

INTRICON CORP
Form 10-K
March 12, 2008

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

- X ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
Or
O 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 1-5005

INTRICON CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of Incorporation or
organization)

23-1069060
(I.R.S. Employer Identification No.)

1260 Red Fox Road
Arden Hills, Minnesota
(Address of principal executive offices)

55112
(Zip Code)

Registrant's telephone number, including area code (651) 636-9770

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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, \$1 par value per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the securities act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or 15(d) of the act. Yes ☐ No ☒

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 ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined by rule 12b-2 of the Act) Yes ☐ No ☒

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The aggregate market value of the voting common shares held by non-affiliates of the registrant on June 30, 2007 was \$32,393,520. Common shares held by each officer and director and by each person who owns 10% or more of the outstanding common shares have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the registrant's common shares on February 29, 2008 was 5,303,406.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement for the 2008 annual meeting of shareholders are incorporated by reference into Part III of this report; provided, however, that the Compensation Committee Report, the Audit Committee Report and any other information in such Proxy Statement that is not required to be included in this Annual Report on Form 10-K, shall not be deemed to be incorporated herein or filed for the purposes of the Securities Act of 1933 or the Securities Exchange Act of 1934.

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PART I

ITEM 1. Business

Company Overview

IntriCon Corporation, formerly Selas Corporation of America (together with its subsidiaries referred herein as the Company or IntriCon, we, us or our) is an international firm engaged in the designing, developing, engineering and manufacturing of body-worn devices. The Company serves the body-worn device market by design, development, engineering and manufacturing micro-miniature components, systems and molded plastic parts primarily for the hearing instrument, electronics, telecommunications, computer and medical equipment industries. The Company, headquartered in Arden Hills, Minnesota has facilities in Minnesota, California, Maine, Singapore and Germany, and operates through subsidiaries. The Company is a Pennsylvania corporation that was founded in 1930.

Currently, the Company has one operating segment, its precision miniature medical and electronics products segment. In the past, the Company operated in three segments: the precision miniature medical and electronics products segment, the heat technology segment, and the tire holders, lifts and related products segment. In 2001, the Company began focusing on its precision miniature medical and electronics products segment and developing plans to exit the businesses that comprised the heat technology segment and the tire holders, lifts and related products segment. The Company exited the tire holders, lifts and related products business in 2003 and the heat technology segment in the first quarter of 2005. For all periods presented, the Company classified its heat technology segment as discontinued operations.

Business Highlights

Major Events in 2007

On May 22, 2007, the Company completed the acquisition of substantially all of the assets of Tibbetts Industries, Inc., other than real estate. Pursuant to an Asset Purchase Agreement, dated as of April 19, 2007, by and among the Company and Tibbetts and certain of the principal shareholders of Tibbetts, the Company purchased substantially all of the assets of Tibbetts, other than real estate, for cash of \$4,500,000, subject to a closing adjustment, and the assumption of certain liabilities (total purchase price of \$5,569,000 including acquisition costs of \$228,000). The Company deposited a total of \$525,000 of the closing payment in escrow to be held after closing of the purchase. \$475,000 will be held for 18 months to cover potential indemnification claims and \$50,000 will be held for a reasonable period of time to cover potential purchase price adjustment based on the net tangible asset value at purchase. Certain escrow amounts will be distributed to the seller at the conclusion of the respective escrow periods. The acquisition was financed with borrowings under the Company's new \$14.5 million in senior secured credit facilities, which the Company closed on May 22, 2007. Terms of the new credit facilities include:

- a \$10.0 million revolving credit facility, with a subfacility for letters of credit, to mature in five years, and
- a \$4.5 million term loan facility, amortized in increasing quarterly principal installments based on a five-year repayment schedule.

The new credit facilities are further described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

In October 2007, the Company entered into a strategic alliance with Advanced Medical Electronics Corp. (AME) to develop and manufacture new miniature, wireless, ultra-low-power bio-telemetry instruments. Through this partnership, AME and IntriCon intend to develop and manufacture wireless instruments including a:

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binaural hearing aid which will use wireless technology to enhance hearing by allowing hearing aids on both ears to coordinate their operations;
hearing aid companion microphone that will transmit companion voice signals to the wearer of a hearing aid, allowing vast improvement in speech intelligibility in noisy environments;
miniature wearable electroencephalograph (EEG) transmitter that will digitize EEG signals and transmit them for neuroscience research; and
wearable electromyograph (EMG) and inertial limb tracking systems for bio-mechanical research and clinical studies.

AME receives support from the federal Small Business Innovation Research program and will develop the bio-telemetry instruments. IntriCon will manufacture these devices and supply them to third-party distributors. IntriCon also gains exclusive access to key AME technology and will be able to use this technology to develop additional bio-telemetry applications.

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Major Events in 2006

In June 2006, the Company completed a sale-leaseback of the Vadnais Heights manufacturing facility. The transaction generated proceeds of \$2,650,000, of which \$1,388,000 was used to repay the associated real estate loan and the remainder to pay down the Company's domestic revolver. The remaining gain on the sale of \$935,715 at December 31, 2007 is being recognized over the initial 10-year lease term as the renewal options in the lease are not assured and a penalty does not exist if the Company does not exercise the renewal options.

In the fourth quarter of 2006, the Company purchased a membership interest in the Hearing Instrument Manufacturers Patent Partnership (HIMPP). Members of the partnership include the largest six hearing aid manufacturers as well as several other smaller manufacturers. The purchase price of \$1,800,000 included a 9% equity interest in K/S HIMPP as well as a license agreement that will grant the Company access to over 45 US registered patents. The Company accounted for the K/S HIMPP investment using the equity method of accounting for common stock, as the equity interest is deemed to be more than minor as defined in AICPA Statement of Position 78-9 Accounting for Investments in Real Estate Ventures . The investment required a payment of \$260,000 made at the time of closing. The unpaid balance of \$1,280,000 at December 31, 2007 will be paid in four annual installments of \$260,000 in 2008 through 2011, with a final installment of \$240,000 in 2012. The unpaid principal balance is unsecured and bears interest at an annual rate of 4%, which is payable annually with each installment. See note 19 to the consolidated financial statements in Item 8 for further discussion of our investment in equity instruments.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Annual Report on Form 10-K or the Company's other public filings and releases, which are not historical facts, are forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, and the regulations thereunder), which are intended to be covered by the safe harbors created thereby. These statements may include, but are not limited to:

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statements in Business, Legal Proceedings and Risk Factors, such as the Company's ability to focus on the precision miniature medical and electronics products markets, the ability to compete, statements concerning the Tibbetts acquisition and its benefits, the adequacy of insurance coverage, and potential increase in demand for the Company's products; and statements in Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to the Consolidated Financial Statements, such as the; net operating loss carryforwards, the ability to meet cash requirements for operating needs, the ability to meet liquidity needs, assumptions used to calculate future level of funding of employee benefit plans, the adequacy of insurance coverage, the impact of new accounting pronouncements and litigation.

Forward-looking statements also include, without limitation, statements as to the Company's expected future results of operations and growth, the Company's ability to meet working capital requirements, the Company's business strategy, the expected increases in operating efficiencies, anticipated trends in the Company's precision miniature medical and electronic products markets, estimates of goodwill impairments and amortization expense of other intangible assets, the effects of changes in accounting pronouncements, the effects of litigation and the amount of insurance coverage, and statements as to trends or the Company's or management's beliefs, expectations and opinions. Forward-looking statements are subject to risks and uncertainties and may be affected by various risks, uncertainties and other factors can cause actual results and developments to be materially different from those expressed or implied by such forward-looking statements, including, without limitation, the risk factors discussed in Item 1A.

The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

Market Overview: Precision Miniature Medical and Electronic Products

Resistance Technology, Inc. (RTI), IntriCon PTE LTD (RTI Tech), and IntriCon Tibbetts, Inc. (ITC) are wholly-owned subsidiaries of the Company, that manufacture microminiature components, systems and molded plastic parts for hearing instruments, medical equipment, electronics, professional audio, telecommunications and computer industry manufacturers. RTI Electronics, Inc. (RTIE), a wholly owned subsidiary of the Company, has expanded IntriCon's microminiature components business through the manufacture of thermistors and film capacitors.

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Products and Industries Served. IntriCon designs, develops and manufactures miniature and micro-miniature body-worn medical and electronics products based on its proprietary technology to meet the rising demand for smaller, more advanced devices. Our expertise is focused on four main markets: medical, hearing health and professional audio, and electronics. Within these chosen markets, we combine ultra-miniature mechanical and electronics capabilities with proprietary technology that enhances the performance of body-worn devices.

IntriCon manufactures hybrid amplifiers and integrated circuit components (hybrid amplifiers), along with faceplates for in-the-ear and in-the-canal hearing instruments. IntriCon is a leading manufacturer and supplier of microminiature electromechanical components to hearing instrument manufacturers. These components consist of volume controls, microphones, receivers, trimmer potentiometers and switches. Components are offered in a variety of sizes, colors and capacities in order to accommodate a hearing manufacturer's individualized

specifications.

Hearing instruments, which fit behind or in a person's ear to amplify and process sound for a hearing impaired person, generally are composed of four basic parts and several supplemental components for control or fitting purposes. The four basic parts are microphones, amplifier circuits, miniature receivers/speakers and batteries, all of which IntriCon manufactures, with the exception of the battery. IntriCon's hybrid amplifiers are a type of amplifier circuit. Supplemental components include volume controls, trimmer potentiometers, which shape sound frequencies to respond to the particular nature of a person's hearing loss, and switches used to turn the instrument on and off and to go from telephone to normal speech modes. Faceplates and an ear shell, molded to fit the user's ear, often serve as housing for hearing instruments. IntriCon manufactures its components on a short lead-time basis in order to supply just-in-time delivery to its customers and, consequently, order backlog amounts are not meaningful.

Using our proprietary digital signal processing technology, nanoDSP, IntriCon is building a new generation of affordable, high-quality hearing aids and similar amplifier devices under contracts for OEM's. DSP devices have better clarity, attractive pricing points and an improved ability to filter out background noise.

In the medical market, the Company is focused on sales of biotelemetry devices, microelectronics, micromechanical assemblies and high-precision plastic molded components to medical device manufacturers. Targeted customers include medical product manufacturers of portable and lightweight battery powered devices, as well as a variety of sensors designed to connect a patient to an electronic device.

The medical industry is faced with pressures to reduce the costs of healthcare. IntriCon currently serves this market by offering medical manufacturers the capabilities to design, develop and manufacture components for medical devices that are easier to use, measure with greater accuracy and provide more functions while reducing the costs to manufacture these devices. IntriCon manufactures and supplies bubble sensors and flow restrictors that monitor and control the flow of fluid in an intravenous infusion system. IntriCon also manufactures a family of safety needle products for an OEM customer that utilizes IntriCon's insert and straight molding capabilities. These products are assembled using full automation including built-in quality checks within the production lines. Other examples include sensors used to detect pathologies in specific organs of the body and monitoring devices to detect cardiac and respiratory functions. The early and accurate detection of pathologies allows for increased likelihood for successful treatment of chronic diseases and cancers. Accurate monitoring of multiple functions of the body, such as heart rate and breathing, aids in generating more accurate diagnosis and treatments for patients.

In addition, there has been an industry-wide trend toward further miniaturization and ambulatory operation enabled by wireless connectivity, which is also referred to as bio-telemetry. Through the development of our ultra low power (ULP) wireless technology, Bodynet, we believe bio-telemetry offers a significant future opportunity. Increasingly, the medical industry is looking for wireless, low-power capabilities in their devices. We believe our strategic partnership with AME will allow us to develop new bio-telemetry devices that better connect patients and care givers, providing critical information and feedback. Current examples of IntriCon bio-telemetry products used by medical device manufacturers include components found in wireless glucose sensor pumps that introduce drugs into the bloodstream.

IntriCon entered the high-quality audio communication device market in 2001, and now has a line of miniature, professional audio headset products used by performers and support staff in the music and stage performance markets. For customers focusing on homeland security needs, the line includes several communication devices that are more portable and perform well in noisy or hazardous environments. These products are also well suited for applications in the fire, law enforcement, safety, aviation and military markets. In addition, our May 2007 acquisition of Tibbett's Industries provided the Company access to homeland security agencies in this market.

Our RTIE subsidiary manufactures and sells thermistors and thermistor assemblies, which are solid state devices that produce precise changes in electrical resistance as a function of any change in absolute body temperature. The balance of sales represents various industrial, commercial and military sales for thermistor and thermistor assemblies to domestic and international markets.

IntriCon's principal raw materials are plastics, polymers, metals, various metal oxide powders and silver paste, for which the Company believes there are multiple sources of supply.

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For information concerning our net sales, net income and assets, see the consolidated financial statements in Item 8.

Marketing and Competition. IntriCon sells its hearing instrument components directly to domestic hearing instrument manufacturers through an internal sales force. Sales of microphone products and of molded plastic parts to industries other than hearing instrument manufacturers are made mainly through an internal sales force. In recent years, five companies have accounted for a substantial portion of the Company's sales in the United States hearing instrument industry.

In 2007, one customer accounted for 11 percent of the Company's consolidated net sales. During 2007, the top five customers accounted for approximately \$26 million or 38 percent of the Company's consolidated net sales. See note 4 to the consolidated financial statements for a discussion of net sales and long-lived assets by geographic area.

Internationally, sales representatives employed by IntriCon GmbH ("GmbH"), a German company 90% of whose capital stock is owned by IntriCon, solicits sales from European hearing instrument manufacturers on behalf of IntriCon.

IntriCon believes that it is the largest supplier worldwide of micro-miniature electromechanical components to hearing instrument manufacturers and that its full product line and automated manufacturing process allow it to compete effectively with the two other manufacturers within this market.

In the market of hybrid amplifiers and molded plastic faceplates, IntriCon's primary competition is from the hearing instrument manufacturers themselves. The hearing instrument manufacturers produce a substantial portion of their internal needs for these components.

IntriCon markets its high performance microphone products to the radio communication and professional audio industries and has several larger competitors who have greater financial resources. IntriCon holds a small market share in the global market for microphone capsules and other related products.

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IntriCon's subsidiary RTIE sells its thermistors and film capacitors through a combination of independent sales representatives and internal sales force. This business has many competitors, both domestic and foreign, that sell various thermistor and film capacitors and some of these competitors are larger and have greater financial resources. In addition, IntriCon holds a relatively small market share in the world-market of thermistor and film capacitor products.

Employees. As of January 31, 2008, IntriCon had a total of 612 employees, of whom 45 are executive and administrative personnel, 20 are sales personnel and 547 are engineering and operations personnel. The Company considers its relations with its employees to be satisfactory. None of the Company's employees are represented by a union.

As a supplier of parts for consumer and medical products, IntriCon is subject to claims for personal injuries allegedly caused by its products. The Company maintains what it believes to be adequate insurance coverage.

Research and Development. IntriCon conducts research and development activities primarily to improve its existing products and proprietary technology. The Company is committed to increasing its investment in the research and development of proprietary technologies, such as the ULP nanoDSP and Bodynet technologies. The Company believes the continued development of key proprietary technologies will be the catalyst for long-term revenues and margin growth. Research and development expenditures were \$3,089,000, \$2,123,000, and \$1,817,000 in 2007, 2006 and 2005, respectively. See note 1 to the consolidated financial statements for information regarding customer funded research and development projects.

IntriCon owns a number of United States patents which cover a number of product designs and processes. The Company believes that, although these patents collectively add some value to the Company, no one patent or group of patents is of material importance to its business as a whole.

Discontinued Operations Heat Technology

The Company specialized in the controlled application of heat to achieve precise process and temperature control. The Company's principal heat technology equipment and systems were smaller standard-engineered systems, burners and combustion control equipment. The Company sold this business in the first quarter of 2005 and has accounted for it as discontinued operations as further described in note 2 in the accompanying consolidated financial statements in Item 8.

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Standard Engineered Systems. The Company engineered and fabricated a variety of small heat treating furnaces and heat processing equipment. This standard equipment and small-furnace business was conducted principally by its then subsidiaries, Nippon Selas (Tokyo, Japan) and Selas Waermetechnik (Ratingen, Germany).

Burners and Combustion Control Equipment. At its Dresher, Pennsylvania facility and through its then subsidiaries in Japan, Nippon Selas (Tokyo), and Germany, Selas Waermetechnik, (Ratingen), the Company designed, manufactured and sold an array of original equipment and replacement gas-fired industrial burners for many applications.

The Company was a producer of burners used in fluid processing furnaces serving the petrochemical industry. The Company also produced burners suitable for creating a high temperature furnace environment desirable in steel and glass heat treating furnaces. The Company's burners accommodated a wide variety of fuel types, environmental constraints and customer production requirements.

The Company furnished many industries with gas combustion control equipment sold both as component parts and as systems that were engineered to meet a particular customer's needs. This equipment was provided with the Company's original custom-engineered and standard heat treating equipment, as replacement or additional components for existing furnaces being refurbished or upgraded, and as original components for heat treating equipment manufactured by others.

Marketing and Competition. The Company marketed its standard-engineered systems products on a global basis through its sales and marketing personnel located in Dresher, Pennsylvania, and also sold these products through licensees and agents located in various parts of the world.

Operations. As of December 31, 2004, the heat technology segment had a total of 48 employees. At its Dresher facility, the Company had 32 employees; 6 were executive and administrative personnel, 10 were sales and engineering personnel and 16 were personnel engaged in manufacturing. The hourly personnel were represented by a union. Selas Waermetechnik had 6 employees; 1 was an administrative personnel, 3 were sales and engineering personnel and 2 were personnel engaged in manufacturing.

In April 2001, the Company sold a minority interest of Nippon Selas to three directors of Nippon Selas. This minority interest was reacquired by the Company in the first quarter of 2005 in contemplation of the sale of this business, which was completed in the first quarter of 2005. Its Tokyo facility employed 10 people; 3 administrative and 7 sales and engineering.

Research and Development. The Company conducted limited research and development activities at its Dresher facility to support its heat processing services and products. Research and development expenditures for heat processing aggregated \$4,000 in 2005.

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The Company files or furnishes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the SEC. You may read and copy any reports, statements and other information that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company's filings are also available on the SEC's Internet site as part of the EDGAR database (<http://www.sec.gov>).

The Company maintains an internet web site at www.IntriCon.com. The Company maintains a link to the SEC's website by which you may review its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act.

The information on the website listed above, is not and should not be considered part of this annual report on Form 10-K and is not incorporated by reference in this document. This website is and is only intended to be an inactive textual reference.

In addition, we will provide, at no cost (other than for exhibits), paper or electronic copies of our reports and other filings made with the SEC. Requests should be directed to:

Corporate Secretary

IntriCon Corporation

1260 Red Fox Road

Arden Hills, MN 55112

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ITEM Risk Factors
1A.

You should carefully consider the risks described below. If any of the risks actually occur, our business, financial condition or results of future operations could be materially adversely affected. This Annual Report on Form 10-K contains forward-looking statements that involve risk and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by us described below and elsewhere in this Annual Report on Form 10-K.

We have experienced and expect to continue to experience fluctuations in our results of operations, which could adversely affect us.

Factors that affect our results of operations include, but are not limited to, the volume and timing of orders received, changes in the global economy and financial markets, changes in the mix of products sold, market acceptance of our products and our customer's products, competitive pricing pressures, global currency valuations, the availability of electronic components that we purchase from suppliers, our ability to meet increasing demand, our ability to introduce new products on a timely basis, the timing of new product announcements and introductions by our or our competitors, changing customer requirements, delays in new product qualifications, and the timing and extent of research and development expenses. These factors have caused and may continue to cause us to experience fluctuations in operating results on a quarterly and/or annual basis. These fluctuations could materially adversely affect our business, financial condition and results of operations, which in turn, could adversely affect the price of our common stock.

The loss of one or more of our major customers could adversely affect our results of operations.

We are dependent on a small number of customers for a large portion of our revenues. In fiscal year 2007, our largest customer accounted for 11% of our net sales and our five largest customers accounted for 38% of our net sales. A significant decrease in the sales to or loss of any of our major customers would have a material adverse effect on our business and results of operations. Our revenues are largely dependent upon the ability of customers to develop and sell products that incorporate our products. No assurance can be given that our major customers will not experience financial, technical or other difficulties that could adversely affect their operations and, in turn, our results of operations.

We may not be able to collect outstanding accounts receivable from our customers.

Some of our customers purchase our products on credit, which may cause a concentration of accounts receivable among some of our customers. As of December 31, 2007, we had accounts receivable, less allowance for doubtful accounts, of \$8,408,000, which represented approximately 45.2 percent of our shareholders' equity as of that date. As of that date, one customer accounted for approximately 11 percent of our accounts receivable. Our financial condition and profitability may be harmed if one or more of our customers are unable or unwilling to pay these accounts receivable when due.

If we are unable to continue to develop new products that are inexpensive to manufacture, our results of operations could be adversely affected.

We may not be able to continue to achieve our historical profit margins in our precision miniature medical and electronic products business due to advancements in technology. The ability to continue our profit margins is dependent upon our ability to stay competitive by developing products that are technologically advanced and inexpensive to manufacture.

Our need for continued investment in research and development may increase expenses and reduce our profitability.

Our industry is characterized by the need for continued investment in research and development. If we fail to invest sufficiently in research and development, our products could become less attractive to potential customers and our business and financial condition could be materially and adversely affected. As a result of the need to maintain or increase spending levels in this area and the difficulty in reducing costs associated with research and development, our operating results could be materially harmed if our research and development efforts fail to result in new products or if revenues fall below expectations. In addition, as a result of our commitment to invest in research and development, management expects that research and development expenses as a percentage of revenues could increase in the future.

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We operate in a highly competitive business and if we are unable to be competitive, our financial condition could be adversely affected.

Several of our competitors have been able to offer more standardized and less technologically advanced hearing products at lower prices. Price competition has had an adverse effect on our sales and margins. There can be no assurance that we will be able to maintain or enhance our technical capabilities or compete successfully with our existing and future competitors.

Merger and acquisition activity in our hearing health market has resulted in a smaller customer base. Reliance on fewer customers may have an adverse effect on us.

Several of our customers in the hearing health market, have undergone mergers or acquisitions, resulting in a smaller customer base with larger customers. If we are unable to maintain satisfactory relationships with the reduced customer base, it may adversely affect our operating profits and revenue.

Unfavorable legislation in the hearing health market may decrease the demand for our products, and may negatively impact our financial condition.

In some of our foreign markets, government subsidies cover a portion of the cost of hearing aids. A change in legislation that would reduce or eliminate these subsidies could decrease the demand for our hearing health products. This could result in an adverse effect on our operating results. We are unable to predict the likelihood of any such legislation.

Implementation of our growth strategy may not be successful, which could affect our ability to increase revenues.

Our growth strategy includes developing new products and entering new markets, as well as identifying and integrating acquisitions. Our ability to compete in new markets will depend upon a number of factors including, among others:

- our ability to create demand for products in new markets;
- our ability to manage growth effectively;
- our ability to successfully identify, complete and integrate acquisitions;
- our ability to respond to changes in our customers' businesses by updating existing products and introducing, in a timely fashion, new products which meet the needs of our customers;
- the quality of our new products; and
- our ability to respond rapidly to technological change.

The failure to do any of the foregoing could have a material adverse effect on our business, financial condition and results of operations. In addition, we may face competition in these new markets from various companies that may have substantially greater research and development resources, marketing and financial resources, manufacturing capability and customer support organizations.

We operate in Singapore and Germany, and various factors relating to our international operations could affect our results of operations.

In 2007, we operated in Singapore and Germany. Approximately 15 percent of our revenues were derived from our facilities in these countries in 2007. As of December 31, 2007 approximately 6 percent of our long-lived assets are located in these countries. Political or economic instability in these countries could have an adverse impact on our results of operations due to diminished revenues in these countries. Our future revenues, costs of operations and profit results could be affected by a number of factors related to our international operations, including changes in foreign currency exchange rates, changes in economic conditions from country to country, changes in a country's political condition, trade protection measures, licensing and other legal requirements and local tax issues. Unanticipated currency fluctuations in the Euro could lead to lower reported consolidated revenues due to the translation of these currencies into U.S. dollars when we consolidate our revenues.

We may explore acquisitions that complement or expand our business. We may not be able to complete these transactions and these transactions, if executed, pose significant risks and may materially adversely affect our business, financial condition and operating results.

We intend to explore opportunities to buy other businesses or technologies that could complement, enhance or expand our current business or product lines or that might otherwise offer us growth opportunities. We may have difficulty finding these opportunities or, if we do identify these opportunities, we may not be able to complete the transactions for reasons including a failure to secure financing. Any transactions that we are able to identify and complete may involve a number of risks, including: the diversion of our management's attention from our existing business to integrate the operations and personnel of the acquired or combined business or joint venture; possible adverse effects on our operating results during the integration process; unanticipated liabilities; and our possible inability to achieve the intended objectives of the transaction. In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or employees. In addition, future acquisitions may result in dilutive issuances of equity securities or the incurrence of additional debt.

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We may experience difficulty in paying our debt when it comes due, which could limit our ability to obtain financing.

As of December 31, 2007, we had bank indebtedness of \$8,440,000 and additional indebtedness of \$1,793,000. Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by general economic conditions and by financial, competitive, political, business and other factors. Many of these factors are beyond our control. We believe that availability under our new credit facility combined with funds expected to be generated from operations and control of capital spending will be sufficient to meet our anticipated cash requirements for operating needs for at least the next 12 months. If, however, we are unable to renew these facilities in the future or do not generate sufficient cash or complete such financings on a timely basis, we may be required to seek additional financing or sell equity on terms which may not be as favorable as we could have otherwise obtained. No assurance can be given that any refinancing, additional borrowing or sale of equity will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our access to capital is affected by prevailing conditions in the financial and equity capital markets, as well as our own financial condition.

Our success depends on our senior management team and if we are not able to retain them, it could have a materially adverse effect on us.

We are highly dependent upon the continued services and experience of our senior management team, including Mark S. Gorder, our President, Chief Executive Officer and director. We depend on the services of Mr. Gorder and the other members of our senior management team to, among other things, continue the development and implementation of our business strategies and maintain and develop our client relationships.

Our future success depends in part on the continued service of our engineering and technical personnel and our ability to identify, hire and retain additional personnel.

There is intense competition for qualified personnel in our markets. We may not be able to continue to attract and retain engineers or other qualified personnel necessary for the development and growth of our business or to replace engineers or other qualified personnel who may leave our employ in the future. The failure to retain and recruit key technical personnel could cause additional expense, potentially reduce the efficiency of our operations and could harm our business.

We and/or our customers may be unable to protect our and their proprietary technology and intellectual property rights or keep up with that of competitors.

Our ability to compete effectively against other companies in our markets depends, in part, on our ability and the ability of our customers to protect our and their current and future proprietary technology under patent, copyright, trademark, trade secret and unfair competition laws. We cannot assure that our means of protecting our proprietary rights in the United States or abroad will be adequate, or that others will not develop technologies similar or superior to our technology or design around the proprietary rights we own or license. In addition, we may incur substantial costs in attempting to protect our proprietary rights.

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Also, despite the steps taken by us to protect our proprietary rights, it may be possible for unauthorized third parties to copy or reverse-engineer aspects of our and our customers' products, develop similar technology independently or otherwise obtain and use information that we or our customers regard as proprietary. We and our customers may be unable to successfully identify or prosecute unauthorized uses of our or our customers' technology.

If we become subject to material intellectual property infringement claims, we could incur significant expenses and could be prevented from selling specific products.

We may become subject to material claims that we infringe the intellectual property rights of others in the future. We cannot assure that, if made, these claims will not be successful. Any claim of infringement could cause us to incur substantial costs defending against the claim even if the claim is invalid, and could distract management from other business. Any judgment against us could require substantial payment in damages and could also include an injunction or other court order that could prevent us from offering certain products.

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Environmental liability and compliance obligations may affect our operations and results.

Our manufacturing operations are subject to a variety of environmental laws and regulations as well as internal programs and policies governing:

- air emissions;
- wastewater discharges;
- the storage, use, handling, disposal and remediation of hazardous substances, wastes and chemicals; and
- employee health and safety.

If violations of environmental laws occur, we could be held liable for damages, penalties, fines and remedial actions. Our operations and results could be adversely affected by any material obligations arising from existing laws, as well as any required material modifications arising from new regulations that may be enacted in the future. We may also be held liable for past disposal of hazardous substances generated by our business or former businesses or businesses we acquire. In addition, it is possible that we may be held liable for contamination discovered at our present or former facilities.

We are subject to numerous asbestos-related lawsuits, which could adversely affect our financial position, results of operations or liquidity.

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We are a defendant along with a number of other parties in approximately 122 lawsuits as of December 31, 2007, (approximately 122 lawsuits as of December 31, 2006) alleging that plaintiffs have or may have contracted asbestos-related diseases as a result of exposure to asbestos products or equipment containing asbestos sold by one or more named defendants. These lawsuits relate to the discontinued Heat Technologies segment which was sold in March 2005 and is now classified as discontinued operations. Due to the noninformative nature of the complaints, we do not know whether any of the complaints state valid claims against us. Certain insurance carriers have informed us that the primary policies for the period August 1, 1970-1973, have been exhausted and that the carriers will no longer provide a defense under those policies. We have requested that the carriers substantiate this situation. We believe we have additional policies available for other years which have been ignored by the carriers. As settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, we believe when settlement payments are applied to these additional policies, we will have availability under the years deemed exhausted. If our insurance policies do not cover the costs and any awards for the asbestos-related lawsuits, we will have to use our cash or obtain additional financing to pay the asbestos-related obligations and settlement costs. There is no assurance that we will have the cash or be able to obtain additional financings on favorable terms to pay asbestos related obligations or settlements should they occur. The ultimate outcome of any legal matter cannot be predicted with certainty. In light of the significant uncertainty associated with asbestos lawsuits, there is no guarantee that these lawsuits will not materially adversely affect our financial position, results of operations or liquidity.

The market price of our common stock has been and is likely to continue to be volatile, which may make it difficult for shareholders to resell common stock when they want to and at prices they find attractive.

The market price of our common stock has been and is likely to be highly volatile, and there has been limited trading volume in the common stock. The common stock market price could be subject to wide fluctuations in response to a variety of factors, including the following:

- announcements of fluctuations in our or our competitors' operating results;
- the timing and announcement of sales or acquisitions of assets by us or our competitors;
- changes in estimates or recommendations by securities analysts;
- adverse or unfavorable publicity about our services or us;
- the commencement of material litigation, or an unfavorable verdict, against us;
- terrorist attacks, war and threats of attacks and war;
- additions or departures of key personnel; and
- sales of common stock.

In addition, the stock market in recent years has experienced significant price and volume fluctuations. Such volatility and decline has affected many companies irrespective of, or disproportionately to, the operating performance of these companies. These broad fluctuations and limited trading volume may materially adversely affect the market price of our common stock, and your ability to sell our common stock.

Most of our outstanding shares are available for resale in the public market without restriction. The sale of a large number of these shares could adversely affect the share price and could impair our ability to raise capital through the sale of equity securities or make acquisitions for common stock.

Anti-takeover provisions may make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to shareholders.

We are a Pennsylvania corporation. Anti-takeover provisions in Pennsylvania law and our charter and bylaws could make it more difficult for a third party to acquire control of us. These provisions could adversely affect the market price of the common stock and could reduce the amount that shareholders might receive if we are sold. For example, our charter provides that the board of directors may issue preferred stock without shareholder approval. In addition, our bylaws provide for a classified board, with each board member serving a staggered three-year term. Directors may be removed by shareholders only with the approval of the holders of at least two-thirds of all of the shares outstanding and entitled to vote.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders and customers could lose confidence in our financial reporting, which could harm our business, the trading price of our stock and our ability to retain our current customers or obtain new customers.

Beginning in fiscal 2004, we began a process to document and evaluate our internal controls over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. In this regard, management has been dedicating internal resources, has engaged outside consultants and has adopted a detailed work plan to (i) assess and document the adequacy of internal controls over financial reporting, (ii) take steps to improve control processes, where appropriate, (iii) validate through testing that controls are functioning as documented and (iv) implement a continuous reporting and improvement process for internal control over financial reporting. At this time, we are not aware, and our outside auditors have not advised us, of any material weaknesses or significant deficiencies in our internal controls, as defined in the relevant literature. If we fail to identify and correct any issues in the design or operating effectiveness of internal controls over financial reporting or fail to prevent fraud, current and potential shareholders and customers could lose confidence in our financial reporting, which could harm our business, the trading price of our stock and our ability to retain our current customers and obtain new customers.

ITEM Unresolved Staff Comments.

1B.

Not Applicable.

ITEM 2. Properties

The Company leases seven facilities, five domestically and two internationally, as follows:

a 47,000 sq. ft. manufacturing facility in Arden Hills, Minnesota, which also serves as the Company's headquarters, from a partnership consisting of two former officers of RTI and Mark S. Gorder who serves as the president and CEO of the Company and RTI and on the Company's Board of Directors. At this facility, IntriCon manufactures all of its products other than plastic component parts. Annual base rent expense, including real estate taxes and other charges, is approximately \$481,000. The Company believes the terms of the lease agreement are comparable to those which could be obtained from unaffiliated third parties. The lease expires in October 2011.

a 46,000 sq. ft. building in Vadnais Heights, Minnesota at which IntriCon produces plastic component parts. Annual base rent expense, including real estate taxes and other charges, is approximately \$398,000. The lease expires in June 2016.

a building in Anaheim, California, which contains its manufacturing facilities and offices and consists of a total of 50,000 square feet. Annual base rent expense, including real estate taxes and other charges, is approximately \$399,000. The lease expires in September

2008.

two buildings in Camden, Maine, which contain Tibbetts manufacturing facilities and offices and consist of a total of 32,000 square feet. Annual base rent expense on the 25,000 square foot facility, including real estate taxes and other charges, is approximately \$104,000. This lease expires in June 2012. Annual base rent expense on the 7,000 square foot facility, including real estate taxes and other charges, is approximately \$62,000. This lease expires in June 2017.

a 21,000 square foot building in Singapore which houses production facilities and administrative offices. Annual base rent expense, including real estate taxes and other charges, is approximately \$178,000. This lease expires in May 2010.

a 2,000 square foot facility in Germany which houses sales and administrative offices. Annual base rent expense, including real estate taxes and other charges, is approximately \$40,000. This lease expires in June 2012.

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See notes 15 and 16 to the Company's consolidated financial statements in Item 8.

ITEM 3. Legal Proceedings

The Company is a defendant along with a number of other parties in approximately 122 lawsuits as of December 31, 2007, (approximately 122 lawsuits as of December 31, 2006) alleging that plaintiffs have or may have contracted asbestos-related diseases as a result of exposure to asbestos products or equipment containing asbestos sold by one or more named defendants. These lawsuits relate to the discontinued Heat Technologies segment which was sold in March 2005 and is now classified as discontinued operations. Due to the noninformative nature of the complaints, the Company does not know whether any of the complaints state valid claims against the Company. Certain insurance carriers have informed the Company that the primary policies for the period August 1, 1970-1973, have been exhausted and that the carriers will no longer provide a defense under those policies. The Company has requested that the carriers substantiate this situation. The Company believes it has additional policies available for other years which have been ignored by the carriers. As settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, the Company believes when settlement payments are applied to these additional policies, the Company will have availability under the years deemed exhausted. The Company does not believe that the asserted exhaustion of the primary insurance coverage for this period will have a material adverse effect on its financial condition, liquidity, or results of operations. Management believes that the number of insurance carriers involved in the defense of the suits and the significant number of policy years and policy limits, to which these insurance carriers are insuring the Company, make the ultimate disposition of these lawsuits not material to the Company's consolidated financial position or results of operations.

The Company's wholly owned French subsidiary, Selas SAS, filed for insolvency in France and is being managed by a court appointed judiciary administrator. The Company may be subject to additional litigation or liabilities as a result of the French insolvency proceeding.

The Company was a defendant, along with a number of other parties, in a lawsuit made by Energy Transportation Group, Inc. (ETG) alleging infringement of certain patents. In October of 2007, the Company reached a monetary settlement with ETG for dismissal of all claims asserted in the pending lawsuit.

The Company is also involved in other lawsuits arising in the normal course of business, as further described in note 15 to the consolidated financial statements in Item 8. While it is not possible to predict with certainty the outcome of these matters, management is of the opinion that

the disposition of these lawsuits and claims will not materially affect the Company's consolidated financial position, liquidity, or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders

None

ITEM 4A. Executive Officers of the Registrant

The names, ages and offices (as of February 29, 2008) of the Company's executive officers were as follows:

Name	Age	Position
Mark S. Gorder	61	President, Chief Executive Officer and Director of the Company; President of Resistance Technology, Inc.
Scott Longval	31	Chief Financial Officer and Treasurer of the Company
Christopher D. Conger	47	Vice President, Research and Development
Michael P. Geraci	49	Vice President, Sales and Marketing
Dennis L. Gonsior	49	Vice President, Operations
Steve M. Binnix	58	Vice President and General Manager, RTI Electronics, Inc.
Greg Gruenhagen	54	Vice President, Corporate Quality and Regulatory Affairs

Mr. Gorder joined the Company in October 1993 when Resistance Technology, Inc. (RTI) was acquired by the Company. Mr. Gorder received a Bachelor of Arts degree in Mathematics from the St. Olaf College, a Bachelor of Science degree in Electrical Engineering from the University of Minnesota and, a Master of Business Administration from the University of Minnesota. Prior to the acquisition, Mr. Gorder was President and one of the founders of RTI, which began operations in 1977. Mr. Gorder was promoted to Vice President of the Company and elected to the Board of Directors in April 1996. In December 2000, he was elected President and Chief Operating Officer and in April 2001, Mr. Gorder assumed the role of Chief Executive Officer.

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Mr. Longval has served as the Company's Chief Financial Officer since July 2006. Mr. Longval received a Bachelor of Science degree in Accounting from the University of St. Thomas. Prior to being appointed as CFO, Mr. Longval served as the Company's Corporate Controller since September 2005. Prior to joining the Company, Mr. Longval was Principal Project Analyst at ADC Telecommunications, Inc., a provider of innovative network infrastructure products and services, from March 2005 until September 2005. From May 2002 until March 2005 he was employed by Accellent, Inc., formerly MedSource Technologies, a provider of outsourcing solutions to the medical device industry, most recently as Manager of Financial Planning and Analysis. From September 1998 until April 2002, he was employed by Arthur Andersen, most

recently as experienced audit senior.

Mr. Conger joined the Company in September 1997. Mr. Conger received a Bachelor of Science degree in Electrical Engineering from the University of Missouri and a Master of Science degree in Electrical Engineering from the University of Minnesota. He has served as the Company's Vice President of Research and Development since February 2005. Prior to that, Mr. Conger served as Director of Research and Development since 1997.

Mr. Geraci joined the Company in October 1983. Mr. Geraci received a Bachelor of Science degree from Bradley University. He has served as the Company's Vice President of Sales and Marketing since January 1995.

Mr. Gonsior joined the Company in February 1982. Mr. Gonsior received a Bachelor of Science degree from Saint Cloud State University. He has served as the Company's Vice President of Operations since January 1996.

Mr. Binnix joined the Company in January 1989. Mr. Binnix is a Certified Manufacturing Engineer and received his Bachelor of Science degree from the University of LaVerne, California. He has served as the Company's Vice President of RTI Electronics, Inc. since April 2006 and as General Manager since 1993.

Mr. Gruenhagen joined the Company in November 1984. Mr. Gruenhagen received a Bachelor of Science degree from Iowa State University and a Master of Administration from George Washington University. He has served as the Company's Vice President of Corporate Quality and Regulatory Affairs since December 2007. Prior to that, Mr. Gruenhagen served as Director of Corporate Quality since 2004 and Director of Project Management since 2000.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Since January 2, 2008, the Company's common shares have been listed on the NASDAQ Global Market under the ticker symbol IIN. From April 4, 2005 through January 1, 2008 the Company's common shares were listed on the American Stock Exchange under the ticker symbol IIN. Prior to April 4, 2005, its common shares were traded under the symbol SLS.

Market and Dividend Information

The high and low sale prices during each quarterly period during the past two years were as follows:

2007

2006

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	Market		Market	
	Price Range		Price Range	
Quarter	High	Low	High	Low
First	\$ 6.40	\$ 4.80	\$ 6.99	\$ 4.00
Second	7.89	5.75	7.70	4.80
Third	11.50	6.87	5.50	4.70
Fourth	15.54	9.20	5.50	4.65

The closing sale price of the Company's common shares on February 29, 2008, was \$6.83 per share.

At February 29, 2008 the Company had 338 shareholders of record of common shares. Such number of records does not reflect shareholders who beneficially own common stock in nominee or street name.

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The Company ceased paying quarterly cash dividends in the fourth quarter of 2001 and has no intention of paying cash dividends in the foreseeable future. Any payment of future dividends will be at the discretion of the Board of Directors and will depend upon, among other things, the Company's earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to the payment of dividends, and other factors that the Board of Directors deems relevant. Terms of the Company's banking agreements prohibit the payment of cash dividends without prior bank approval.

See ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Equity Compensation Plans for disclosure regarding our equity compensation plans.

Stock Performance Graph

The following graph shows the cumulative total return for the last five years, calculated as of December 31 of each such year, for the Common Shares, the Standard & Poor's 500 Index, American Exchange Composite Index (AMEX) and the Russell 2000 Index (RUT). The graph assumes that the value of the investment in each of three was \$100 at December 31, 2002 and that all dividends were reinvested. As a result of the change of the listing of the Company's shares from the American Stock Exchange to the NASDAQ Global Market, the Company does not intend to continue to use the American Exchange Composite Index as an index in future reports and has substituted the Russell 2000 Index.

Source: Yahoo Finance

Note: Stock price performance shown in this Performance Graph for our common stock is historical and not necessarily indicative of future price performance. The information contained in this Performance Graph is not soliciting material and has not been filed with the Securities and Exchange Commission. This Performance Graph will not be incorporated by reference into any of our future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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ITEM 6. Selected Financial Data

Five-Year Summary of Operations*

(In thousands, except for per share and share data)

Years ended December 31,	2007 (a)	2006	2005	2004(b) Restated	2003(b) Restated
Sales, net	\$68,983	\$51,726	\$44,455	\$ 35,183	\$36,202
Cost of sales	51,739	39,304	32,853	27,121	27,638
Operating expenses	13,981	10,455	10,181	11,535	11,457
Interest expense	978	499	409	465	533
Interest income	(85)	(48)	(52)	(2)	(8)
Equity in earnings of partnerships	158				
Gain on sale of asset				3,110	
Other (income) expense, net	164	102	(106)	(61)	130
Income (loss) from continuing operations before income taxes and discontinued operations	2,048	1,415	1,171	(765)	(3,548)
Income tax expense	181	174	409	1,140	484
Income (loss) from continuing operations before discontinued operations	1,867	1,241	762	(1,905)	(4,032)
Income (loss) from discontinued operations, net of income taxes (Note 2)		(78)	767	1,369	(1,013)
Extraordinary gain from discontinued operations				684	
Net income (loss)	\$1,867	\$1,163	\$1,529	\$ 148	\$(5,045)
Basic income (loss) per share:					
Continuing operations	\$.36	\$.24	\$.15	\$ (.37)	\$(.78)
Discontinued operations		(.01)	.15	.27	(.20)
Extraordinary gain discontinued operations				.13	
Net income (loss)	\$.36	\$.23	\$.30	\$.03	\$(.98)
Diluted income (loss) per share:					

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Continuing operations	\$.34	\$.23	\$.14	\$ (.37)	\$ (.78)
Discontinued operations		(.01)	.15	.27	(.20)
Extraordinary gain discontinued operations				.13	
Net income (loss)	\$.34	\$.22	\$.29	\$.03	\$ (.98)
Weighted average number of Shares outstanding during year:					
Basic	5,209,567	5,159,216	5,135,348	5,129,214	5,124,433
Diluted	5,519,780	5,319,802	5,261,491	5,131,841	5,124,433

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Other Financial Highlights*

(In thousands, except for per share data)

Years ended December 31,	2007(a)	2006	2005	2004(b) Restated	2003(b) Restated
Working capital (c)	\$9,365	\$8,445	\$8,185	\$2,183	\$45
Total assets	\$40,676	\$34,281	\$29,635	\$30,939	\$34,729
Long-term debt	\$6,963	\$3,830	\$5,319	\$	\$
Shareholders' equity:					
Capital stock and additional paid-in capital	\$19,205	\$18,046	\$17,719	\$17,670	\$17,670
Retained earnings (accumulated deficit)	878	(990)	(2,152)	(3,680)	(3,828)
Accumulated other comprehensive loss	(220)	(185)	(213)	(597)	(770)
Treasury stock	(1,265)	(1,265)	(1,265)	(1,265)	(1,265)
Total shareholders' equity	\$18,597	\$15,607	\$14,089	\$12,128	\$11,807
Depreciation and amortization	\$2,128	\$1,849	\$2,069	\$2,289	\$2,387

* See Note 13 to the Company's consolidated financial statements included herein for quarterly results of operations.

- (a) Included in the 2007 results and balances at December 31, 2007, are net sales of \$4.5 million, total assets of \$6.4 million, long-term debt of \$4.3 million, and depreciation and amortization of \$100,000 from the acquisition of Tibbetts Industries. Because the 2007 results and balances at December 31, 2007 include amounts from the acquisition of Tibbetts Industries, the financial statements for 2007 may not be comparable to our prior historical results.
- (b) For 2003, the Company reclassified the remaining portion of its Heat Technology business, which consisted of the burners and components portion of that business, as discontinued operations. The Company sold this portion of the business in the first quarter of 2005. For 2004 and 2003, the Heat Technology business had revenues of \$9.7 and \$18.4 million, respectively, with net income of \$2.1

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million for 2004 and a net loss of \$2.5 million for 2003. The Company's Tire Holders, Lifts and Related Products business that was sold in July 2003 is also included in discontinued operations. For 2003, this segment had revenue of \$8.5 million, and net income of \$8,000.

- (c) Working capital is equal to current assets less current liabilities.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Company Overview

IntriCon Corporation (the Company or we, us or our) is an international firm engaged in the designing, developing, engineering and manufacturing of body-worn devices. The Company serves the body-worn device market by design, development, engineering and manufacturing micro-miniature components, systems and molded plastic parts primarily for the hearing instrument, electronics, telecommunications, computer and medical equipment industries.

The Company has one operating segment, its precision miniature medical and electronics products segment. Our expertise is focused on four main markets within this segment: medical, hearing health, professional audio and electronics. Within these chosen markets, we combine ultra-miniature mechanical and electronics capabilities with proprietary technology that enhances the performance of body-worn devices.

Business Highlights

On May 22, 2007, the Company completed the acquisition of substantially all of the assets of Tibbetts Industries, Inc., other than real estate, for cash of \$4,500,000 and the assumption of certain liabilities (total purchase price of \$5,569,000 including acquisition costs of \$228,000). The acquisition was financed with borrowings under the Company's new \$14.5 million senior secured credit facilities, which the Company closed on May 22, 2007. Terms of the new facilities include:

- a \$10.0 million revolving credit facility, with a subfacility for letters of credit, to mature in five years, and
- a \$4.5 million term loan facility, amortized in quarterly principal installments based on a five-year repayment schedule.

The new credit facilities are further described below under the heading Liquidity and Capital Resources.

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In October 2007, the Company entered into a strategic alliance with Advanced Medical Electronics Corp. (AME) to develop and manufacture new miniature, wireless, ultra-low-power bio-telemetry instruments.

Forward Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read together with the selected consolidated financial data and our financial statements and the related notes appearing in Item 6. and Item 8. of this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward- looking statements as a result of many factors, including but not limited to those under the heading "Risk Factors" in

Item 1A.

Results of Operations: 2007 Compared with 2006

Consolidated Net Sales

Consolidated net sales for 2007 and 2006 were as follows (dollars in thousands):

	2007	2006	Change Dollars	Percent
Consolidated net sales	\$68,983	\$51,726	\$17,257	33.4%

Our net sales are comprised of four main sectors: hearing health, medical, professional audio device and electronics.

Net sales in our hearing health business grew 17 percent from 2006 fueled by increased demand for the latest technology advancements in hearing devices, including our advanced line of amplifier assemblies and systems based on our proprietary nanoDSP technology.

We experienced an increase of 122 percent in net sales in the medical equipment market in 2007 as a direct result of increased sales to existing original equipment manufacturer, or OEM, customers. Exclusive of net sales resulting from the ITC acquisition, medical net sales increased 101 percent from 2006.

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Net sales to the professional audio device product sector grew 44 percent over the prior year due to additional sales of microphones to a specific customer and additional sales resulting from the acquisition of ITC. Excluding the results from ITC, professional audio device sales grew 11 percent from 2006.

Net sales to the electronics product sector decreased 10 percent from prior year, primarily due to lower demand from one customer.

Gross Profit

Gross profit, both in dollars and as a percent of sales, for 2007 and 2006, were as follows (dollars in thousands):

	2007		2006		Change	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Gross profit	\$ 17,245	25.0%	\$ 12,422	24.0%	\$ 4,823	38.8%

In 2007, gross margin dollars increased due to the higher overall sales volume. Additionally, gross profit margin as a percentage of sales increased to 25 percent. Gross margin increase from 2006 was primarily due to increased IntriCon product content, proprietary technology and leverage gained on increased volume.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) for the years ended December 31, 2007 and 2006 were (dollars in thousands):

	2007		2006		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Year-over-year Incr.
Selling	\$4,034	5.8%	\$3,410	6.6%	\$624	18.3%
Research and development	3,089	4.5%	2,123	4.1%	\$966	45.5%
General and administrative	6,859	9.9%	4,922	9.5%	\$1,937	39.4%

The increased selling, research and development and general and administrative expenses in 2007 as compared to the prior year were primarily driven by the expenses incurred to adequately support our growth and the May 22, 2007 acquisition of ITC. ITC operating expenses for the year were \$1.0M. The Company has also made continued efforts to invest in strategic research and development opportunities in 2007.

Net Interest Expense

Net interest expense for 2007 was \$893,000, an increase of \$442,000 from \$451,000 in 2006. The increase from the prior year's expense was primarily due to the higher outstanding debt balance, a prepayment penalty of \$110,000 related to debt which was paid off early as a result of refinancing our debt at the time we acquired Tibbetts, partly offset by a decrease in the average interest rate compared to the prior year. The higher outstanding debt balance was primarily driven by the debt related to the purchase of ITC.

Equity in Earnings of Partnerships

Equity in earnings of partnerships for 2007 resulted in a net loss of \$158,000. This represents the Company's portion of the operating results of equity method investments, as well as amortization of the excess of the HIMPP investment over the underlying partnership assets.

Other

In 2007, other expense was \$164,000 compared to \$102,000 in 2006. The other expense for 2007 and 2006 primarily related to the loss on foreign currency exchange.

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Income Taxes

Income taxes were as follows (dollars in thousands):

	2007	2006
Income tax expense	\$ 181	\$ 174
Percentage of pre-tax income	8.8 %	12.3 %

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The expense in 2007 and 2006 was primarily due to foreign taxes on German and Singapore operations. On February 22, 2006, the Company received approval from the Singapore Ministry of Trade and Industry to lower the effective tax rate in Singapore from 20% to 13%. This change was retroactive to September 2003. As such a \$106,000 benefit was recognized in the first quarter of 2006. The Company is in a net operating loss position (NOL) for federal income tax purposes and, consequently, minimal expense from the current period domestic operations was recognized. Accordingly, as a result of increased domestic income, our total income tax expense as a percentage of pre-tax income decreased. Our deferred tax asset related to the NOL carryforwards has been offset by a full valuation allowance. We estimate we have approximately \$15.6 million of NOL carryforwards available to offset future federal income taxes that begin to expire in 2022.

Discontinued Operations

We recorded a net (loss) from discontinued operations as follows (dollars in thousands):

	2007	2006
Net (loss) from discontinued Heat Technology Business	\$	\$(78)

Heat Technology Segment

The 2006 net loss of \$(78,000), or \$(0.01) per diluted share, was primarily due to a write-off of a portion of the note receivable recorded upon sale of the assets.

Results of Operations: 2006 Compared with 2005

Consolidated Net Sales

Consolidated net sales for 2006 and 2005 were as follows (dollars in thousands):

	2006	2005	Change Dollars	Percent
Consolidated net sales	\$51,726	\$44,455	\$7,271	16.4%

Our net sales are comprised of four main sectors: hearing health, electronics, medical and professional audio device. Our net sales in 2006 increased for all four product sectors over the prior year. We experienced an increase of 18 percent in net sales in the medical equipment market in 2006. The significant increase for medical products was due to strengthened orders for design and contract manufacturing with several medical OEM customers. Net sales for our hearing health sector grew 9 percent in 2006. The increase was primarily due to new product offerings in our advance line of amplifier assemblies and systems based on Digital Signal Processing (DSP) technology.

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Net sales to the professional audio device product sector grew 21 percent over the prior year primarily due to sales of a new microphone to a specific customer. The electronics product sector increased 32 percent over prior year. Exclusive of sales resulting from the Amecon Inc. acquisition in October 2005, net sales in this sector increased 1 percent.

Gross Profit

Gross profit, both in dollars and as a percent of sales, for 2006 and 2005, were as follows (dollars in thousands):

	2006		2005		Change	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Gross profit	\$ 12,422	24.0%	\$ 11,602	26.1%	\$ 820	7.1%

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In 2006, gross margin dollars increased due to the higher overall sales volume; however, gross profit margin as a percentage of sales decreased. This decrease was primarily due to a lower margin product mix including increased sales to the electronics market, which provided lower gross profit margins due to increased precious metal material costs, and decreased sales of high margin chip components. Additionally, the hearing-health product mix continued shifting away from higher gross profit margins of mechanical components to digital products, which typically have lower gross profit margins for us.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) for the years ended December 31, 2006 and 2005 were (dollars in thousands):

	2006		2005		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Year-over-year Incr. (Decr.)
Selling	\$ 3,410	6.6%	\$ 3,570	8.0%	\$ (160)	(4.5)%
Research and development	2,123	4.1%	1,818	4.1%	\$ 305	16.8%

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General and administrative	4,922	9.5%	4,793	10.8%	\$ 129	2.7%
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The increased research and development and general and administrative expenses in 2006 as compared to the prior year were primarily driven by the expenses incurred to adequately support our growth, \$214,000 of stock option expense recognized due to the adoption of FAS 123R and the October 6, 2005 acquisition of Amecon, Inc., offset in part, by customer reimbursement for research and development expenses. The Company also made an effort to invest in strategic research and development opportunities in 2006.

Net Interest Expense

Net interest expense for 2006 was \$451,000, an increase of \$107,000 from \$357,000 in 2005. The increase from the prior year's expense was primarily due to the higher outstanding debt balance. The higher outstanding debt balance was primarily driven by the debt related to the purchase of Amecon, Inc.

Other

In 2006, other expense was \$102,000 compared to other income of \$106,000 in 2005. The other expense for 2006 primarily related to the loss on foreign currency exchange.

Income Taxes

Income taxes were as follows (dollars in thousands):

	2006	2005
Income tax expense	\$ 174	\$ 409
Percentage of pre-tax income	12.3 %	35.0 %

On February 22, 2006 the Company received approval from the Singapore Ministry of Trade and Industry to lower the effective tax rate in Singapore from 20% to 13%. This change was retroactive to September 2003. As such a \$106,000 benefit was recognized in the first quarter of 2006. The expense in 2005 was primarily due to foreign taxes on German and Singapore operations. The Company is in a net operating loss position (NOL) for federal income tax purposes and, consequently, minimal expense from the current period domestic operations was recognized. Our deferred tax asset related to the NOL carryforwards has been offset by a full valuation allowance. We estimate we have approximately \$16.9 million of NOL carryforwards available to offset future federal income taxes that begin to expire in 2022.

Discontinued Operations

We recorded net income (loss) from discontinued operations as follows (dollars in thousands):

	2006	2005
Net income (loss) from discontinued Heat Technology Business	\$(78)	\$767

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Heat Technology Segment

The 2006 net loss of \$(78,000), or \$(0.01) per diluted share, was primarily due to a write-off of a portion of the note receivable recorded upon sale of the heat technology assets. The 2005 net income of \$767,000, or \$0.15 per diluted share, was mainly attributable to the reduction in the Selas Postretirement Benefits liability. As part of the March 31, 2005 asset purchase agreement, we were required to maintain the post retirement medical plan for all retired eligible participants, but were able to eliminate from the plan those employees not participating at the time of the asset purchase.

Liquidity and Capital Resources

As of December 31, 2007, we had approximately \$1.7 million of cash on hand. Sources of our cash for the year ended December 31, 2007 have been from our operations and our credit facility, as described below.

Consolidated net working capital increased to \$9.4 million at December 31, 2007 from \$8.4 million at December 31, 2006. Our cash flows from operating, investing and financing activities, as reflected in the statement of cash flows at December 31, are summarized as follows (dollars in thousands):

	2007	2006	2005
Cash provided (used) by:			
Continuing operations	\$ 3,534	\$ 1,656	\$ (2,533)
Discontinued operations		(78)	3,811
Investing activities	(7,060)	(565)	(1,165)
Financing activities	4,538	(1,568)	778
Effect of exchange rate changes on cash	40	45	(28)
Increase (decrease) in cash	\$ 1,052	\$ (510)	\$ 863

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Operating Activities. The most significant items that contributed to the \$3.5 million of cash provided by continuing operations were net income of \$1.9 million, depreciation of \$2.1 million and changes in operating assets and liabilities of \$(0.8) million. The change in operating assets and liabilities was primarily due to decreases in accounts payable as a result of timing of payments made to vendors, offset by decreases in accounts receivable as a result of increased collections.

Investing Activities. The most significant items that contributed to the \$7.1 million of cash used by investing activities were purchases of property, plant and equipment of \$2.8 million and \$4.6 million of net cash paid for the acquisition of Tibbetts.

Financing Activities. Net cash provided by financing activities of \$4.5 million was comprised primarily of net proceeds from borrowings of \$10.8 million, net payments of debt of \$7.4 million and proceeds from the exercise of stock options of \$0.9 million. Total proceeds from borrowings include the proceeds from our new credit facility, which were used to repay amounts owed under the prior credit facilities and fund the Tibbetts asset acquisition.

Cash generated from operations may be affected by a number of factors. See [Forward Looking Statements](#) and [Item 1A: Risk Factors](#) contained herein for a discussion of some of the factors that can negatively impact the amount of cash we generate from our operations.

We had the following bank arrangements at December 31, (dollars in thousands):

	2007	2006
Total availability under existing facilities	\$ 13,623	\$ 8,669
Borrowings and commitments:		
Domestic credit facility	3,000	3,569
Domestic term loans	4,275	
Foreign overdraft and letter of credit facility	1,071	1,045
Capital leases	94	169
Total borrowings and commitments	8,440	4,783
Remaining availability under existing facilities	\$ 5,183	\$ 3,886

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The Company and its subsidiaries, Resistance Technology, Inc., RTI Electronics, Inc. and IntriCon Tibbetts Corporation, referred to as the borrowers, entered into a credit facility with LaSalle Bank, National Association, referred to as the lender, on May 22, 2007 replacing the prior credit facilities with M & I Business Credit (formerly known as Diversified Business Credit, Inc.). The credit facility provides for:

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a \$10,000,000 revolving credit facility, with a \$200,000 subfacility for letters of credit. Under the revolving credit facility, the availability of funds depends on a borrowing base composed of stated percentages of our eligible trade receivables and eligible inventory, less a reserve.

a \$4,500,000 term loan, which was used to fund the Tibbetts acquisition.

Loans under the new credit facility are secured by a security interest in substantially all of the assets of the borrowers including a pledge of the stock of the subsidiaries. All of the borrowers are jointly and severally liable for all borrowings under the new credit facility.

Proceeds from the new facility were used to repay amounts owed under the prior credit facilities of approximately \$5.0 million and the \$4.5 million purchase price to complete the Tibbetts asset acquisition.

Loans under the new credit facility bear interest, at the option of the Company, at:

the London InterBank Offered Rate (LIBOR) plus 1.90%, in the case of revolving line of credit loans, or LIBOR plus 2.15%, in the case of the term loan, or

the base rate, which is the higher of (a) the rate publicly announced from time to time by the lender as its prime rate and (b) the Federal Funds Rate plus 0.5%.

Interest is payable monthly in arrears, except that interest on LIBOR based loans is payable at the end of the one, two or three month interest periods applicable to LIBOR based loans, or every three months in the case of LIBOR based loans with a six month interest period.

Weighted average interest on the domestic asset-based revolving credit facilities (including the prior credit facility) was 7.82% and 8.17% for 2007 and 2006, respectively.

The new credit facility will expire and all outstanding loans will become due and payable on June 30, 2012. The term loan requires quarterly principal payments, commencing on September 30, 2007, based on an increasing installment schedule, with any balance due on June 30, 2012. The principal balance of the term loan was \$4,275,000 at December 31, 2007.

The outstanding balance of the revolving credit facilities was \$3,000,000 and \$3,569,349 at December 31, 2007 and 2006, respectively. The total remaining availability on the revolving credit facility was \$4,442,950 at December 31, 2007.

The revolving facility carries a non-use fee equal to 0.25% per year of the unused portion of the revolving line of credit facility, payable quarterly in arrears.

The Company is subject to various covenants under the credit facility, including financial covenants relating to tangible net worth, funded debt to EBITDA, fixed charge coverage ratio and capital expenditures. Under the credit facility, except as otherwise permitted, the borrowers may not, among other things, incur or permit to exist any indebtedness; grant or permit to exist any liens or security interests on their assets or pledge the stock of any subsidiary; make investments; be a party to any merger or consolidation, or purchase of all or substantially all of the assets or equity of any other entity; sell, transfer, convey or lease all or any substantial part of its assets or capital securities; sell or assign, with or without recourse, any receivables; issue any capital securities; make any distribution or dividend (other than stock dividends), whether in cash or otherwise, to any of its equityholders; purchase or redeem any of its equity interests or any warrants, options or other rights in respect thereof; enter into any transaction with any of its affiliates or with any director, officer or employee of any borrower; be a party to any unconditional purchase obligations; cancel any claim or debt owing to it; enter into any agreement inconsistent with the provisions of the credit facility or other agreements and documents entered into in connection with the credit facility; engage in any line of business other than the businesses engaged in on the date of the credit facility and businesses reasonably related thereto; or permit its charter, bylaws or other organizational documents to be amended or modified in any way which could reasonably be expected to materially adversely affect the interests of the lender. Effective as of September 30, 2007, the credit facility was amended to change the tangible net worth covenant. As of December 31, 2007, the Company was in compliance with all financial covenants under the credit facility, as amended.

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Upon the occurrence and during the continuance of an event of default (as defined in the credit facility), the lender may, among other things: terminate its commitments to the borrowers (including terminating or suspending its obligation to make loans and advances); declare all outstanding loans, interest and fees to be immediately due and payable; take possession of and sell any pledged assets and other collateral; and exercise any and all rights and remedies available to it under the Uniform Commercial Code or other applicable law. In the event of the insolvency or bankruptcy of any borrower, all commitments of the lender will automatically terminate and all outstanding loans, interest and fees will be immediately due and payable. Events of default include, among other things: failure to pay any amounts when due; material misrepresentation; default in the performance of any covenant, condition or agreement to be performed that is not cured within 20 days after notice from the lender; default in the payment of other indebtedness or other obligation with an outstanding principal balance of more than \$50,000, or of any other term, condition or covenant contained in the agreement under which such obligation is created, the effect of which is to allow the other party to accelerate such payment or to terminate the agreements; the insolvency or bankruptcy of any borrower; the entrance of any judgment against any borrower in excess of \$50,000, which is not fully covered by insurance; the occurrence of a change in control (as defined in the credit facility); certain collateral impairments; and a contribution failure with respect to any employee benefit plan that gives rise to a lien under ERISA.

The prior credit facility provided for:

a \$5,500,000 domestic revolving credit facility, bearing interest at an annual rate equal to the greater of 5.25%, or 0.5% over prime.

Under the revolving credit facility, the availability of funds depended on a borrowing base composed of stated percentages of our eligible trade receivables and eligible inventory, less a reserve.

a \$1,000,000 domestic equipment term loan, bearing interest at an annual rate equal to the greater of 5.25%, or 0.75% over the prime rate.

The revolving facility carried a commitment fee of 0.25% per year, payable on the unborrowed portion of the line. Additionally, the credit facility required an annual fee of \$27,500 due on August 31, 2007, and 2008. Upon termination of the credit facility by us prior to maturity, the Company was required to pay a termination fee equal to 2% of the total of the maximum amount available under the revolving credit facility, equal to \$110,000, which is included in interest expense, plus the amounts then outstanding under the term loan.

The credit facility originally included a real estate loan with an original principal balance of \$1,500,000, which was associated with our Vadnais Heights manufacturing facility. In June 2006, the Company completed a sale-leaseback of the Vadnais Heights manufacturing facility. The transaction generated proceeds of \$2,650,000, of which \$1,388,000 was used to repay the associated real estate loan and the remainder to pay down our domestic revolver. The remaining gain on the sale of \$935,715 is being recognized over the initial 10-year lease term as the renewal options in the lease are not assured and a penalty does not exist if we do not exercise the renewal options.

In addition to its domestic credit facilities, on August 15, 2005, the Company's wholly-owned subsidiary, RTI Tech, PTE LTD., entered into an international senior secured credit agreement with Oversea-Chinese Banking Corporation Ltd. that provides for a \$1.8 million line of credit. Borrowings bear interest at a rate of .75% to 2.5% over the lender's prevailing prime lending rate. Weighted average interest on the international credit facilities was 6.36% and 6.47% for 2007 and 2006, respectively. The outstanding balance was \$1,071,009 and \$1,044,791 at December 31, 2007 and 2006, respectively. The total remaining availability on the international senior secured credit agreement was \$739,576 at December 31, 2007.

During 2005, the Company entered into several capital lease agreements to fund the acquisition of machinery and equipment. For 2005, the total principal amount of these leases was \$314,000 with effective interest rates ranging from 6.7% to 8.0%. These agreements range from 3 to 5 years. The outstanding balance under these capital lease agreements at December 31, 2007 and 2006 was \$94,000 and \$169,000, respectively. The accumulated amortization on leased equipment was \$118,975 and \$74,129 at December 31, 2007 and 2006, respectively. The amortization of capital leases is included in depreciation expense for 2007, 2006 and 2005.

We believe that funds expected to be generated from operations, the available borrowing capacity through our revolving credit loan facilities and the control of capital spending will be sufficient to meet our anticipated cash requirements for operating needs for at least the next 12 months. If, however, we do not generate sufficient cash from operations, or if we incur additional unanticipated liabilities, we may be required to seek additional financing or sell equity or debt on terms which may not be as favorable as we could have otherwise obtained. No assurance can be given that any refinancing, additional borrowing or sale of equity or debt will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our access to capital is affected by prevailing conditions in the financial and equity capital markets, as well as its own financial condition. While management believes that we will be able to meet our liquidity needs for at least the next 12 months, no assurance can be given that we will be able to do so.

Table of Contents**Contractual Obligations**

The following table represents our contractual obligations and commercial commitments as of December 31, 2007.

Contractual Obligations	Payments Due by Period				More than 5 Years
	Total	Less than 1 Year	1-3 Years	4-5 Years	
Domestic credit facility	\$3,000,000	\$	\$	\$3,000,000	\$
Domestic term loan	4,275,000	506,250	1,800,000	1,968,750	
Foreign overdraft and letter of credit facility	1,071,009	928,537	142,472		
Amecon Acquisition payments	512,720	253,360	259,360		
Partnership payable	1,280,000	260,000	520,000	500,000	
Pension and other post retirement benefit obligations	1,716,705	275,656	551,312	406,084	483,653
Capital leases	94,066	41,878	52,188		
Operating leases	6,690,801	1,569,162	2,293,683	1,386,038	1,441,917
Total contractual cash obligations	\$18,640,301	\$3,834,843	\$5,619,015	\$7,260,872	\$1,925,570

There are certain provisions that could accelerate our contractual obligations as noted above.

Foreign Currency Fluctuation

Generally, the effect of changes in foreign currencies on our results of operations is partially or wholly offset by our ability to make corresponding price changes in the local currency. From time to time, the impact of fluctuations in foreign currencies may have a material effect on the financial results of the Company. Foreign currency transaction amounts included in the statements of operation include a loss of \$112,000 and \$100,000 in 2007 and 2006, respectively, and a gain of \$3,000 in 2005. See Note 11 to the Company's consolidated financial statements included herein. A portion of the discontinued operations are denominated in foreign currencies, primarily the Euro and Japanese Yen.

Off-Balance Sheet Obligations

We have no material off-balance sheet obligations as of December 31, 2007.

Related Party Transactions

For a discussion of related party transactions, see Note 16 to the Company's consolidated financial statements included herein.

Litigation

For a discussion of litigation, see Item 3. Legal Proceedings and Note 15 to the Company's consolidated financial statements included herein.

New Accounting Pronouncements

See New Accounting Pronouncements set forth in Note 1 of the Notes to the Consolidated Financial Statements under Item 8 of this Form 10-K, for information pertaining to recently adopted accounting standards or accounting standards to be adopted in the future.

Critical Accounting Policies

The significant accounting policies of the Company are described in Note 1 to the consolidated financial statements and have been reviewed with the audit committee of our Board of Directors. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period.

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Certain accounting estimates and assumptions are particularly sensitive because of their importance to the consolidated financial statements and possibility that future events affecting them may differ markedly. The accounting policies of the Company with significant estimates and assumptions are described below.

Revenue Recognition

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Our continuing operations recognize revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Under contractual terms, shipments are generally FOB shipment point.

Customers have 30 days to notify the Company if the product is damaged or defective. Beyond that, there are no significant obligations that remain after shipping other than warranty obligations. Contracts with customers do not include product return rights; however, we may elect in certain circumstances to accept returns for product. We record revenue for product sales net of returns. Net sales also include amounts billed to customers for shipping and handling, if applicable. The corresponding shipping and handling costs are included in the cost of sales.

In general, we warrant our products to be free from defects in material and workmanship and will fully conform to and perform to specifications for a period of one year. While our warranty costs have historically been within our expectations, we cannot guarantee that we will continue to experience the same warranty return rates or repair costs that we have experienced in the past.

Accounts Receivable Reserves

This reserve is an estimate of the amount of accounts receivable that are uncollectible. The reserve is based on a combination of specific customer knowledge, general economic conditions and historical trends. Management believes the results could be materially different if economic conditions change for our customers.

Inventory Valuation

Inventory is recorded at the lower of our cost or market value. Market value is an estimate of the future net realizable value of our inventory. It is based on historical trends, product life cycles, forecast of future inventory needs and on-hand inventory levels. Management believes reserve levels could be materially affected by changes in technology, our customer base, customer needs, general economic conditions and the success of certain Company sales programs.

Discontinued Operations

We continuously assess the return on our business segments. When management with the appropriate level of authority determines that a plan is in place to restructure the operations of a business or discontinue an operation, contractual commitments and obligations are recorded. See the discussion in Note 2 to the consolidated financial statements.

Goodwill

We perform an annual assessment of the carrying value of goodwill. As part of this assessment, we estimate future cash flows, as well as making a risk assessment of investing in our company versus other investment opportunities. Changes in either the risk assessment or estimated future cash flows could have a material adverse impact on the carrying value of goodwill.

Long-lived Assets

The carrying value of long-lived assets is periodically assessed to insure their carrying value does not exceed their estimated net realizable future value. This assessment includes certain assumptions related to future needs for the asset to help generate future cash flow. Changes in those assessments, future economic conditions or technological changes could have a material adverse impact on the carrying value of these assets.

Deferred Taxes

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Actual future operating results, as well as changes in our future performance, could have a material adverse impact on the valuation reserves.

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Employee Benefit Obligations

We provide retirement and health care insurance for certain domestic retirees and employees. We measure the costs of our obligation based on our best estimate. The net periodic costs are recognized as employees render the services necessary to earn the post-retirement benefit. Several assumptions and statistical variables are used in the models to calculate the expense and liability related to the plans. We determine assumptions about the discount rate, the expected rate of return on plan assets and the future rate of compensation increases. The actuarial models also use assumptions on demographic factors such as retirement, mortality and turnover. Changes in actuarial assumptions could vary materially from actual results due to economic events and different rates of retirement, mortality and withdrawal.

ITEM Quantitative and Qualitative Disclosures About Market Risk
7A.

Our consolidated cash flows and earnings are subject to fluctuations due to changes in foreign currency exchange rates and interest rates.

Foreign Currency Risk

We attempt to limit our exposure to changing foreign currency exchange rates through operational and financial market actions. We do not hold derivatives for trading purposes.

We manufacture and sell our products in a number of locations around the world, resulting in a diversified revenue and cost base that is exposed to fluctuations in European and Asian currencies. This diverse base of foreign currency revenues and costs serves to create a hedge that limits our net exposure to fluctuations in these foreign currencies.

Short-term exposures to changing foreign currency exchange rates are occasionally managed by financial market transactions, principally through the purchase of forward foreign exchange contracts (with maturities of six months or less) to offset the earnings and cash flow impact of the nonfunctional currency denominated receivables and payables relating to select contracts. The decision by management to hedge any such transaction is made on a case-by-case basis. Foreign exchange forward contracts are denominated in the same currency as the receivable or payable being covered, and the term and amount of the forward foreign exchange contract substantially mirrors the term and amount of the underlying receivable or payable. The receivables and payables being covered arise from bank debt, trade and intercompany transactions of and among our foreign subsidiaries. At December 31, 2007, we did not have any forward foreign exchange contracts outstanding. We cannot assure you that foreign currency fluctuations will not have a material adverse impact on our financial condition and results of operations.

All assets and liabilities of foreign operations with foreign functional currency are translated into U.S. dollars at prevailing rates of exchange in effect at the balance sheet date. Revenues and expenses are translated using average rates of exchange for the year. The functional currency of the Company's German operations is the European Euro. As of January 1, 2006, the functional currency of the Company's Singapore operations changed from the Singapore dollar to the U.S. dollar. Adjustments resulting from the process of translating the financial statements of foreign subsidiaries into U.S. dollars are reported as a separate component of shareholders' equity, net of tax, where appropriate. Foreign currency transaction amounts included in the statements of operation include a loss of \$112,000 in 2007, a loss of \$100,000 in 2006, and a gain of \$3,000 in 2005. Based on our 2007 results of operations, if foreign currency exchange rates were to strengthen/weaken by 25% against the U.S. dollar, we would expect a resulting pre-tax loss/gain of approximately \$1.4 million.

For more information regarding foreign currency risks, see "Foreign Currency Fluctuation" Management Discussion and Analysis on page 27.

Interest Rate Risk

At December 31, 2007, we had \$7.3 million in outstanding variable rate borrowings. A material change in interest rates could adversely affect our operating results and cash flows. A 100 basis-point increase in interest rates would increase our annual interest expense by \$10,000 for each \$1.0 million of variable debt outstanding for the entire year. Based on our average variable rate borrowings outstanding in 2007, a 100 basis-point increase in interest rates would have resulted in additional interest expense of \$85,000.

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The Company uses derivative financial instruments in the form of interest rate swaps in managing its interest rate exposure. The Company does not hold or issue derivative financial instruments for trading purposes. When entered into, the Company formally designates the derivative

financial instrument as a hedge of a specific underlying exposure if such criteria are met, and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally assesses, both at inception and at least quarterly thereafter, whether the derivative financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Because of the high correlation between the derivative financial instrument and the underlying exposure being hedged, fluctuations in the value of the derivative financial instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. Any ineffective portion of a derivative financial instrument's change in fair value would be immediately recognized in earnings.

The swaps are designated as cash flow hedges with the changes in fair value recorded in accumulated other comprehensive loss and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or accounts receivable and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. During 2007, approximately \$2,000 of said adjustments were recorded to interest expense. During 2007, ineffectiveness from such hedges was \$0.

At December 31, 2007, the Company had a United States Dollar (USD) denominated interest rate swap outstanding which effectively fixed the interest rate on floating rate debt, exclusive of lender spreads, at 5.36% for a notional principal amount of \$2,000,000 through December 2010. The derivative net loss on this contract recorded in accumulated other comprehensive loss at December 31, 2007 was \$79,215, which is expected to be reclassified from Accumulated other comprehensive loss into earnings over the next 12 months.

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ITEM 8. Financial Statements and Supplementary Data

Management's Report on Internal Control over Financial Reporting

Management of IntriCon Corporation and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) of the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, using criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company's management believes that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors

IntriCon Corporation and Subsidiaries

Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of IntriCon Corporation and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IntriCon Corporation and Subsidiaries as of December 31, 2007 and 2006 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

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As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted Financial Accounting Standards Board Statement No. 123(R), Share-Based Payment.

/s/ Virchow, Krause & Company, LLP

Minneapolis, Minnesota

March 7, 2008

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IntriCon Corporation

Consolidated Statements of Operations

Years ended December 31	2007	2006	2005
Sales, net	\$68,983,380	\$51,725,952	\$44,455,251
Costs of sales	51,738,573	39,304,003	32,853,426
Gross profit	17,244,807	12,421,949	11,601,825
Operating expenses:			
Selling expense	4,034,135	3,410,226	3,569,948
General and administrative expense	6,858,582	4,921,818	4,793,239
Research and development expense	3,088,770	2,122,594	1,817,384
Total operating expenses	13,981,487	10,454,638	10,180,571
Operating income	3,263,320	1,967,311	1,421,254
Interest expense	978,145	498,521	409,199
Interest income	(84,524)	(48,003)	(52,482)
Equity in earnings of partnerships	157,500		
Other (income) expense, net	164,288	101,831	(106,343)
Income from continuing operations before income taxes and discontinued operations	2,047,911	1,414,962	1,170,880
Income tax expense	180,673	174,460	409,423

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Income before discontinued operations	1,867,238	1,240,502	761,457
Income (loss) from discontinued operations, net of income taxes (Note 2)		(77,990)	767,230
Net income	\$1,867,238	\$ 1,162,512	\$ 1,528,687

Basic income (loss) per share:

Continuing operations	\$.36	\$.24	\$.15
Discontinued operations		(.01)	.15
Net income	\$.36	\$.23	\$.30

Diluted income (loss) per share:

Continuing operations	\$.34	\$.23	\$.14
Discontinued operations		(.01)	.15
Net income	\$.34	\$.22	\$.29

See accompanying notes to the consolidated financial statements.

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Consolidated Balance Sheets

At December 31,

Assets	2007	2006
Current assets		
Cash	\$ 1,651,145	\$ 599,459
Restricted cash	72,231	60,158
Accounts receivable, less allowance for doubtful accounts of \$259,000 at December 31, 2007 and \$246,000 at December 31, 2006	8,408,149	8,456,450
Inventories	9,835,060	9,030,615
Refundable income taxes	28,297	103,587
Note receivable from sale of discontinued operations, less allowance of \$225,000 at 2007 and 2006	75,000	300,000
Other current assets	775,206	235,418
Total current assets	20,845,088	18,785,687
Property, plant and equipment		
Machinery and equipment	36,959,184	28,767,904

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Less: accumulated depreciation and amortization	28,500,318	21,994,344
Net property, plant and equipment	8,458,866	6,773,560
Long-term note receivable from sale of discontinued operations		75,000
Goodwill	8,238,020	5,927,181
Investment in partnerships	1,590,426	1,800,000
Other assets, net	1,543,127	920,051
	\$ 40,675,527	\$ 34,281,479

See accompanying notes to the consolidated financial statements.

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At December 31,

Liabilities and Shareholders' Equity	2007	2006
Current liabilities		
Checks written in excess of cash	\$ 1,209,642	\$ 661,756
Current maturities of long-term debt	1,476,665	952,730
Accounts payable	3,965,914	5,161,450
Customers' advance payments on contracts	190,062	
Income tax payable	74,549	173,810
Deferred gain on building sale and other	110,084	110,084
Partnership payable	260,000	260,000
Other accrued liabilities	4,192,693	3,021,201
Total current liabilities	11,479,609	10,341,031
Long-term debt, less current maturities	6,963,410	3,830,461
Other post-retirement benefit obligations	816,532	1,063,744
Partnership payable	1,020,000	1,280,000
Note payable, net of current portion (Amecon)	259,360	515,720
Deferred income taxes	89,273	79,273
Accrued pension liability	624,517	628,569
Deferred gain on building sale	825,631	935,715
Commitments and contingencies (notes 7 and 15)		
Shareholders' equity		
Common shares, \$1 par; 10,000,000 shares authorized;		

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5,813,491 and 5,706,235 shares issued; 5,297,737 and 5,190,481 outstanding	5,813,491	5,706,235
Additional paid-in capital	13,391,449	12,339,988
Retained earnings (accumulated deficit)	877,733	(989,505)
Accumulated other comprehensive loss	(220,400)	(184,674)
	19,862,273	16,872,044
Less: 515,754 common shares held in treasury, at cost	(1,265,078)	(1,265,078)
Total shareholders' equity	18,597,195	15,606,966
	\$ 40,675,527	\$ 34,281,479

See accompanying notes to the consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended December 31,	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 1,867,238	\$ 1,162,512	\$ 1,528,687
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
(Income) loss from discontinued operations		77,990	(767,230)
Depreciation and amortization	2,127,568	1,849,354	2,069,170
Stock-based compensation	280,376	213,531	
Gains on sale of property and equipment	(3,858)	(334)	(2,215)
Deferred taxes	10,000	41,548	(103,593)
Change in deferred gain	(110,084)	(55,033)	
Allowance for doubtful accounts	(11,670)	(124,651)	(193,809)
Allowance for note receivable		78,923	
Equity in earnings of partnerships	157,500		
Changes in operating assets and liabilities:			
Accounts receivable	1,242,457	(1,379,448)	(2,197,276)
Inventories	(4,607)	(2,119,322)	(2,407,509)
Other assets	(476,464)	210,846	(545,111)
Accounts payable	(1,966,327)	2,024,771	1,328,757
Accrued expenses	445,585	(123,553)	78,840
Customers advance payments on contracts	10,229		(12,764)
Other liabilities	(34,631)	(200,745)	(1,309,218)
Net cash provided (used) by continuing operations	3,533,313	1,656,389	(2,533,271)
Net cash provided (used) by discontinued operations		(77,990)	3,810,723
Net cash provided by operating activities	3,533,313	1,578,399	1,277,452
Cash flows from investing activities:			
Purchases of property, plant and equipment	(2,763,217)	(3,180,322)	(794,192)
Cash paid for acquisition of assets of Amecon, Inc		(3,141)	(378,365)
Cash paid for acquisitions, net of cash received	(4,606,251)		

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Proceeds from sales of property, plant and equipment	9,169	2,568,363	7,600
Proceeds from note receivable	300,000	50,000	
Net cash used by investing activities	(7,060,299)	(565,100)	(1,164,957)
Cash flows from financing activities:			
Proceeds from short-term borrowings		425,513	164,865
Proceeds from exercise of stock options	872,221	113,534	48,400
Repayments of short-term borrowings		(142,382)	(3,171,447)
Proceeds from long term borrowings	9,483,583	2,654,034	5,080,568
Repayments of long-term debt	(6,093,137)	(4,622,893)	(1,458,470)
Payments of partnership payable	(260,000)	(260,000)	
Change in restricted cash	(12,073)		381,379
Change in checks written in excess of cash	547,886	263,757	(267,099)
Net cash provided (used) by financing activities	4,538,480	(1,568,437)	778,196
Effect of exchange rate changes on cash	40,192	45,195	(27,719)
Increase (decrease) in cash	1,051,686	(509,943)	862,972
Cash beginning of year	599,459	1,109,402	246,430
Cash end of year	\$ 1,651,145	\$ 599,459	\$ 1,109,402

See accompanying notes to the consolidated financial statements.

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Consolidated Statements of Shareholders' Equity and Comprehensive Income

Years ended December 31, 2007, 2006 and 2005

	Common Stock Number of Shares	Common Stock \$ Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Comprehensive Income	Treasury Stock	Total Shareholders' Equity
Balance December 31, 2004	5,644,968	\$ 5,644,968	\$ 12,025,790	\$ (3,680,704)	\$ (597,119)		\$ (1,265,078)	\$ 12,127,857
Exercise of stock options	20,600	20,600	27,800					48,400
Net income				1,528,687		\$ 1,528,687		1,528,687
Translation gain, net of income taxes of \$0					384,567	384,567		384,567
Comprehensive income						\$ 1,913,254		

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Balance December 31, 2005	5,665,568	5,665,568	12,053,590	(2,152,017)	(212,552)	(1,265,078)	14,089,511
Exercise of stock options	40,667	40,667	72,867				113,534
Stock option expense			213,531				213,531
Net income				1,162,512		\$ 1,162,512	1,162,512
Translation gain, net of income taxes of \$0					27,878	27,878	27,878
Comprehensive income						\$ 1,190,390	
Balance December 31, 2006	5,706,235	5,706,235	12,339,988	(989,505)	(184,674)	(1,265,078)	15,606,966
Exercise of stock options	106,502	106,502	765,719				872,220
Shares issued in lieu of cash for services	754	754	5,366				6,120
Stock option expense			280,376				280,376
Net income				1,867,238		\$ 1,867,238	1,867,238
Change in fair value of interest rate swap, net of income taxes of \$0							