

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 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)

(651) 636-9770

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 Exchange Act).

Yes No

The number of outstanding shares of the registrant's common stock, \$1.00 par value, on July 31, 2017 was 6,850,017.

INTRICON CORPORATION

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PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

INTRICON CORPORATION
Consolidated Condensed Balance Sheets
(In Thousands, Except Per Share Amounts)

	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	<u>(Unaudited)</u>	
Current assets:		
Cash	\$ 363	\$ 667
Restricted cash	632	595
Accounts receivable, less allowance for doubtful accounts of \$190 at June 30, 2017 and \$170 at December 31, 2016	8,208	7,289
Inventories	13,976	12,343
Other current assets	1,074	957
Current assets of discontinued operations	—	123
Total current assets	<u>24,253</u>	<u>21,974</u>
Machinery and equipment	40,522	40,152
Less: Accumulated depreciation	<u>34,165</u>	<u>33,546</u>
Net machinery and equipment	6,357	6,606
Goodwill	10,555	10,555
Intangible assets, net	2,817	2,920
Investment in partnerships	226	146
Other assets, net	1,751	1,557
Total assets	<u>\$ 45,959</u>	<u>\$ 43,758</u>
Current liabilities:		
Current maturities of long-term debt	\$ 2,389	\$ 2,346
Accounts payable	8,825	6,722
Accrued salaries, wages and commissions	2,868	2,413
Other accrued liabilities	1,961	1,914
Liabilities of discontinued operations	—	123
Total current liabilities	<u>16,043</u>	<u>13,518</u>
Long-term debt, less current maturities	8,823	9,284
Other postretirement benefit obligations	479	501
Accrued pension liabilities	744	737
Other long-term liabilities	714	707
Total liabilities	<u>26,803</u>	<u>24,747</u>
Commitments and contingencies (note 11)		
Shareholders' equity:		
Common stock, \$1.00 par value per share; 20,000 shares authorized; 6,849 and 6,820 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	6,849	6,820
Additional paid-in capital	21,908	21,383
Accumulated deficit	(8,451)	(8,633)
Accumulated other comprehensive loss	(864)	(1,014)
Total shareholders' equity	<u>19,442</u>	<u>18,556</u>
Non-controlling interest	(286)	455
Total equity	<u>19,156</u>	<u>19,011</u>
Total liabilities and equity	<u>\$ 45,959</u>	<u>\$ 43,758</u>

(a) Assets of Hearing Help Express (HHE), a consolidated variable interest entity, that can only be used to settle obligations of HHE were \$5,471 at June 30, 2017 and \$5,159 at December 31, 2016, respectively. Liabilities of HHE, for which creditors do not have recourse to the general credit of IntriCon, were \$5,023 at June 30, 2017 and \$3,833 at December 31, 2016, respectively.

(See accompanying notes to the consolidated condensed financial statements)

INTRICON CORPORATION
Consolidated Condensed Statements of Operations
(In Thousands, Except Per Share Amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Sales, net	\$ 21,961	\$ 16,628	\$ 42,049	\$ 34,692
Cost of sales	15,380	12,795	29,792	25,761
Gross profit	<u>6,581</u>	<u>3,833</u>	<u>12,257</u>	<u>8,931</u>
Operating expenses:				
Sales and marketing	2,204	1,160	4,515	2,316
General and administrative	2,705	2,083	5,263	4,349
Research and development	1,112	1,321	2,265	2,486
Restructuring charges	—	132	—	132
Total operating expenses	<u>6,021</u>	<u>4,696</u>	<u>12,043</u>	<u>9,283</u>
Operating income (loss)	560	(863)	214	(352)
Interest expense	(189)	(126)	(371)	(252)
Other income (expense)	(47)	(221)	9	(291)
Income (loss) from continuing operations before income taxes and discontinued operations	324	(1,210)	(148)	(895)
Income tax expense	54	52	118	86
Income (loss) from continuing operations before discontinued operations	<u>270</u>	<u>(1,262)</u>	<u>(266)</u>	<u>(981)</u>
Loss on sale of discontinued operations (Note 3)	—	—	(164)	—
Loss from discontinued operations (Note 3)	<u>(15)</u>	<u>(265)</u>	<u>(128)</u>	<u>(565)</u>
Net income (loss)	255	(1,527)	(558)	(1,546)
Less: Loss allocated to non-controlling interest	(355)	(37)	(740)	(71)
Net income (loss) attributable to IntriCon shareholders	<u>\$ 610</u>	<u>\$ (1,490)</u>	<u>\$ 182</u>	<u>\$ (1,475)</u>
Basic income (loss) per share attributable to IntriCon shareholders:				
Continuing operations	\$ 0.09	\$ (0.19)	\$ 0.07	\$ (0.15)
Discontinued operations	(0.00)	(0.04)	(0.04)	(0.09)
Net income (loss) per share:	<u>\$ 0.09</u>	<u>\$ (0.23)</u>	<u>\$ 0.03</u>	<u>\$ (0.24)</u>
Diluted income (loss) per share attributable to IntriCon shareholders:				
Continuing operations	\$ 0.09	\$ (0.19)	\$ 0.07	\$ (0.15)
Discontinued operations	(0.00)	(0.04)	(0.04)	(0.09)
Net income (loss) per share:	<u>\$ 0.08</u>	<u>\$ (0.23)</u>	<u>\$ 0.03</u>	<u>\$ (0.24)</u>
Average shares outstanding:				
Basic	6,845	6,370	6,828	6,078
Diluted	7,187	6,370	6,828	6,078

(See accompanying notes to the consolidated condensed financial statements)

INTRICON CORPORATION
Consolidated Condensed Statements of Comprehensive Income (Loss)
(In Thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Net income (loss)	\$ 255	\$ (1,527)	\$ (558)	\$ (1,546)
Interest rate swap, net of taxes of \$0	3	(4)	15	(41)
Pension and postretirement obligations, net of taxes of \$0	5	5	10	10
Foreign currency translation adjustment, net of taxes of \$0	80	(155)	125	(125)
Comprehensive income (loss)	<u>\$ 343</u>	<u>\$ (1,681)</u>	<u>\$ (408)</u>	<u>\$ (1,702)</u>

(See accompanying notes to the consolidated condensed financial statements)

INTRICON CORPORATION
Consolidated Condensed Statements of Cash Flows
(In Thousands)

	Six Months Ended	
	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Cash flows from operating activities:		
Net loss	\$ (558)	\$ (1,546)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,105	1,025
Stock-based compensation	425	347
Gain on disposition of property	—	(55)
Loss on sale of discontinued operations	164	—
Change in allowance for doubtful accounts	20	(1)
Equity in loss of partnerships	24	109
Changes in operating assets and liabilities:		
Accounts receivable	(1,043)	123
Inventories	(1,662)	(88)
Other assets	(458)	(587)
Accounts payable	2,113	(459)
Accrued expenses	432	(704)
Other liabilities	(37)	(102)
Net cash provided by (used in) operating activities	<u>525</u>	<u>(1,938)</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(618)	(1,263)
Other	(100)	(18)
Net cash used in investing activities	<u>(718)</u>	<u>(1,281)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	7,481	12,006
Repayments of long-term debt	(7,843)	(12,275)
Proceeds from equity offering, net of offering costs	—	3,697
Proceeds from employee stock purchases and exercise of stock options	129	53
Change in restricted cash	(56)	(28)
Net cash provided by (used in) financing activities	<u>(289)</u>	<u>3,453</u>
Effect of exchange rate changes on cash	<u>178</u>	<u>(153)</u>
Net increase (decrease) in cash	(304)	81
Cash, beginning of period	<u>667</u>	<u>369</u>
Cash, end of period	<u>\$ 363</u>	<u>\$ 450</u>

(See accompanying notes to the consolidated condensed financial statements)

Notes to Consolidated Condensed Financial Statements (Unaudited) (In Thousands, Except Per Share Data)

1. General

In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly IntriCon Corporation's ("IntriCon" or the "Company") consolidated financial position as of June 30, 2017 and December 31, 2016, the consolidated results of its operations for the three and six months ended June 30, 2017 and 2016 and for the cash flows for the six months ended June 30, 2017 and 2016. Results of operations for the interim periods are not necessarily indicative of the results of operations expected for the full year or any other interim period.

In December 2016, the Company's board of directors approved plans to discontinue its cardiac diagnostic monitoring business. The Company sold the cardiac diagnostic monitoring business on February 17, 2017 to Datrix, LLC. For all periods presented, the Company classified this business as discontinued operations, and, accordingly, has reclassified historical financial data presented herein. See Note 3.

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. The Company evaluates its voting and variable interests in entities on a qualitative and quantitative basis. The Company consolidates entities in which it concludes it has the power to direct the activities that most significantly impact an entity's economic success and has the obligation to absorb losses or the right to receive benefits that could be significant to the entity.

On January 19, 2017, the Company announced that it had exercised its option to acquire the remaining 80 percent stake in Hearing Help Express ("HHE"). The transaction is expected to close in the fourth quarter of 2017. The results of HHE are consolidated into the Company's financial statements as of October 31, 2016. The Company allocates income and losses to the noncontrolling interest based on current ownership percentage.

In April 2017, we entered into an agreement to acquire a 49% stake in Soundperience for 1.2M Euros. As of June 30, 2017, we hold a 16% stake in Soundperience, which will increase to 49% upon the completion of certain milestones and payment of the purchase price for that equity. As of June 30, 2017, we have investment in Soundperience of \$1.1M. Soundperience has designed state of the art self-fitting hearing aid technology. The Company's self-fitting hearing aid technology is being used in the German market today, most notably through our Signison joint venture with Soundperience. Both Soundperience and Signison will be accounted for in the Company's financial statements using the equity method.

The Company notes that HHE's pro forma financial results were not included for 2016 as this company was in bankruptcy for the majority of 2016 and that year was not reflective of the normal operations of HHE.

The Company has evaluated subsequent events occurring after the date of the consolidated financial statements for events requiring recording or disclosure in the financial statements.

2. New Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, Retirement Benefits – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, guidance that requires entities to present the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the income statement line items where they report compensation cost. Entities will present all other components of net benefit cost outside operating income, if this subtotal is presented. The rules related to the timing of when costs are recognized or how they are measured have not changed. This amendment only impacts where those costs are reflected within the income statement. In addition, only the service cost component will be eligible for capitalization in inventory and other assets. This guidance becomes effective January 1, 2018. Early adoption is permitted. The Company does not anticipate that the adoption of this new standard will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04 “Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” This new standard simplifies the accounting for goodwill impairments by eliminating step 2 from the goodwill impairment test. The amendments in this update are effective for annual impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for goodwill impairment tests performed on or after January 1, 2017. The Company does not anticipate that the adoption of this new standard will have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB’s Emerging Issues Task Force (the “Task Force”). The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. The Company does not anticipate that the adoption of this new standard will have a material impact on its consolidated financial statements.

The FASB has also issued ASU 2016-10 and ASU 2016-12, which are also related to ASC 606. The Company will adopt the new provisions of this accounting standard at the beginning of fiscal year 2018. The Company is currently evaluating the effect that this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued its final standard on accounting for leases. This standard, issued as ASU 2016-02, requires that an entity that is a lessee recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements. This update is effective for financial statement periods beginning after December 15, 2018, with earlier application permitted. The Company has not yet determined the impact of this pronouncement on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for the Company beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company has established a timeline related to the implementation of the standard and believes the timeline is sufficient to implement the new standard. We are currently assessing the impact on the Company’s consolidated financial statements.

3. Discontinued Operations

The following table shows the discontinued cardiac diagnostic monitoring business balance sheet as of December 31, 2016:

	December 31,
	2016
Accounts receivable, net	<u>\$ 123</u>
Current assets of discontinued operations	<u>\$ 123</u>
Accounts payable	22
Accrued compensation and other liabilities	101
Current liabilities of discontinued operations	<u>\$ 123</u>

The following table shows the results of the cardiac diagnostic monitoring discontinued operations:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Sales, net	\$ —	\$ 348	\$ 140	\$ 542
Operating costs and expenses	(15)	(613)	(268)	(1,107)
Net loss from discontinued operations	<u>(15)</u>	<u>(265)</u>	<u>(128)</u>	<u>(565)</u>

The Company sold the cardiac diagnostic monitoring business on February 17, 2017 to Datrix, LLC for a future revenue earn-out that was valued by the Company at \$0. The Company recorded a loss on the sale of \$164. The net loss was computed as follows:

Accounts receivable, net	\$ 179
Accrued liabilities	(15)
Net assets sold	<u>\$ 164</u>
Fair value of consideration received	—
Loss on sale of discontinued operations, net of income taxes	<u>\$ 164</u>

4. Segment Reporting

The Company currently operates in two reportable segments: body-worn devices and hearing health direct-to-consumer. The nature of distribution and services has been deemed separately identifiable. Therefore, segment reporting has been applied.

Income (loss) from operations is total net revenues less cost of sales and operating expenses. Identifiable assets by industry segment include assets directly identifiable with those operations. The accounting policies applied to determine segment information are the same as those described in the summary of significant accounting policies described in and incorporated by reference from “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Note 1 to the financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The Company evaluates the performance of each segment based on income and loss from continuing operations before income taxes. The following table summarizes data by industry segment:

At and for the Three Months Ended June 30, 2017	Body Worn	Hearing Health	Total
	Devices	Direct-to-Consumer	
Revenue, net	\$ 20,552	\$ 1,409	\$ 21,961
Income (loss) from continuing operations	695	(425)	270
Identifiable assets (excluding goodwill)	30,937	4,467	35,404
Goodwill	9,551	1,004	10,555
Depreciation and amortization	499	44	543
Capital expenditures	273	72	345

At and for the Six Months Ended June 30, 2017	Body Worn	Hearing Health	Total
	Devices	Direct-to-Consumer	
Revenue, net	\$ 39,224	\$ 2,825	\$ 42,049
Income (loss) from continuing operations	612	(878)	(266)
Identifiable assets (excluding goodwill)	30,937	4,467	35,404
Goodwill	9,551	1,004	10,555
Depreciation and amortization	994	111	1,105
Capital expenditures	486	132	618

5. Geographic Information

The geographical distribution of long-lived assets to geographical areas consisted of the following at:

	June 30, 2017	December 31, 2016
United States	\$ 4,563	\$ 4,640
Singapore	1,267	1,413
Other – primarily United Kingdom and Indonesia	527	553
Consolidated	<u>\$ 6,357</u>	<u>\$ 6,606</u>

Long-lived assets consist of property and equipment. Excluded from long-lived assets are investments in partnerships, patents, license agreements and goodwill. The Company capitalizes long-lived assets pertaining to the production of specialized parts. These assets are periodically reviewed to assure the net realizable value from the estimated future production based on forecasted cash flows exceeds the carrying value of the assets.

The geographical distribution of net sales to geographical areas for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
United States	\$ 17,676	\$ 12,223	\$ 33,199	\$ 23,953
Europe	2,307	2,520	4,785	5,817
Asia	1,891	1,670	3,801	4,538
All other countries	87	215	264	384
Consolidated	<u>\$ 21,961</u>	<u>\$ 16,628</u>	<u>\$ 42,049</u>	<u>\$ 34,692</u>

Geographic net sales are allocated based on the location of the customer.

For the three and six months ended June 30, 2017, one customer accounted for 49% and 47%, respectively, of the Company's consolidated net sales. For both the three and six months ended June 30, 2016, one customer accounted for 39% of the Company's consolidated net sales.

At June 30, 2017, two customers combined accounted for 32% of the Company's consolidated accounts receivable. At December 31, 2016, two customers combined accounted for 31% of the Company's consolidated accounts receivable.

6. Inventories

Inventories consisted of the following at:

	Raw materials	Work-in process	Finished products and components	Total
June 30, 2017				
Domestic	\$ 6,168	\$ 1,412	\$ 3,011	\$ 10,591
Foreign	1,705	768	912	3,385
Total	<u>\$ 7,873</u>	<u>\$ 2,180</u>	<u>\$ 3,923</u>	<u>\$ 13,976</u>
December 31, 2016				
Domestic	\$ 5,731	\$ 1,324	\$ 2,609	\$ 9,664
Foreign	1,751	284	644	2,679
Total	<u>\$ 7,482</u>	<u>\$ 1,608</u>	<u>\$ 3,253</u>	<u>\$ 12,343</u>

7. Short and Long-Term Debt

Short and long-term debt is summarized as follows:

	June 30, 2017	December 31, 2016
Domestic Asset-Based Revolving Credit Facility	\$ 3,318	\$ 3,218
Note Payable	2,000	2,000
Foreign Overdraft and Letter of Credit Facility	1,251	1,243
Domestic Term-Loan	4,750	5,250
Unamortized Finance Costs	(107)	(81)
Total Debt	11,212	11,630
Less: Current maturities	(2,389)	(2,346)
Total Long-Term Debt	<u>\$ 8,823</u>	<u>\$ 9,284</u>

Domestic Credit Facilities

The Company and its domestic subsidiaries are parties to a credit facility with The PrivateBank and Trust Company. The credit facility, as amended through June 30, 2017, provides for:

- a \$9,000 revolving credit facility, with a \$200 sub facility for letters of credit. Under the revolving credit facility, the availability of funds depends on a borrowing base composed of stated percentages of the Company's eligible trade receivables and eligible inventory, and eligible equipment less a reserve; and
- a term loan in the original amount of \$6,000.

On March 9, 2017, the Company and its domestic subsidiary, IntriCon, Inc., entered into a Tenth Amendment to the Loan and Security Agreement and Waiver (the "Tenth Amendment") with The PrivateBank and Trust Company. The Tenth Amendment, among other things:

- amended the minimum EBITDA (as defined in the Loan and Security Agreement), funded debt to EBITDA ratio and fixed charge coverage ratio covenants; and
- waived defaults in the funded debt to EBITDA ratio and fixed charge coverage ratio covenants as of December 31, 2016.;

All of the borrowings under this agreement have been characterized as either a current or long-term liability on our balance sheet in accordance with the repayment terms described more fully below.

Weighted average interest on the revolving credit facility was 6.61% for the six months ended June 30, 2017 and 4.82% for the year ended December 31, 2016. The outstanding balance of the revolving credit facility was \$3,318 and \$3,218 at June 30, 2017 and December 31, 2016, respectively. The total availability on the revolving credit facility was approximately \$5,185 and \$5,121 at June 30, 2017 and December 31, 2016, respectively.

The outstanding principal balance of the term loan, as amended, is payable in quarterly installments of \$250. Any remaining principal and accrued interest is payable on February 28, 2019. IntriCon is also required to use 100% of the net cash proceeds of certain asset sales (excluding inventory and certain other dispositions), sale of capital securities or issuance of debt to pay down the term loan.

The Company was in compliance with the financial covenants under the facility as of June 30, 2017.

Foreign Credit Facility

In addition to its domestic credit facilities, the Company's wholly-owned subsidiary, IntriCon, PTE LTD., entered into an international senior secured credit agreement with Oversea-Chinese Banking Corporation Ltd. that provides for an asset based 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 3.93% and 3.50% for the six months ended June 30, 2017 and the year ended December 31, 2016. The outstanding balance was \$1,251 and \$1,243 at June 30, 2017 and December 31, 2016, respectively. The total remaining availability on the international senior secured credit agreement was approximately \$496 and \$455 at June 30, 2017 and December 31, 2016, respectively.

Note Payable

HHE has a \$2,000 note payable to the party holding 80% of its equity interest. The note is secured by substantially all of the assets of HHE. The note is payable over 48 months in quarterly installments with interest at 5% per year, except that interest only will be paid in the first twelve months, with the deferred payments to be made at maturity.

8. Income Taxes

Income tax expense for the three and six months ended June 30, 2017 was \$54 and \$118 compared to \$52 and \$86, respectively, for the same periods in 2016. The expense was primarily due to foreign operations. The Company has net operating loss carryforwards for U.S. federal income tax purposes and, consequently, minimal federal or state benefit or expense from the domestic operations was recognized as the deferred tax asset has a full valuation allowance.

The following was the income (loss) before income taxes for each jurisdiction in which the Company has operations for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
United States	\$ 428	\$ (1,382)	\$ 41	\$ (1,414)
Singapore	16	363	(77)	567
Indonesia	18	18	34	36
United Kingdom	(286)	(354)	(411)	(299)
Germany	148	145	265	215
Income (loss) before income taxes	\$ 324	\$ (1,210)	\$ (148)	\$ (895)

9. Shareholders' Equity and Stock-based Compensation

The Company has a 2006 Equity Incentive Plan and a 2015 Equity Incentive Plan. The 2015 Equity Incentive Plan replaced the 2006 Equity Incentive Plan and new grants may not be made under the 2006 Plan.

Under the 2015 Equity Incentive Plan, the Company may grant stock options, stock awards, stock appreciation rights, restricted stock units and other equity-based awards, although no such awards, other than stock options, had been granted as of June 30, 2017. Under all awards, the terms are fixed on the grant date. Generally, the exercise price of stock options equals the market price of the Company's stock on the date of the grant. Options under the plans generally vest over three years, and have a maximum term of 10 years.

The Compensation Committee of the Board of Directors has established a non-employee directors' stock fee election program, referred to as the director's program, and a non-employee director and executive officer stock purchase program, referred to as the management purchase program, as an award under the 2015 Plan. There were no shares purchased under the director program or the management purchase program during the three and six months ended June 30, 2017 and 2016

Stock option activity during the six months ended June 30, 2017 was as follows:

	<u>Number of Shares</u>	<u>Weighted-average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2016	1,385	\$ 6.54	
Options forfeited or cancelled	(5)	7.40	
Options granted	197	7.40	
Options exercised	(46)	5.61	
Outstanding at June 30, 2017	1,531	\$ 6.68	\$ 3,213
Exercisable at June 30, 2017	1,141	\$ 6.50	\$ 2,807
Available for future grant at December 31, 2016	404		
Available for future grant at June 30, 2017	230		

The number of shares available for future grants at June 30, 2016 does not include a total of up to 1,256 shares subject to options outstanding under the 2006 Equity Incentive Plan which will become available for grant under the 2015 Equity Incentive Plan in the event of the expiration, cancellation or surrender of such options.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of subjective assumptions, including the expected stock price volatility. Because the Company's options have characteristics different from those of traded options, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options. The weighted average fair value of options granted was \$8.80 and \$7.40 for options granted during the three and six months ended June 30, 2017. The weighted average fair value of options granted was \$5.85 and \$7.08 for options granted during the three and six months ended June 30, 2016.

The Company calculates expected volatility for stock options and awards using the Company's historical volatility.

The Company currently estimates a zero percent forfeiture rate for stock options, but will continue to review this estimate in future periods.

The risk-free rates for the expected terms of the stock options and awards are based on the U.S. Treasury yield curve in effect at the time of grant.

The weighted average remaining contractual life of options exercisable at June 30, 2017 was 4.31 years.

The Company recorded \$207 and \$425 of non-cash stock option expense for the three and six months ended June 30, 2017, respectively. The Company recorded \$166 and \$347 of non-cash stock option expense for the three and six months ended June 30, 2016, respectively. As of June 30, 2017, there was \$1,309 of total unrecognized compensation costs related to non-vested awards that are expected to be recognized over a weighted-average period of 2.04 years.

The Company also has an Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan, as amended, through June 30, 2017, provides that a maximum of 300 shares may be sold under the Purchase Plan. There were 3 and 7 shares purchased under the plan for the three and six months ended June 30, 2017, respectively, and a total of 5 and 9 shares purchased for the three and six months ended June 30, 2016, respectively.

10. Income (Loss) Per Share

The following table presents a reconciliation between basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Numerator:				
Income (loss) from continuing operations before discontinued operations	\$ 270	\$ (1,262)	\$ (266)	\$ (981)
Loss on sale of discontinued operations	—	—	(164)	—
Loss from discontinued operations, net of income taxes	(15)	(265)	(128)	(565)
Net income (loss)	255	(1,527)	(558)	(1,546)
Less: loss allocated to non-controlling interest	(355)	(37)	(740)	(71)
Net income (loss) attributable to shareholders	<u>\$ 610</u>	<u>\$ (1,490)</u>	<u>\$ 182</u>	<u>\$ (1,475)</u>
Denominator:				
Basic – weighted shares outstanding	6,845	6,370	6,828	6,078
Weighted shares assumed upon exercise of stock options	342	—	—	—
Diluted – weighted shares outstanding	<u>7,187</u>	<u>6,370</u>	<u>6,828</u>	<u>6,078</u>
Basic income (loss) per share attributable to IntriCon shareholders:				
Continuing operations	\$ 0.09	\$ (0.19)	\$ 0.07	\$ (0.15)
Discontinued operations	(0.00)	(0.04)	(0.04)	(0.09)
Net income (loss) per share:	<u>\$ 0.09</u>	<u>\$ (0.23)</u>	<u>\$ 0.03</u>	<u>\$ (0.24)</u>
Diluted income (loss) per share attributable to IntriCon shareholders:				
Continuing operations	\$ 0.09	\$ (0.19)	\$ 0.07	(0.15)
Discontinued operations	(0.00)	(0.04)	(0.04)	(0.09)
Net income (loss) per share:	<u>\$ 0.08</u>	<u>\$ (0.23)</u>	<u>\$ 0.03</u>	<u>\$ (0.24)</u>

The dilutive impact summarized above relates to the periods when the average market price of Company stock exceeded the exercise price of the potentially dilutive option securities granted. Earnings per common share was based on the weighted average number of common shares outstanding during the periods when computing the basic earnings per share. When dilutive, stock options are included as equivalents using the treasury stock method when computing the diluted earnings per share. Individual components of basic and diluted income (loss) per share may not sum to the total income (loss) per share due to rounding.

Excluded from the computation of diluted earnings per share for the six months ended June 30, 2017 were outstanding in the money options to purchase approximately 314 common shares. Excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2016 were outstanding in the money options to purchase approximately 164 and 201 common shares, respectively, because the effect would have been anti-dilutive due to the Company's net loss in the period.

11. Legal Proceedings

The Company is a defendant along with a number of other parties in lawsuits 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. Due to the non-informative 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, 1970-1978 have been exhausted and that the carriers will no longer provide defense and insurance coverage under those policies. However, the Company has other primary and excess insurance policies that the Company believes afford coverage for later years. Some of these other primary insurers have accepted defense and insurance coverage for these suits, and some of them have either ignored the Company's tender of defense of these cases, or have denied coverage, or have accepted the tenders but asserted a reservation of rights and/or advised the Company that they need to investigate further. Because settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, the Company believes that it will have funds available for defense and insurance coverage under the non-exhausted primary and excess insurance policies. However, unlike the older policies, the more recent policies have deductible amounts for defense and settlements costs that the Company will be required to pay; accordingly, the Company expects that its litigation costs will increase in the future. Further, many of the policies covering later years (approximately 1984 and thereafter) have exclusions for any asbestos products or operations, and thus do not provide insurance coverage for asbestos-related lawsuits. The Company does not believe that the asserted exhaustion of some of the primary insurance coverage for the 1970-1978 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 under 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 former French subsidiary, Selas SAS, filed for insolvency in France. The Company may be subject to additional litigation or liabilities as a result of the French insolvency proceeding, including liabilities under guarantees aggregating approximately \$442.

The Company is also involved in other lawsuits arising in the normal course of business. 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 our consolidated financial position, liquidity or results of operations.

12. Related-Party Transactions

One of the Company's subsidiaries leases office and factory space from a partnership consisting of one present and two former officers of the subsidiary, including Mark Gorder, a member of the Company's Board of Directors and the President and Chief Executive Officer of the Company. The subsidiary is required to pay all real estate taxes and operating expenses. The total base rent expense, real estate taxes and other charges incurred under the lease were approximately \$124 and \$248 for the three and six months ended June 30, 2017, respectively, and approximately \$121 and \$242 for the three and six months ended June 30, 2016, respectively. The term of the lease runs to January 31, 2022.

The Company uses the law firm of Blank Rome LLP for legal services. A partner of that firm is the son-in-law of the Chairman of the Company's Board of Directors. For the three and six months ended June 30, 2017, the Company paid that firm approximately \$27 and \$66, respectively, for legal services and costs. For the three and six months ended June 30, 2016, the Company paid that firm approximately \$66 and \$133, respectively, for legal services and costs. The Chairman of our Board of Directors is considered independent under applicable Nasdaq and Securities and Exchange Commission rules because (i) no payments were made to the Chairman or the partner directly in exchange for the services provided by the law firm and (ii) the amounts paid to the law firm did not exceed the thresholds contained in the Nasdaq standards. Furthermore, the aforementioned partner does not provide any legal services to the Company and is not involved in billing matters.

13. Revenue by Market

The following tables set forth, for the periods indicated, net revenue by market:

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Medical	\$ 13,393	\$ 9,179	\$ 25,064	\$ 19,018
Hearing Health	5,651	5,327	11,270	11,795
Hearing Health Direct-to-Consumer	1,409	—	2,825	—
Professional Audio Communications	1,508	2,122	2,890	3,879
Total Revenue	<u>\$ 21,961</u>	<u>\$ 16,628</u>	<u>\$ 42,049</u>	<u>\$ 34,692</u>

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Headquartered in Arden Hills, Minnesota, IntriCon Corporation (together with its subsidiaries referred to as the "Company", "IntriCon," "we", "us" or "our") is an international company engaged in designing, developing, engineering, manufacturing and distributing body-worn devices. In addition to its operations in Minnesota, the Company has facilities in Illinois, Singapore, Indonesia, Germany and the United Kingdom.

In December 2016, the Company's Board of Directors approved plans to discontinue its cardiac diagnostic monitoring business. The Company sold the cardiac diagnostic monitoring business on February 17, 2017 to Datrix, LLC. For all periods presented, the Company classified this business as discontinued operations, and, accordingly, has reclassified historical financial data presented herein.

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. The Company evaluates its voting and variable interests in entities on a qualitative and quantitative basis. The Company consolidates entities in which it concludes it has the power to direct the activities that most significantly impact an entity's economic success and has the obligation to absorb losses or the right to receive benefits that could be significant to the entity.

On January 19, 2017, the Company announced that it had exercised its option to acquire the remaining 80 percent stake in HHE. The transaction is expected to close in the fourth quarter of 2017. The results of HHE are consolidated into the Company's financial statements as of October 31, 2016. The Company allocates income and losses to the noncontrolling interest based on current ownership percentage.

In April 2017, we entered into an agreement to acquire a 49% stake in Soundperience for 1.2M Euros. As of June 30, 2017, we hold a 16% stake in Soundperience, which will increase to 49% upon the completion of certain milestones and payment of the purchase price for that equity. As of June 30, 2017, we have investment in Soundperience of \$1.1M. Soundperience has designed state of the art self-fitting hearing aid technology. The Company's self-fitting hearing aid technology is being used in the German market today, most notably through our Signison joint venture with Soundperience. Both Soundperience and Signison will be accounted for in the Company's financial statements using the equity method.

Information contained in this section of this Quarterly Report on Form 10-Q and expressed in U.S. dollars is presented in thousands (000s), except for per share data and as otherwise noted.

Market Overview

IntriCon serves the body-worn device market by designing, developing, engineering, manufacturing and distributing micro-miniature products, microelectronics, micro-mechanical assemblies, complete assemblies and software solutions, primarily for the medical bio-telemetry market, the emerging value based hearing healthcare market, the hearing health direct to consumer market and the professional audio communication market. Revenue from markets is reported on the respective medical, hearing health, hearing health direct to consumer and professional audio lines in the discussion of our results of operations in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 13 “Revenue by Market” to the Company’s consolidated condensed financial statements included herein.

Value Based Hearing Healthcare Market

The Company believes the value based hearing healthcare (VBHH) market offers significant growth opportunities. In the United States alone, there are approximately 37.5 million adults that report some degree of hearing loss. In adults, the most common cause of hearing loss is aging and noise. In fact, by the age of 65, one out of three people have hearing loss. The hearing-impaired population is expected to grow significantly over the next decade due to an aging population and more frequent exposure to loud sounds that can cause noise-induced hearing loss. It is estimated that hearing aids can help more than 90 percent of people with hearing loss, however the current market penetration into the U.S. hearing impaired population is approximately 20 percent, a percentage that has remained essentially unchanged for the last four decades. The primary deterrents to greater penetration are cost and access. The average cost of a hearing aid in the US market today is over \$2,400 per device, more than double the cost from twelve years ago. Approximately 70 percent of the hearing impaired have hearing loss in both ears (referred to as a binaural loss), driving the total cost to almost \$5,000 on average for a set of hearing aids.

We believe a perfect vortex of factors has come together over the last few years to enable the emergence of a market disruptive, high-quality, low cost distribution model, including, continued consolidation of retail (causing escalating hearing aid prices), consumer outcry, consumer education, advancements in technology (such as behind-the-ear devices, advanced digital signal processing, low-power wireless, and self-fitting software) as well as regulatory actions and pronouncements by the U.S. Food and Drug Administration, the President’s Council of Advisors on Science and Technology and the National Academies of Science, Engineering and Medicine.

Today in the US market, the conventional channel pushes all hearing impaired through the same bloated, costly channel. However, a very large portion of the hearing-impaired market – mostly notably those with mild to moderate losses – could be properly served with the proper combination of high quality, outcome based devices, advanced fitting software and consumer services/care best practices – all at much lower cost. We believe fundamental change is needed and are excited about the opportunity that we created through thoughtful hard work and planning: a chance to deliver superior outcomes-based affordable hearing healthcare, by combining state-of-the-art devices and software technology, along with best practices customer service and at a much lower cost directly to consumers across the country, many of whom have not been able to afford care previously.

In early January 2016, the U.S. Food and Drug Administration (FDA) weighed in on low hearing aid penetration rates with an announcement that highlighted statistics from the National Institute on Deafness and Other Communication Disorders. They found that 37.5 million U.S. adults aged 18 and older report some form of hearing loss. However, only 30 percent of adults over 70, and 16 percent of those aged 20 to 69, who could benefit from wearing hearing aids, have ever used them. Based on these statistics, the FDA has reopened the public comment period on draft guidance related to the agency’s premarket requirements for hearing aids and personal sound amplifiers (PSAPs). In April 2016, the FDA hosted a public workshop to gather stakeholder and public input on draft guidance related to the agency’s premarket requirements for hearing aids and PSAPs. The FDA’s intent is to consider ways in which regulation can support further device penetration into the hearing market. In December 2016, the FDA announced important steps to better support consumer access to hearing aids. The agency issued a guidance document explaining that it does not intend to enforce the requirement that individuals age 18 and older receive a medical evaluation or sign a waiver prior to purchasing most hearing aids, effective immediately. It also announced its commitment to consider creating a category of over-the-counter (OTC) hearing aids that could deliver new, innovative and lower-cost products to millions of consumers.

Furthermore, there have been significant public policy developments during the first half of 2017. Legislation was introduced in the House and Senate to make hearing aids available over the counter for those with mild to moderate hearing loss. The proposed legislation would require the FDA to write regulations ensuring that this new category of over-the-counter hearing aids meets the same high standards for safety, consumer labeling and manufacturing protections as all medical devices, providing consumers the option of an FDA-regulated device at lower cost. Both the House and the Senate approved H.R. 2430, the FDA Reauthorization Act of 2017, which includes the hearing aid legislation described above. The bill now heads to the White House for President Trump’s signature. We believe this legislation has the potential to remove the significant barriers existing today that prevent innovative hearing health solutions. We believe that this legislation would invigorate competition, spur innovation and facilitate the development of an ecosystem of hearing health care that provides affordable and accessible solutions to millions of unserved or underserved Americans. Additionally, these public policy changes all further support our strategic focus to gain direct access to consumers and the underserved market.

The Company is in the final stages of commercializing its PhysioLink™ 2 wireless technology, which will be incorporated into product platforms serving the traditional and value based hearing healthcare markets. This technology is an integrated platform that incorporates IntriCon's Audion™ 8 amplifier and Bluetooth® low energy, enabling wireless connectivity from any Bluetooth® enabled device over distances up to five meters.

We are also currently developing our third generation PhysioLink™ technology, leveraging industry leading wireless IC technology to enable concurrent audio streaming and data transmission over Bluetooth® low energy. This technology will be incorporated into product platforms serving traditional and value based hearing healthcare markets, providing end users with an unprecedented experience through breakthrough audio and wireless performance.

In October of 2016, we purchased 20% of HHE, a direct-to-consumer mail order hearing aid provider. In January 2017, we exercised an option to acquire the remaining 80% equity interest and expect to close the transaction in the fourth quarter of 2017. HHE is a key next step in our value based hearing healthcare strategy. Over the last decade, we have invested in the technology and low-cost manufacturing to design and build superior devices and fitting solutions, to address what we estimate to be a \$1 billion annually value based hearing healthcare market. With this acquisition, we believe we now have the channel infrastructure to directly reach consumers and—importantly for millions—the ability to offer high-quality hearing healthcare at a fraction of the cost. Through our other VBHH initiatives and tests, we have formed alliances with other key partners, which have given us experience and vital insight as we move aggressively into a more consumer-facing role. HHE provides an efficient, traditional direct-to-consumer channel to reach consumers who likely do not have insurance that will cover hearing devices. This is a channel that we can build on and expand via technology—and one that is complementary with many of our existing relationships.

In April 2017, we entered into an agreement to acquire a 49% stake in Soundperience. As of June 30, 2017, we hold a 16% stake in Soundperience, which will increase to 49% upon the completion of certain milestones and payment of the purchase price for that equity. Soundperience has designed state of the art self-fitting hearing aid technology. This company's self-fitting hearing aid technology is being used in the German market today, most notably through our Signison joint venture with Soundperience.

Currently, the technology is PC based and is wired to the hearing aid during programing. However, the system will be integrated with IntriCon's wireless hearing aids over the next few months, and initially rolled out in Germany through our Signison joint venture.

We believe strongly that incorporating self-fitting technology is a critical step in creating our high-quality, low-cost hearing healthcare ecosystem. Soundperience's technology has the potential to drastically reduce the price of hearing aids, drive greater access and increase customer satisfaction.

In other VBHH channels, the Company entered into a manufacturing agreement with hi HealthInnovations ("hi Health"), a UnitedHealth Group company, to become their supplier of hearing aids. At the beginning of 2012, hi HealthInnovations launched a suite of high-tech, lower-cost hearing devices for their Medicare and Part D participants and later in the year announced they were increasing this offering to the over 26 million people enrolled in their employer-sponsored and individual health benefit plans. In 2012, they expanded their offering to include a hearing aid discount program for health plans. This program is available nationwide to all health insurers, including employer-sponsored, individual and Medicare plans. The insurance model has been successfully demonstrated internationally, where several countries providing a full insurance program are serving 40 to 70 percent of the hearing-impaired population. Further, research in the U.S. has shown a fully insured model will encourage an individual to seek treatment at an earlier stage of hearing loss, greatly increasing the market size and penetration.

The Company also has various international VBHH initiatives. On November 3, 2015, the Company acquired the assets of PC Werth through its IntriCon UK subsidiary to gain direct access to the NHS and to have greater control over its efforts to accelerate new market penetration into the United Kingdom. IntriCon UK has been appointed as a supplier to the NHS Supply Chain's National Framework. The NHS is widely seen as the most efficient hearing aid delivery system in the world, supplying an estimated 1.4 million hearing aids annually. We believe IntriCon is well positioned to serve their needs, and we are developing new technologies to further enhance delivery efficiencies and product standards in the future.

We also believe there are niches in the conventional hearing health channel that will embrace our VBHH proposition in the United States and Europe. High costs of conventional devices and retail consolidation have constrained the growth potential of the independent audiologist and dispenser. We believe our software and product offering can provide independent audiologists and dispensers the ability to compete with larger retailers, such as Costco, and manufacturer owned retail distributors. In the third quarter of 2015, we announced a joint venture with The Academy of Doctors of Audiology (ADA) to provide hearing instruments and educational resources to audiologists and their patients. The joint venture operates as a limited liability company under the name “earVenture LLC”. EarVenture was officially launched in November 2015 at the ADA conference. To date, more than 400 of the 1,200 ADA members have registered to join the earVenture program and we have delivered initial units. In 2016, earVenture began rolling-out a comprehensive marketing and sales plan to convert those registered members to consistent customers, as well as solicit non-registered ADA members to join the program. While we do not view earVenture, near term, as a meaningful contributor to sales, it continues to provide valuable industry insights and has the potential for future value by connecting it to our emerging direct-to-consumer channel.

Medical Bio-Telemetry

In the medical bio-telemetry market, the Company is focused on sales of bio-telemetry devices for life-critical diagnostic monitoring. Using our nanoDSP and BodyNet™ technology platforms, the Company manufactures microelectronics, micro-mechanical assemblies, high-precision injection-molded plastic components and complete bio-telemetry devices for emerging and leading medical device manufacturers. The medical industry is faced with pressures to reduce the cost of healthcare. Driven by core technologies, such as the IntriCon Physioliink™ that wirelessly connects patients and care givers in non-traditional ways, IntriCon helps shift the point of care from expensive traditional settings, such as hospitals, to less expensive non-traditional settings like the home. IntriCon currently serves this market by offering medical manufacturers the capabilities to design, develop, manufacture and distribute medical devices that are easier to use, are more miniature, use less power, and are lighter. Increasingly, the medical industry is looking for wireless, low-power capabilities in their devices.

IntriCon currently has a strong presence in the diabetes and other bio-telemetry markets. For diabetes, IntriCon has partnered with Medtronic to manufacture their wireless continuous glucose monitors (CGM), sensors, and accessories associated with Medtronic’s CGM system, including the MiniMed Connect, which links the MiniMed pump and CGM to certain smart devices providing users with a discrete and real-time view of their blood sugar information. Our Medtronic business posted record revenue in 2015, led by the MiniLink REAL-Time Transmitter and related accessories sales, which are incorporated in Medtronic’s MiniMed 530G insulin pump and CGM system. In August 2016, the FDA approved the MiniMed 630G system which will replace the 530G system. In addition to the MiniMed 630G system, IntriCon is also designed into the MiniMed 670G system which was approved by the FDA in September 2016. The MiniMed 670G is the world’s first hybrid closed loop insulin delivery system and we are excited to be designed into and supporting such a revolutionary diabetes management system. In June 2017, the 670G was launched in the U.S. Medtronic began fulfilling orders from patients enrolled in their Priority Access Program, which they anticipate will continue into the fall of 2017. In parallel, Medtronic began taking new orders from interested customers who want to be next in line to receive the system after the Priority Access orders are filled. Looking ahead, we believe there are opportunities to expand our diabetes product offering with Medtronic, as well as move into new markets outside of the diabetes market.

IntriCon has a suite of medical coils and micro coils that it offers to various original equipment manufacturing (OEM) customers. These products are currently used in pacemaker programming and interventional catheter positioning applications.

IntriCon manufactures bubble sensors and flow restrictors that monitor and control the flow of fluid in an intravenous infusion system as well as 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.

Lastly, IntriCon is targeting other emerging biotelemetry and home care markets that could benefit from its capabilities to develop devices that are more technologically advanced, smaller and lightweight. To do so, IntriCon is leveraging its resources in sales and marketing and research and development to expand its reach to other large medical device and health care companies.

In order to focus financial and operational resources on value based hearing healthcare and the growing DTC opportunity, IntriCon made the strategic decision to divest its non-core CDM business in 2016. The Company sold the cardiac diagnostic monitoring business on February 17, 2017 to Datrix, LLC.

Professional Audio Communications

IntriCon entered the high-quality audio communication device market in 2001, and now has a line of miniature, professional audio headset products used by customers focusing on emergency response needs. The line includes several communication devices that are extremely portable and perform well in noisy or hazardous environments. These products are well suited for applications in the fire, law enforcement, safety, aviation and military markets. In addition, the Company has a line of miniature ear- and head-worn devices used by performers and support staff in the music and stage performance markets. We believe performance in difficult listening environments and wireless operations will continue to improve as these products increasingly include our proprietary nanoDSP, wireless nanoLink and PhysioLink technologies.

Core Technologies Overview

Our core technologies expertise is focused on three main markets: medical bio-telemetry, value based hearing healthcare and professional audio communications. Over the past several years, the Company has increased investments in the continued development of five critical core technologies: Ultra-Low-Power (ULP) Digital Signal Processing (DSP), Fitting Software, ULP Wireless, Microminiaturization, and Miniature Transducers. These five core technologies serve as the foundation of current and future product platform development, designed to meet the rising demand for smaller, portable, more advanced devices and the need for greater efficiencies in the delivery models. The continued advancements in this area have allowed the Company to further enhance the mobility and effectiveness of miniature body-worn devices.

ULP DSP

DSP converts real-world analog signals into a digital format. Through our nanoDSP™ technology, IntriCon offers an extensive range of ULP DSP amplifiers for hearing, medical and professional audio applications. Our proprietary nanoDSP incorporates advanced ultra-miniature hardware with sophisticated signal processing algorithms to produce devices that are smaller and more effective. The Company further expanded its DSP portfolio including improvements to its Reliant CLEAR™ feedback canceller, offering increased added stable gain and faster reaction time. Additionally, the DSP technologies are utilized in the Audion8™, our eight-channel hearing aid amplifier, and the Audion16™, our wide dynamic range compression sixteen-channel hearing aid amplifier announced in April 2016. The amplifiers are feature-rich and are designed to fit a wide array of applications. In addition to multiple compression channels, the amplifiers have a complete set of proven adaptive features which greatly improve the user experience.

ULP Wireless

Wireless connectivity is fast becoming a required technology, and wireless capabilities are especially critical in new body-worn devices. IntriCon's BodyNet™ ULP technology, including the nanoLink™ and PhysioLink™ wireless systems, offers solutions for transmitting the body's activities to caregivers, and wireless audio links for professional communications and surveillance products, including diabetes monitoring and audio streaming for hearing devices.

IntriCon is in the final stages of commercializing its PhysioLink2 and Physiolink3 wireless technology, which will be incorporated into product platforms serving the medical, hearing health and professional audio communication markets. This system is based on 2.4GHz proprietary digital radio protocol in the industrial-scientific-medical (ISM) frequency band and enables audio and data streaming and command and control to ear-worn and body-worn applications over distances of up to five meters. The Physiolink2 technology can be used to increase productivity in the emerging VBHH channels through in office wireless programming, remote cloud based fitting and consumer directed self-fitting of hearing aids. This will provide both greater access and lower costs for patients. In addition, remote control functions will improve the patient experience while using the device especially for those with diminished dexterity. The Physiolink3 technology builds on the Physiolink2 capabilities by adding wireless streaming at much lower power levels than any technology currently on the market. This will allow for accessories to enhance the user experience in noisy environments by allowing audio streaming directly to the hearing aid.

Fitting Software

The ability to efficiently and effectively fit hearing aids is critical to building a value based eco-system of hearing healthcare. By developing more advanced fitting software systems, individuals can benefit from fittings that conform to their specific loss, while eliminating the need for an in-person appointment. In addition to the traditional fitting software, IntriFit, used in the conventional channel, IntriCon has made significant investments in various advanced fitting software solutions that can enable remote and self-fitting solutions. IntriCon believes these advanced fitting solutions, along with the other components of the eco-system, will drive access, affordability and superior customer satisfaction to the millions individuals that cannot receive care today, primarily due to high cost and low access. IntriCon will be introducing our advanced fitting solutions through our various VBHH channels later in 2017.

Microminiaturization

IntriCon excels at miniaturizing body-worn devices. We began honing our microminiaturization skills over 30 years ago, supplying components to the hearing health industry. Our core miniaturization technology allows us to make devices for our markets that are one cubic inch and smaller. We also are specialists in devices that run on very low power, as evidenced by our ULP wireless and DSP. Less power means a smaller battery, which enables us to reduce size even further, and develop devices that fit into the palm of one's hand.

Miniature Transducers

IntriCon's advanced transducer technology has been pushing the limits of size and performance for over a decade. Included in our transducer line are our miniature medical coils and micro coils used in pacemaker programming and interventional catheter positioning applications. We believe that with the increase of greater interventional care, our coil technology harbors significant value.

Forward-Looking and Cautionary Statements

Certain statements included in this Quarterly Report on Form 10-Q or documents the Company files with the Securities and Exchange Commission, which are not historical facts, or that include forward-looking terminology such as "may", "will", "believe", "anticipate", "expect", "should", "optimistic", "continue", "estimate", "intend", "plan", "would", "could", "guidance", "potential", "opportunity", "project", "forecast", "confident", "projections", "schedule", "designed", "future", "discussion", "if" or the negative thereof or other variations thereof, 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 statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to the Company's Condensed Consolidated Financial Statements" such as 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 and 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, strategic alliances and their benefits, government regulation, potential increases in demand for the Company's products, 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 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 factors that may cause actual results to differ materially from those in the forward-looking statements. In addition to the factors discussed in this Quarterly Report on Form 10-Q, certain 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 following:

- our ability to successfully implement our business and growth strategy;
- risks arising in connection with the insolvency of our former subsidiary, Selas SAS, and potential liabilities and actions arising in connection with the insolvency;
- the volume and timing of orders received by the Company, particularly from Medtronic and hi HealthInnovations;
- changes in estimated future cash flows;
- our ability to collect our accounts receivable;
- foreign currency movements in markets that we serve;
- changes in the global economy and financial markets;
- weakening demand for our products due to general economic conditions;
- changes in the mix of products sold;

- our ability to meet demand;
- changes in customer requirements;
- timing and extent of research and development expenses;
- FDA approval, timely release and acceptance of our products and those of our customers;
- competitive pricing pressures;
- pending and potential future litigation;
- cost and availability of electronic components and commodities for our products;
- our ability to create and market products in a timely manner and develop products that are inexpensive to manufacture;
- our ability to comply with covenants in our debt agreements or to obtain waivers if we do not comply;
- our ability to repay debt when it comes due;
- our ability to obtain extensions of our current credit facility or a new credit facility;
- the loss of one or more of our major customers;
- our ability to identify, complete and integrate acquisitions;
- effects of legislation;
- effects of foreign operations;
- our ability to develop new products;
- our ability to recruit and retain engineering and technical personnel;
- the costs and risks associated with research and development investments;
- the recent recessions in Europe and the debt crisis in certain countries in the European Union;
- our ability and the ability of our customers to protect intellectual property;
- cybersecurity threats;
- loss of members of our senior management team; and
- other risk factors set forth in our most recent Annual Report on Form 10-K or any prior Quarterly Report on Form 10-Q, which are incorporated by reference into this Report.

For a description of these and other risks, see Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, and other risks described elsewhere in this Quarterly Report on Form 10-Q, or in other filings the Company makes from time to time with the Securities and Exchange Commission. 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.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain 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.

Certain accounting estimates and assumptions are particularly sensitive because their significance to the consolidated condensed financial statements and the possibility that future events affecting them may differ markedly. The accounting policies of the Company with significant estimates and assumptions include the Company’s revenue recognition, accounts receivable reserves, inventory valuation, goodwill, long-lived assets, deferred taxes policies and employee benefit obligations. These and other significant accounting policies are described in and incorporated by reference from “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Note 1 to the financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Results of Operations

Sales, net

Our net sales are comprised of two segments: our body-worn device segment (consisting of three main markets: medical, hearing health and professional audio) and our hearing health direct-to-consumer segment. Below is a summary of our sales by main markets for the three and six months ended June 30, 2017 and 2016:

Three Months Ended June 30	2017	2016	Change	
			Dollars	Percent
Medical	\$ 13,393	\$ 9,179	\$ 4,214	45.9%
Hearing Health	5,651	5,327	324	6.1%
Hearing Health Direct-to-Consumer	1,409	—	1,409	—
Professional Audio Communications	1,508	2,122	(614)	-28.9%
Consolidated Net Sales	<u>\$ 21,961</u>	<u>\$ 16,628</u>	<u>\$ 5,333</u>	<u>32.1%</u>
Six Months Ended June 30				
Medical	\$ 25,064	\$ 19,018	\$ 6,046	31.8%
Hearing Health	11,270	11,795	(525)	-4.5%
Hearing Health Direct-to-Consumer	2,825	—	2,825	—
Professional Audio Communications	2,890	3,879	(989)	-25.5%
Consolidated Net Sales	<u>\$ 42,049</u>	<u>\$ 34,692</u>	<u>\$ 7,357</u>	<u>21.2%</u>

For the three and six months ended June 30, 2017, we experienced increases of 45.9% and 31.8% in net sales in the medical market compared to the same periods in 2016. Medtronic revenues were up significantly for the three and six months ended June 30, 2017 while the rest of the medical segment remained stable. IntriCon currently serves this market by offering medical manufacturers the capabilities to design, develop and manufacture medical devices that are easier to use, are more miniature, use less power, and are lighter. IntriCon has a strong presence in the diabetes market with its Medtronic partnership. The Company believes there are growth opportunities in this market as well other emerging biotelemetry and home care markets that could benefit from its capabilities to develop devices that are more technologically advanced, smaller and lightweight.

Net sales in our hearing health business for the three and six months ended June 30, 2017 increased 6.1% and decreased 4.5%, respectively, compared to the same periods in 2016. The increase for the three months ended June 30, 2017 was primarily due to increases in the value based hearing healthcare and hi Health markets. The decrease for the six months ended June 30, 2017 was primarily due to decreases in or traditional hearing health market partially offset by increase in the value based hearing healthcare and hi Health markets. The Company is very optimistic about the progress that has been made and the long-term prospects of the value based hearing healthcare market. Market dynamics, such as low penetration rates, an aging population, regulatory scrutiny, and the need for reduced cost and convenience, have resulted in the emergence of alternative care models, such the insurance channel and PSAP channel. IntriCon believes it is very well positioned to serve these value based hearing healthcare market channels. The Company will be aggressively pursuing larger customers who can benefit from our value proposition. Over the past several years, the Company has invested heavily in core technologies, product platforms and its global manufacturing capabilities geared to provide high-tech, lower-cost hearing devices.

Net sales in our hearing health direct-to-consumer business for the three and six months ended June 30, 2017 increased due to the acquisition of the 20% equity interest and control of HHE during the fourth quarter of 2016.

Net sales to the professional audio device sector decreased 28.9% and 25.5% for the three and six months ended June 30, 2017, respectively, compared to the same periods in 2016. IntriCon will continue to leverage its core technology in professional audio to support existing customers, as well as pursue related hearing health and medical product opportunities.

Gross profit

Gross profit, both in dollars and as a percent of sales, for the three and six months ended June 30, 2017 and 2016, was as follows:

	2017		2016		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Three Months Ended June 30						
Gross Profit	\$ 6,581	30.0%	\$ 3,833	23.1%	\$ 2,748	71.7%
Six Months Ended June 30						
Gross Profit	\$ 12,257	29.1%	\$ 8,931	25.7%	\$ 3,326	37.2%

The 2017 gross profit increase as a percentage of sales over the comparable prior year periods was primarily due to higher sales volume and the addition of our direct-to-consumer business.

Sales and Marketing, General and Administrative and Research and Development Expenses

Sales and marketing, general and administrative and research and development expenses for the three and six months ended June 30, 2017 and 2016 were as follows:

	2017		2016		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Three Months Ended June 30						
Sales and Marketing	\$ 2,204	10.0%	\$ 1,160	7.0%	\$ 1,044	90.0%
General and Administrative	2,705	12.3%	2,083	12.5%	622	29.9%
Research and Development	1,112	5.1%	1,321	7.9%	(209)	-15.8%
Six Months Ended June 30						
Sales and Marketing	\$ 4,515	10.7%	\$ 2,316	6.7%	\$ 2,199	94.9%
General and Administrative	5,263	12.5%	4,349	12.5%	914	21.0%
Research and Development	2,265	5.4%	2,486	7.2%	(221)	-8.9%

Sales and marketing expenses increased over the prior year due to the addition of HHE during 2017. General and administrative expenses were greater than the prior year period primarily due to increased support costs along with costs at HHE. Research and development decreased over the prior year periods due to decreased outside service costs.

Restructuring charges

During the three and six months ended June 30, 2016, the Company incurred restructuring charges of \$132, related to IntriCon UK's facility moving costs.

Interest expense

Net interest expense for the three and six months ended June 30, 2017 was \$189 and \$371 compared to \$126 and \$252 for the comparable three and six month periods in 2016. The increase in interest expense was primarily due to higher average interest rates along with interest expenses generated from HHE that were not incurred in the prior year comparable period.

Other income (expense)

Other income (expense) for the three and six months ended June 30, 2017 was \$(47) and \$9 compared to other income (expense) of \$(221) and \$(291) for the same periods in 2016. The change in other income (expense) primarily related to changes in the currency exchange rate along with \$106 in costs related to pursuing targeted acquisitions that occurred in 2016.

Income tax expense

Income tax expense for the three and six months ended June 30, 2017 was \$54 and \$118 compared to \$52 and \$86 for the same periods in 2016. The expense for the three and six months ended June 30, 2016 was primarily due to taxable income generated by foreign operations and a minimum domestic state tax payment made in the current year.

Liquidity and Capital Resources

As of June 30, 2017, we had \$363 of cash on hand. Sources of our cash for the six months ended June 30, 2017 were from our operating activities, as described below. The Company's cash flows from operating, investing and financing activities, as reflected in the statement of cash flows, are summarized as follows:

	Six Months Ended	
	June 30, 2017	June 30, 2016
Cash provided by (used in):		
Operating activities	\$ 525	\$ (1,938)
Investing activities	(718)	(1,281)
Financing activities	(289)	3,453
Effect of exchange rate changes on cash	178	(153)
Net increase (decrease) in cash	\$ (304)	\$ 81

Net cash provided by operations of \$525 was primarily driven by add backs for non-cash depreciation and stock compensation along with increases in accounts payable and accrued expenses partially offset by a net loss of \$558 along with increases in other assets, accounts receivable and inventory.

Net cash used in investing activities of \$718 consisted primarily of \$618 of purchases of property, plant and equipment.

Net cash used in financing activities of \$289 was comprised primarily of repayments of borrowings under our credit facilities partially offset by proceeds from long-term borrowings.

The Company had the following bank arrangements:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Total borrowing capacity under existing facilities	\$ 15,000	\$ 15,287
Facility borrowings:		
Domestic revolving credit facility	3,318	3,218
Domestic term loan	4,750	5,250
Foreign overdraft and letter of credit facility	1,251	1,243
Total borrowings and commitments	<u>9,319</u>	<u>9,711</u>
Remaining availability under existing facilities	<u>\$ 5,681</u>	<u>\$ 5,576</u>

Domestic Credit Facilities

The Company and its domestic subsidiaries are parties to a credit facility with The PrivateBank and Trust Company. The credit facility, as amended through June 30, 2017, provides for:

- a \$9,000 revolving credit facility, with a \$200 sub facility for letters of credit. Under the revolving credit facility, the availability of funds depends on a borrowing base composed of stated percentages of the Company's eligible trade receivables and eligible inventory, and eligible equipment less a reserve; and
- a term loan in the original amount of \$6,000.

On March 9, 2017, the Company and its domestic subsidiary, IntriCon, Inc., entered into a Tenth Amendment to the Loan and Security Agreement and Waiver (the "Tenth Amendment") with The PrivateBank and Trust Company. The Tenth Amendment, among other things:

- amended the minimum EBITDA (as defined in the Loan and Security Agreement), funded debt to EBITDA ratio and fixed charge coverage ratio covenants; and
- waived defaults in the funded debt to EBITDA ratio and fixed charge coverage ratio covenants as of December 31, 2016.;

All of the borrowings under this agreement have been characterized as either a current or long-term liability on our balance sheet in accordance with the repayment terms described more fully below.

Weighted average interest on the revolving credit facility was 6.61% for the six months ended June 30, 2017 and 4.36% for the year ended December 31, 2016. The outstanding balance of the revolving credit facility was \$3,318 and \$3,218 at June 30, 2017 and December 31, 2016, respectively. The total availability on the revolving credit facility was approximately \$5,185 and \$5,121 at June 30, 2017 and December 31, 2016, respectively.

The outstanding principal balance of the term loan, as amended, is payable in quarterly installments of \$250. Any remaining principal and accrued interest is payable on February 28, 2019. IntriCon is also required to use 100% of the net cash proceeds of certain asset sales (excluding inventory and certain other dispositions), sale of capital securities or issuance of debt to pay down the term loan.

The Company was in compliance with the financial covenants under the facility as of June 30, 2017.

Foreign Credit Facility

In addition to its domestic credit facilities, the Company's wholly-owned subsidiary, IntriCon, PTE LTD., entered into an international senior secured credit agreement with Oversea-Chinese Banking Corporation Ltd. that provides for an asset based 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 3.93% and 3.50% for the six months ended June 30, 2017 and the year ended December 31, 2016. The outstanding balance was \$1,251 and \$1,243 at June 30, 2017 and December 31, 2016, respectively. The total remaining availability on the international senior secured credit agreement was approximately \$496 and \$455 at June 30, 2017 and December 31, 2016, respectively.

Note Payable

HHE has a \$2,000 note payable to the party holding 80% of its equity interest. The note is secured by substantially all of the assets of HHE. The note is payable over 48 months in quarterly installments with interest at 5% per year, except that interest only will be paid in the first twelve months, with the deferred payments to be made at maturity.

Capital Adequacy

We believe that funds expected to be generated from operations, the available borrowing capacity through our revolving credit loan facilities, the ability of the Company to meet its financial covenants and the control of capital spending will be sufficient to meet our anticipated cash requirements for operating needs and for repayment of maturing debt 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 our own financial condition. Furthermore, if we fail to meet our financial and other covenants under our loan agreements, absent waiver, we will be in default of the loan agreements and our lenders could take action that would adversely affect our business. There can be no assurance that our lenders will provide a waiver of any default in our loan covenants. While management believes that we will be able to meet our liquidity needs for at least the next 14 months, no assurance can be given that we will be able to do so.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

ITEM 4. Controls and Procedures

The Company's management, with the participation of its chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of June 30, 2017 (the "Disclosure Controls Evaluation"). Based on the Disclosure Controls Evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective to provide a reasonable level of assurance that: (i) information required to be disclosed by the Company in the reports the Company files or submits under the Securities Exchange Act of 1934, as amended ("Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed in the reports the Company files or submits under Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure, all in accordance with Exchange Act Rule 13a-15(e).

There were no changes in the Company's internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the quarter ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

The information contained in note 11 to the Consolidated Condensed Financial Statements in Part I of this quarterly report is incorporated by reference herein.

ITEM 1A. Risk Factors

In addition to the foregoing and the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, which could materially affect the Company’s business, financial condition or future results. The risk factors in the Company’s Annual Report on Form 10-K have not materially changed. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information

On July 26, 2017, the Compensation Committee of the Board of Directors adopted the strategic component of the 2017 annual incentive plan. Under the strategic component, each executive officer of the Company has different strategic objective goals and bonus weighting depending on their area of responsibility. Mr. Gorder will be eligible to receive up to 21,000 options to purchase common stock and each of the other executive officers will be eligible to receive up to 12,000 options to purchase common stock, provided that the minimum net income from continuing operations target is achieved and that 100% of their respective strategic objectives are met. The options were granted at the closing price on the date of grant of \$7.05 per share and will become exercisable in three equal annual installments beginning one year from the date that the conditions are satisfied, subject to earlier vesting as provided in the 2015 Equity Incentive Plan.

ITEM 6. Exhibits

(a) Exhibits

- 10.1 Investment Agreement dated as of April 19, 2017 among IntriCon, Inc., Rheinton GmbH and Soundperience GmbH (English translation) (incorporated by reference from the Company's Quarterly Report on Form 10-K for the period ended March 31, 2017).
- 31.1* Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certification of principal executive officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of principal financial officer to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101* The following materials from IntriCon Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Condensed Balance Sheets as of June 30, 2017, (Unaudited) and December 31, 2016; (ii) Consolidated Condensed Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2017, and 2016; (iii) Consolidated Condensed Statements of Comprehensive Income (Loss) (Unaudited) for the Three and Six Months Ended June 30, 2017, and 2016; (iv) Consolidated Condensed Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2017, and 2016; and (v) Notes to Consolidated Condensed Financial Statements (Unaudited)*

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTRICON CORPORATION
(Registrant)

Date: August 14, 2017

By: /s/ Mark S. Gorder
Mark S. Gorder
President and Chief Executive Officer
(principal executive officer)

Date: August 14, 2017

By: /s/ Scott Longval
Scott Longval
Chief Financial Officer and Treasurer
(principal financial officer)

EXHIBIT INDEX

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* Filed herewith.

CERTIFICATION Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

I, Mark S. Gorder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IntriCon Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2017

/s/ Mark S. Gorder
Mark S. Gorder
Chief Executive Officer
(principal executive officer)

CERTIFICATION Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

I, Scott Longval, certify that:

1. I have reviewed this quarterly report on Form 10-Q of IntriCon Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2017

/s/ Scott Longval
Scott Longval
Chief Financial Officer and Treasurer
(principal financial officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark S. Gorder, Chief Executive Officer (principal executive officer) of IntriCon Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- 1) the quarterly report on Form 10-Q of the Company for the quarterly period ended June 30, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2017

/s/ Mark S. Gorder

Mark S. Gorder
President and Chief Executive Officer
(principal executive officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Scott Longval, Chief Financial Officer (principal financial officer) of IntriCon Corporation (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- 1) the quarterly report on Form 10-Q of the Company for the quarterly period ended June 30, 2017 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2017

/s/ Scott Longval

Scott Longval
Chief Financial Officer and Treasurer
(principal financial officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.
