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PRESENTATION

Operator

Welcome to the Nautilus Q1 FY15 conference call.

(Operator Instructions)

As a reminder, this conference is being recorded Monday, May 4, 2015. I would now like to turn the conference over to John Mills, Partner at ICR. Please go ahead, sir.

John Mills *- ICR - IR*

Thank you. Good afternoon, everyone. Welcome to Nautilus' first-quarter 2015 conference call. Participants on the call from Nautilus are Bruce Cazenave, Chief Executive Officer; Sid Nayar, Chief Financial Officer; and Bill McMahon, Chief Operating Officer.

Our earnings release was issued earlier today and may be downloaded from our website at nautilusinc.com on the Investor Relations page. The earnings release includes a reconciliation of the non-GAAP financial measure mentioned in today's call to the most directly comparable GAAP measure.

Remarks on today's conference call may include forward-looking statements within the meaning of the securities laws. These statements include statements concerning the Company's current or future financial and operating trends, anticipated new product introductions, available supply of certain products, planned and anticipated results of new product and channel development initiatives, expectations concerning future income tax payments and forecasts related to sales performance of individual products and in international markets.

Forward-looking statements are subject to a number of risks and uncertainties and actual results may differ materially from those statements. For more information about these risks, please refer to our quarterly and annual reports filed with the SEC, as well as the Safe Harbor Statements in today's press release. Nautilus undertakes no obligation to update publicly any forward-looking statements to reflect new information, events or circumstances after they were made or to reflect the occurrence of unanticipated events unless otherwise indicated.

All information and comments regarding our operation results pertain to our continuing operations. With that, it's my pleasure to turn the call over to Bruce. Go ahead, Bruce.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Thank you, John. Good afternoon, everyone. Thank you for joining our call today. On today's call, I'd like to start by providing a general overview of the first quarter and then will turn it over to Sid Nayar to review our financial results in more detail. Bill McMahon will then add some details on each business segment as well as updates on product activity. I will then close with some summary remarks before we open up the call for questions.

Following a strong year of performance in 2014, we're pleased to report a solid start to 2015 in terms of continued growth in both revenue and profitability. In the first quarter, we delivered revenue growth of 34%, which was driven by a 46% increase in the direct business and a 6% increase in retail. In our direct business, we continue to be encouraged by the momentum of the Bowflex MAX Trainer product line since its launch just over a year ago.

This gives us confidence that it will continue to be an important part of our product portfolio for the foreseeable future. Accordingly, we plan to increase our media spend to fully support building consumer awareness of this product line in the coming quarters. Our retail segment also continues to steadily grow, despite challenges created by West Coast ports during the past two quarters, and facing some very large comparisons from last year when the first-quarter revenue increased 33%.

Sell-through performance and consumer acceptance of the new Schwinn and Nautilus branded products introduced since the fall 2013 are meeting our expectations. And hence, we will continue to selectively build distribution points in North America as well as international markets. Bill will provide some additional commentary on retail products and initiatives during his remarks. Finally, on a bottom-line basis, consolidated operating income from continuing operations in the first quarter increased by 96% versus prior year.

This underscores our ability to successfully leverage fixed costs across higher sales volumes while navigating some difficult port-related logistical challenges Bill and Sid will describe in further detail. At this time, I would like to turn it over to Sid Nayar, our Chief Financial Officer, who will provide some additional details about the first-quarter financials. Sid?

Sid Nayar - *Nautilus, Inc. - CFO*

Thank you, Bruce. I would like to review the details of our financial results for the first quarter of 2015. Net sales for the first quarter totaled $96.2 million, an increase of 33.8% as compared to the same period in the prior year. First-quarter gross margins increased 150 basis points in the direct segment to 65.2% and were down 340 basis points in the retail segment to 22% when compared to the same quarter last year.

On an overall basis, total company gross margins for the first quarter 2015 improved to 56%, up 250 basis points versus the same period prior year, reflecting channel mix. Total operating expenses for the first quarter of 2015, as a percentage of sales, decreased to 37.7% from 41% in the same period last year, reflecting improved leverage of expenses across the higher revenue base. Sales and marketing expense for the first quarter of 2015 were $28.4 million, or 29.5% of sales, as compared to $21.8 million, or 30.3%, primarily reflecting higher media spending.

General and administrative expenses were $5.6 million, or 5.8% of sales for the first quarter of 2015, which compares to $5.8 million, or 8.1% of sales in the same period last year. The decreased dollar spending in G&A primarily reflects lower patent enforcement-related legal expenses and intellectual property registration fees. The improvement in G&A, as a percentage of sales, highlights favorable operating efficiencies and our ability to leverage the existing operating base as the business expands.

Research and development costs in the first quarter of 2015 were $2.3 million, or 2.4% of net sales, compared to $1.9 million, or 2.6% of net sales in the same period last year. The dollar increase reflects our ongoing commitment to invest in the product development and engineering resources required to innovate and broaden our product portfolio through new and refreshed products. Operating income for the first quarter of 2015 increased to $17.6 million, as compared to income of $9 million in the same quarter of last year.

The increase reflects higher sales and gross margins in the direct segment, combined with improved operating leverage of sales and marketing and general and administrative expenses. Operating margin for the first quarter of 2015 improved to 18.3%, compared to 12.5% for the same period last year. Income from continuing operations for the first quarter of 2015 was $10.9 million, or $0.34 per diluted share, as compared to $5.7 million, or $0.18 per diluted share for the same period last year.

The effective tax rate for the first quarter of 2015 was 38%, compared to 35.7% in the same period last year, which was lower as it included the benefit for an R&D tax credit adjustment. Given the Company's US net operating loss carry-forward position, we expect to continue to have limited cash tax payments in the near term.

Total net income, including discontinued operations for the first quarter of 2015, was $10.7 million, or $0.34 per diluted share. This includes a $0.1 million loss net of taxes, or less than $0.01 loss per diluted share from discontinued operations. This compares to the first quarter of last year, where we reported total net income including discontinued operations of $5.4 million, or $0.17 per diluted share, which included a loss from discontinued operations of $0.4 million net of taxes, or a $0.01 loss per diluted share.

Turning now to our segment results, net sales in the direct business totaled $74.1 million for the first quarter of 2015, a 46% increase over the same quarter last year. Direct segment sales benefited from continued strong demand for our cardio products, primarily driven by sales of the Bowflex MAX Trainer product line that launched during Q1 2014. This growth was partially offset by the continued decline of strength products in the direct channel.

US credit approval rates rose to 44.5% for the first quarter of 2015, up from 41.3% for the same period last year, attributable to several factors we have detailed previously, including demographics around sales of the Bowflex MAX Trainer and our media strategy. Bill will add more color around the impact of improved approval rates in the direct segment sales in his comments.

Gross margin for the direct business improved to 65.2% for the first quarter of 2015, compared to 63.7% in the same quarter of last year. The increase in gross margins reflect improved product mix, coupled with the non-recurrence of expenses related to inventory reserves for discontinued product in the prior period.

Operating income for the first quarter of 2015 in our direct business was $19.6 million, compared to $10.4 million in the same quarter prior year. Operating income benefited from higher gross margins and improved leverage of operating expenses as a percentage of sales in the first quarter of 2015. Net sales in our retail segment for the first quarter of 2015 were $21.3 million, an increase of 5.9%, compared to $20.1 million in the first quarter of last year.

The improvement reflects continued sales trend of the Company's new line-up of cardio products launched in both the fall of 2013 and 2014, partially offset by weaker sales experienced in Canada and international markets in the first quarter of 2015. Gross margins for the retail business declined by 340 basis points to 22% in first quarter of 2015, as compared to 25.4% for the prior period.

This was driven by an unfavorable product and customer mix, along with increases in overhead related to fulfilling FOB orders from our domestic distribution facilities, as well as added freight costs related to mitigating the impact of the West Coast port situation. In the first quarter of 2015, operating income for the retail business totaled $1.5 million as compared to $2.5 million in the same period of last year.

The decrease is attributable to the lower gross margins, higher marketing and merchandising expenses, and increased R&D and IT-related costs allocated to the segment. Our retail operating margins have been negatively impacted in the short term as we seek to accelerate growth through investments in new product categories and channel development.

Now, turning to the consolidated balance sheet, cash and investments totaled $82.1 million as of March 31, 2015 with no debt. This compares to $72.2 million in cash and no debt at December 31, 2014. Inventories were $20 million as of March 31, 2015, compared to $24.9 million at December 31, 2014.

The decrease in inventory versus year-end 2014 reflected the seasonality of the business and clearing of backlog in-transit inventory as the West Coast port labor dispute eased. Trade payables were $26.8 million as of March 31, 2015, compared to $47.6 million at the end of 2014.

Capital expenditures totaled $0.6 million for the quarter, with spending primarily on IT infrastructure. We anticipate spending $6 million to $7 million in CapEx in 2015, primarily related to new product tooling, leasehold improvements and IT infrastructure spending. In the first quarter, we repurchased $2 million, or 134,000 shares, as part of our previously announced $15 million share repurchase program.

At this time, I'd like to turn it over to Bill McMahon, our Chief Operating Officer, who will provide additional insights into our business and key products. Bill?

Bill McMahon - *Nautilus, Inc. - COO*

Thank you, Sid. I'd like to provide additional background on our first-quarter results and the overall position of our business. Starting with our direct business, we delivered another solid quarter of revenue and operating income growth, largely driven by the Bowflex MAX Trainer, which continues to exceed our growth expectations. The MAX trainer was recently recognized with the prestigious Red Dot Design Award.

The MAX Trainer stood out amongst nearly 5,000 global submissions, capturing the Design Award's jury attention based on several design criteria, including the product's functionality, innovation, ergonomics and durability. Since it was established in 1955, the Red Dot Design Award ranks among the most renowned design competitions in the world.

With consumer demand and satisfaction very high, we anticipate that the MAX Trainer product line will continue to drive growth in our direct segment in the coming quarters. And to support that growth, we plan to continue to strategically ramp up our media spend on MAX Trainer. Meanwhile, our other key cardio product, the Bowflex TreadClimber continues to perform in line with our expectations. As we discussed in our last earnings call, cross-selling from TreadClimber to MAX Trainer is occurring, but it's doing so at roughly the rate our research and forecast expected.

This is normal behavior in a direct-response model when two products exist in a larger cardio market space. We believe that the TreadClimber platform holds significant potential. As such, we plan to launch the next-generation of split treadle device products by the end of this year. These products will include several key elements that will modernize the platform, including digital integration, greatly enhanced console technologies, and the ability to attract and export data to a variety of smart devices, including wearables.

We believe that these enhancements to a proven successful platform will position the product for future success. As Sid mentioned in his remarks, we continue to experience favorable gains in consumer financing approval rates. These gains continue to be driven primarily by our efforts to deliver strong through-the-door credit quality via our creative and media positioning. The performance of our account portfolio has lead our partners to approve at a cautiously higher rate.

Many followers of our Company watch our credit approval rates closely for the purposes of modeling or as a measure of health within the direct segment. I'd like to note a few key elements that everyone should take into account when looking at the full context of consumer financing in our direct business. First, while improved financing approval rates have benefited our business, it's very important to note that we also have an increasing number of sales completed using credit cards.

This is a strong indicator that our growth is being fueled by product innovation versus merely the growth in the approval rates. In the last nine months, growth from sales as credit card as a payment method has significantly outpaced the growth of sales via financed orders. This is reflective of our median marketing message, as well as products like MAX Trainer, which are driving high-quality credit through the door.

In many cases, these customers are choosing to use the rewards-based credit card for purchase, even if they would qualify for our best credit programs. We are focused on selling the benefits of our product solution first, and then providing the customer with a variety of payment options once they are committed to their purchase. This approach is healthy and sustaining for our business and for our credit partners.

Secondly, with the potential for higher interest rates on the horizon, I would like to take a moment and discuss what impact that would be on our business. Most importantly, a rise in interest rates would not, in and of itself, change approval rates. Rather, a change in interest rates, and specifically the LIBOR rate, could have an impact to the cost of our financing programs as some amount of the cost of funding is passed through to Nautilus. But again, no impact on actual financing approval rates themselves.

In the event of a significant interest rate move, which is not currently forecasted, we have a variety of methods available to us to mitigate much of that cost. As is our normal behavior, we will watch all elements related to consumer finance very closely, and we are in routine communication with our partners. With that said, we continue to endeavor to maintain a healthy balance of payment methods while driving profitable growth. Our direct business is well-positioned for continued growth in 2015.

In addition to our strong top-line momentum, we continue to be pleased with our ability to expand the segments' margins and profitability. Turning now to our retail business, retail customer response to our recent product launch has continued to be positive. The retail segment as a whole was somewhat impacted due to product availability issues stemming from the West Coast port slowdown.

Given that operating environment, we are pleased with the growth we achieved against a difficult comparable from prior year, and we believe our growth continues to outpace overall industry performance. We are in the middle of a key selling season for this fall, and while it is early, we are encouraged by the ongoing conversations. Our retail partners are pleased with our product quality and sales performance.

We are making several advancements in our ability to support and service the retailer and end customer, and we believe this capability, along with continued product innovation, will be key to driving continued growth in the retail segment. That growth will also include international sales, which we define as sales outside of the United States and Canada. In the first quarter, we showcased our Nautilus cardio products at the ISPO International Sporting Goods Exposition in Munich, and we are very encouraged by the positive response and the high interest level in our products.

We also remain on track to launch MAX Trainer internationally in the second half of this year. Before moving on, I'd like to briefly discuss retail channel gross margins. Our margins decreased in Q1 year over year. As we noted in our Q4 2014 earnings call, we are aware of the factors driving this decline and we have and are taking steps to reverse the trend. Revenue growth with a decrease in profitability is counter to our core strategy and this is a primary area of focus for us.

Also as noted in the last earnings call, we stated that the nature of these margin challenges will need two quarters to address them. I'd like to reiterate that while we do expect be margin challenged in Q2, we have put into place actions that we anticipate will begin to provide margin improvement over our current levels beginning in the second half of this year. It's very important to emphasize that our retail business overall remains quite profitable to Nautilus and will continue to do so while we address this issue.

Ongoing product innovation continues to be a key area of focus for our team, and we are very pleased to announce the opening of our Nautilus Innovation Center located next to our corporate headquarters. This facility will allow us to consolidate our design and development teams closer to our prototype and testing lab. We feel these changes will best position our product development team to drive further innovation.

Meanwhile, in addition to the next generation of TreadClimber products we previously mentioned, there are multiple other product launches planned for this fall, including the Bowflex SelectTech 560 dumbbell. The SelectTech 560 integrates several key elements and represents the first major upgrade and redesign in the history of this product.

With 560, we built upon the original SelectTech 552 design, improving functional elements that will allow for greater ease of use and we are including the ability to purchase add-on weight packs that can upgrade our dumbbell to 100 pounds. Also, our new Select rise dumbbell introduces new digital integration and repetition counting technologies to the product. Bowflex SelectTech 560 will launch later this year and will be available in both the retail and direct channels.

Additionally, for our retail channel, we plan to build on the success of our product platforms over the past two years. The model year 13 Schwinn and model year 14 Nautilus products are performing well in the market and we will supplement those platforms with the launch of the Schwinn 80 Pro Bike. The Airdyne Pro is a new platform designed with commercial quality Airdyne components. Airdyne set the standard for fan bike performance and it is very popular today in the CrossFit and vertical market environment.

We introduced the Schwinn 80 Pro at the recent ERSA trade show in Los Angeles and in the interest in the interest in the product was strong. 80 Pro is on track to launch this fall. We continue to look at products across a three-year road map with the intention of maintaining a regular cadence of product launches supporting growth for both direct and retail. One area where we have made significant strides in the past two years has been in digital connectivity.

Making our products communicate well with the major emerging tracking platforms is an important goal for us. Our products previously communicated with MyFitnessPal, an application with more than 40 million users, recently acquired by Under Armour. Now, we are happy to report that our MAX Trainer is compatible with the recently launched Google Fit platform. This is in addition to our prior integration with Apple's HealthKit.

We will continue to prioritize enabling digital communications across our major product lines. Lastly, I would like to briefly mention that the residual impact of the West Coast port slowdown is steadily being mitigated. We have resumed normal service levels to our retail partners. The promise periods for our high-velocity direct channel products is improving. We anticipate being fully clear of all impacts from the port situation by the end of Q2.

In summary, we are well-positioned to maintain a strong growth trajectory. We are excited to begin introducing several new products over the coming months. Following a number of key product launches last year, our new product line-up further diversifies our product portfolio and positions us to gain market share across all segments of our business. With that, I would like to turn the call back over to Bruce for his final comments. Bruce?

Bruce Cazenave - *Nautilus, Inc. - CEO*

Thank you, Bill. Before opening up the call for questions, I'd to make a few final comments. We continue to make good progress on our long-term growth plan and the interim milestones we set. The three key areas of focus that have served us well, consumer insights-driven product innovation, improving margins and leveraging our infrastructure, remain guard rails and filters for prioritizing efforts and evaluating potential returns on investments.

Near term, we remain on track for continued revenue and earnings growth in the coming quarters. While we are optimistic in our outlook, we do anticipate increasing our sales and marketing investments in the coming quarters and particularly the media spend to support MAX Trainer, as Bill mentioned. The financial health of our business remains strong, and we continue to assess the best ways to maximize long-term shareholder value.

We are very active in following a disciplined, strategic evaluation process as it relates to optimum capital deployment going forward. This is in addition to the share buyback program that is already in place. Finally, I would like to take this opportunity to thank our dedicated employees and share how proud I am of them for executing so well in creating the positive momentum we now have in so many areas of our business.

That concludes our prepared remarks. Now, I would like to open up the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions).

Our first question comes from Lee Giordano from Sterne Agee CRT.

Lee Giordano - *Sterne Agee CRT - Analyst*

Thanks. Good afternoon, guys and congratulations on the quarter.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Thank you, Lee.

Lee Giordano - *Sterne Agee CRT - Analyst*

My first question is just on the ports impact. Is there anyway you could quantify potentially what you saw as far as the impact on sales and gross margins in the quarter to give us a better sense of what could have been?

Bill McMahon - *Nautilus, Inc. - COO*

Yes, hello, Lee. This is Bill. I think it's difficult for us to quantify in exact sales dollars. I can tell you in general, the impact on direct was extended promise periods, which we're pleased with the folks who were willing to buy during those extended periods, held onto their orders and didn't cancel. But we don't know how many sales we might have lost because of that extended promise period.

On the retail side, we know that it impacted us two fold. One is many of our retailers buy from us direct from the factory. Even if we were able to get product through for some of our accounts, they may have encountered a lot of difficulty. We know some of them lost selling cycles because of this and that no doubt deflated sales somewhat.

Also, in some part of our margin challenge is that, where we could and we had inventory in stock, we attempted to fulfill inventory for key partners from our own stock. That could have been at a direct from Asia price. So that's a short-term margin hit for us, but it was necessary to do so where we could to maintain strong account relations.

Lee Giordano - *Sterne Agee CRT - Analyst*

Great. That's helpful. And secondly, I know it sounds like the gross margins at retail are going to improve in the second half of the year, but can you clarify what you meant by unfavorable mix and also customer mix? What's happening within the mix of product there that's hurting the gross margin specifically?

Sid Nayar - *Nautilus, Inc. - CFO*

Lee, this is Sid. In terms of customer mix, I should probably have defined it more as channel. Because we saw less sales in our higher margin Canadian and international businesses. That's really where we saw the fall off in margins, which we hope with the bounce back in the second half, that is going to be part of the driver for getting the margins back for the second half of the year in the retail channel.

Lee Giordano - *Sterne Agee CRT - Analyst*

And product mix, what's going on there, exactly?

Sid Nayar - *Nautilus, Inc. - CFO*

Again, it's a combination of we have seen a shift to some of the lower margin bikes and ellipticals, as well as, obviously, the introduction of the treadmills, which we knew was going to be below the fleet average. A combination of those is something that we have to address internally.

Lee Giordano - *Sterne Agee CRT - Analyst*

Great. Thank you.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Thanks, Lee.

Operator

Our next question comes from Rommel Dionisio from Wunderlich Securities.

Rommel Dionisio - *Wunderlich Securities - Analyst*

I wondered if I could get a little more granular update on the nutrition line, how that's going with that initiative that you started last year? Thanks.

Bill McMahon - *Nautilus, Inc. - COO*

Hi, Rommel, Bill again. Nutrition sales increased quite a bit in Q1. They're still a small part of the direct business, but we're moving forward this year with our next phases of creating awareness, primarily digitally and via outreach and sample programs. We remain pretty bullish on nutrition, but it needs to continue to prove itself like any other product in the direct channel going forward.

It is not on TV, so our expectation levels are different for nutrition in the beginning. We're mostly just trying to learn right now. We do continue to increase our efforts and the reviews of the product are quite strong. So we believe we're on a good path.

Rommel Dionisio - *Wunderlich Securities - Analyst*

Is there anything, Bill, you can share with us in terms of the customer base? Is it a younger customer base, a more affluent or anything different than your typical profile of the direct customer?

Bill McMahon - *Nautilus, Inc. - COO*

Right now it's reflecting primarily our direct customer base overall. Perhaps a little more skewed toward the same way the MAX Trainer model is going, more affluent, perhaps a little younger. Again, pretty early so we haven't drawn wide ranging demographic conclusions yet, but we certainly will.

Rommel Dionisio - *Wunderlich Securities - Analyst*

Fair enough. Thanks and congratulations on the quarter.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Thank you, Rommel.

Operator

Our next question comes from Frank Camma with Sidoti & Company.

Frank Camma - *Sidoti & Company - Analyst*

Good afternoon, guys.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Hey, Frank.

Frank Camma - *Sidoti & Company - Analyst*

A couple of questions, the MAX Trainer you plan to launch internationally later this year, you said. Can you talk a little more in detail about that; how you plan to go to market and any markets in particular that we should look out for?

Bill McMahon - *Nautilus, Inc. - COO*

I can tell you, Frank, we do plan to launch. We have an internationally compatible version of the product. Fortunately, it doesn't include motors or anything, so that's relatively straightforward to do. But the way we'll go to market internationally with MAX is similar to the way we do it with all of our international products, which is via, hopefully, the best-of-breed distributors by region. I can't say yet which regions we are particularly focused on because those are deals in progress. But I can say there's a lot of interest internationally in the product.

Frank Camma - *Sidoti & Company - Analyst*

Will that require additional cost to build that out? Or does the distributor take on that cost? Can you comment on that?

Bill McMahon - *Nautilus, Inc. - COO*

Generally, the distributor takes on the responsibility for selling within their region. In essence, we just need to make the product compatible and then it's bought in containers directly from our factories.

Frank Camma - *Sidoti & Company - Analyst*

A little more detail, you mentioned a couple of times that sales -- it sounds like the sales, internationally, were below your expectations. Obviously, they were weaker, you commented, Canada and internationally. I know it's still a small component of your business, but was there anything in particular that accounted for that, that you can point to?

Bruce Cazenave - *Nautilus, Inc. - CEO*

Yes, Frank, I mean, it's a well-worn excuse but in my case I would call it timing, mostly. We have retailers who are actually very happy with our products to the point that they bought pretty well in the prior quarter. So on a comparable basis, they were a little more in stock of the products they wanted than they were same time last year. So versus chasing product coming in, in general, they had it. We feel fairly comfortable that if we look at over our first half of the year, our sales growth will be fine, internationally.

Frank Camma - *Sidoti & Company - Analyst*

Great. All right, thank you.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Thank you, Frank.

Operator

(Operator Instructions).

Our next question comes from John O'Neill with Imperial Capital.

John O'Neill - *Imperial Capital - Analyst*

Congratulations on the great quarter and good evening, everyone.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Thank you, John.

John O'Neill - *Imperial Capital - Analyst*

You mentioned several times you're going to be increasing spending on the direct side of the business. Just so we fully understand, obviously, you've been spending behind it. You had 30% growth in sales marketing year over year. Are you talking about spending at a faster rate year over year or just higher as a percentage of sales or both? How should I think of that?

Bill McMahon - *Nautilus, Inc. - COO*

I think it's a great question, John. Two answers for you. One is, we potentially could increase our spend even beyond what we did year over year. Of course, the products need to sustain it. We don't just blindly do that, but the measure of whether they sustain or not could take more than any individual quarter to determine.

Selling and marketing as a percent of sales could go up in near-term quarters, especially outside of the seasonal best quarters. Q2, Q3, generally you will see that selling and marketing as a percent of sales is a little higher as we invest in awareness during a little bit of the off season. You could see some of those trends continue.

John O'Neill - *Imperial Capital - Analyst*

Got it. Then with the plans to refresh TreadClimber, currently you have three models there. Is the thought that you add a fourth or you replace one or two or all of them? How should we think of that?

Bill McMahon - *Nautilus, Inc. - COO*

We will have more news on that later this year, but it will be a complete replacement of the line.

John O'Neill - *Imperial Capital - Analyst*

Great, thank you.

Operator

There are no further questions at this time.

Bruce Cazenave - *Nautilus, Inc. - CEO*

Very good. Thanks again, everyone, for your interest and participation on our call today. We look forward to speaking to you next on our Q2 earnings call in early August time frame. Have a great rest of the day. Thank you.

Operator

(Operator Instructions).
