive Compensation and Other Related Information") is hereby approved."

Although this vote is advisory and is not binding on the Board, the Compensation Committee of the Board values the input and views of Callon stockholders. The Board and the Compensation Committee will review the results of the vote and take them into consideration when considering future executive compensation policies and decisions.

The Board of Directors unanimously recommends that you vote "FOR" the advisory vote on executive compensation.

40

PROPOSAL 3

RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ERNST & YOUNG LLP, FOR FISCAL 2013

Ratification of Independent Registered Public Accounting Firm

The Audit Committee of the Board of Directors is required by law and applicable NYSE rules to be directly responsible for the appointment, compensation and retention of the Company's independent registered public accountants. The Audit Committee has selected Ernst & Young LLP, independent registered public accounting firm, for the examination of the accounts and audit of the financial statements of the Company for the year ending December 31, 2013. Ernst & Young has served as the Company's independent registered public accounting firm and audited the Company's consolidated financial statements beginning with the fiscal year ended December 31, 2002. We are advised that no member of Ernst & Young LLP has any direct or material indirect financial interest in Callon or, during the past three years, has had any connection with us in the capacity of promoter, underwriter, voting trustee, director, officer or employee. While stockholder ratification is not legally required, the Board of Directors believes that such submission is consistent with best practices in corporate governance and is an opportunity for stockholders to provide direct feedback to the Board of Directors on an important issue of corporate governance. If the stockholders do not ratify the selection, the Audit Committee may, but is not required to, reconsider whether to retain Ernst & Young LLP. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders. A representative of Ernst & Young LLP will be present at the 2013 Annual Meeting and will have the opportunity to make a statement, if he desires, and to respond to appropriate questions from stockholders.

The Board of Directors unanimously recommends that the stockholders approve and ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for the fiscal 2013. Unless otherwise indicated, all properly executed proxies received by the Company will be voted "FOR" such ratification at the 2013 Annual Meeting.

STOCKHOLDERS' PROPOSALS
FOR 2014 ANNUAL MEETING

Stockholders who desire to present proposals at the 2014 Annual Meeting of Stockholders and to have proposals included in the Company's proxy materials must submit their proposals to the Company at its principal executive offices not later than December 28, 2013. If the date of the 2014 Annual Meeting of Stockholders is changed by more than 30 days from the date of the 2013 Annual Meeting of Stockholders, the deadline for submitting proposals is a reasonable time before the Company begins to print and mail its proxy materials for its 2014 Annual Meeting of Stockholders.

The person named in the Company's form of proxy for the 2014 Annual Meeting will have discretionary authority to vote any proxies they hold at such meeting on any matter for which the Company does not receive notice by February 18, 2014, unless the Company changes the date of its 2014 Annual Meeting of Stockholders by more than 30 days from the date of the 2013 Annual Meeting of Stockholders, in which case such persons will be able to exercise discretionary authority if notice of the matter has not been received in a reasonable time before the Company mails its proxy materials for the 2014 Annual Meeting of Stockholders.

If the date of the 2014 Annual Meeting of Stockholders is advanced or delayed by more than 30 calendar days from the date of the 2013 Annual Meeting of Stockholders, the Company shall, in a timely manner, inform stockholders of such change, by including a notice, under Item 5, in its earliest possible quarterly report on Form 10-Q. The notice will include the new deadline for submitting proposals to be included in the Company's proxy statement and the new date for determining whether the Company may exercise discretionary voting authority because it has not received timely notice of a matter.

In order to avoid controversy as to the date on which the Company receives any such proposal, it is suggested that stockholders submit their proposals by certified mail, return receipt requested, or other means that permit them to prove the date of delivery. We reserve the right to reject, rule out of order or take other appropriate action with respect to any proposal that does not comply with the requirements described above or other applicable requirements.

FINANCIAL STATEMENTS AND OTHER AVAILABLE DOCUMENTS

Financial statements of the Company for its most recent fiscal year are contained in the 2012 Annual Report to Stockholders and the Company's Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the SEC on March 14, 2013. The Company's Annual Report, the Company's Annual Report on Form 10-K, Corporate Governance Principles, Code of Business Conduct and Ethics, and Charters of Board Committees may be accessed by stockholders on the Company's website at www.callon.com or printed copies are available upon written request to the B. F. Weatherly, Corporate Secretary, Callon Petroleum Company, 200 North Canal Street, Natchez, Mississippi 39120.

OTHER BUSINESS

The Board does not know of any matter to be acted upon at the 2013 Annual Meeting other than those described above. If other business comes before the 2013 Annual Meeting, the persons named on the proxy will vote the proxy in accordance with what they consider to be in the best interests of the Company and its stockholders. Please sign, date, and return your proxy promptly to avoid unnecessary expense. All stockholders are urged, regardless of the number of shares owned, to participate in the 2013 Annual Meeting by returning their proxy in the enclosed business reply envelope.

By Order of the Board of Directors

Natchez, Mississippi	Fred L. Callon Chairman, President and
April 4, 2013	Chief Executive Officer

42

Callon Petroleum Company
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
ANNUAL MEETING OF STOCKHOLDERS – MAY 16TH, 2013 AT 9AM
CONTROL ID:
PROXY ID:

CALLON PETROLEUM COMPANY
200 North Canal Street, Natchez, Mississippi 39120
Proxy Solicited on Behalf of the Board of Directors
of the Company for the Annual Meeting of Shareholders on May 16, 2013

The undersigned hereby constitutes and appoints Fred L. Callon his true and lawful agent and proxy with full power of substitution in each, to represent and to vote, as designated on the reverse, all of the shares of Common Stock of Callon Petroleum Company, held of record by the undersigned on March 22, 2013 at the Annual Meeting of Shareholders to be held at 9:00a.m. in the Grand Ballroom of the Natchez Grand Hotel, 111 Broadway Street, Natchez, Mississippi 39120 on May 16, 2013, and at any adjournments thereof, on all matters coming before said meeting.

IF NO DIRECTION AS TO THE MANNER OF VOTING THIS PROXY IS MADE, THIS PROXY WILL BE VOTED “FOR” EACH OF THE DIRECTOR NOMINEES IN PROPOSAL 1, “FOR” PROPOSAL 2, AND "FOR"PROPOSAL 3 AS INDICATED ON THE REVERSE SIDE HEREOF. You are encouraged to specify your choices by marking the appropriate boxes (SEE REVERSE SIDE), but you need not mark any boxes if you wish to vote in accordance with the Board of Directors’ recommendations. The Proxies cannot vote your shares unless you sign and return this card.

(CONTINUED AND TO BE SIGNED ON REVERSE SIDE.)

VOTING INSTRUCTIONS
If you vote by phone, fax or internet, please
DO NOT mail your proxy card.

MAIL:	Please mark, sign, date, and return this Proxy Card promptly using the enclosed envelope.
INTERNET:	https://www.iproxydirect.com/CPE
PHONE:	1-866-752-VOTE(8683)

ANNUAL MEETING OF THE STOCKHOLDERS
OF
Callon Petroleum Company

PLEASE COMPLETE, DATE, SIGN AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.
PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE: ý

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

Proposal 1	Election Of Directors	à	FOR ALL ¨	AGAINST ALL ¨	FOR ALL EXCEPT	
	Larry D. McVay				¨	CONTROL ID:
	John C. Wallace				¨	REQUEST ID:
Proposal 2	To approve, in an advisory (non-binding) vote, the Company's executive compensation.	à	FOR ¨	AGAINST ¨	ABSTAIN ¨	
Proposal 3	To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm.	à	FOR ¨	AGAINST ¨	ABSTAIN ¨	

MARK "X" HERE IF YOU PLAN TO ATTEND THE MEETING: ¨
MARK HERE FOR ADDRESS CHANGE ¨ New Address (if applicable):
____
____
____

THIS PROXY WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" THE ELECTION OF EACH OF THE DIRECTOR NOMINEES IN PROPOSAL 1, "FOR" PROPOSAL 2, AND "FOR" PROPOSAL 3.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

IMPORTANT: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

Dated: ________________________, 2013

The Proxy Statement and Annual Report for 2012 are available at www.iproxydirect.com/CPE

(Print Name of Stockholder and/or Joint Tenant)

(Signature of Stockholder)

(Second Signature if held jointly)