
**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 March 31, 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 April 30, 2017 was 6,843,829.

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)

	March 31, 2017 <u>(Unaudited)</u>	December 31, 2016
Current assets:		
Cash	\$ 380	\$ 667
Restricted cash	612	595
Accounts receivable, less allowance for doubtful accounts of \$167 at March 31, 2017 and \$170 at December 31, 2016	8,129	7,289
Inventories	13,239	12,343
Other current assets	1,104	957
Current assets of discontinued operations	—	123
Total current assets	<u>23,464</u>	<u>21,974</u>
Machinery and equipment	40,202	40,152
Less: Accumulated depreciation	33,755	33,546
Net machinery and equipment	<u>6,447</u>	<u>6,606</u>
Goodwill	10,555	10,555
Intangible assets, net	2,856	2,920
Investment in partnerships	238	146
Other assets, net	1,447	1,557
Total assets (a)	<u>\$ 45,007</u>	<u>\$ 43,758</u>
Current liabilities:		
Current maturities of long-term debt	2,368	2,346
Accounts payable	8,403	6,722
Accrued salaries, wages and commissions	2,171	2,413
Other accrued liabilities	1,785	1,914
Liabilities of discontinued operations	—	123
Total current liabilities	<u>14,727</u>	<u>13,518</u>
Long-term debt, less current maturities	9,830	9,284
Other postretirement benefit obligations	490	501
Accrued pension liabilities	730	737
Other long-term liabilities	691	707
Total liabilities (a)	<u>26,468</u>	<u>24,747</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$1.00 par value per share; 20,000 shares authorized; 6,836 and 6,820 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	6,836	6,820
Additional paid-in capital	21,646	21,383
Accumulated deficit	(9,061)	(8,633)
Accumulated other comprehensive loss	(952)	(1,014)
Total shareholders' equity	<u>18,469</u>	<u>18,556</u>
Non-controlling interest	70	455
Total equity	<u>18,539</u>	<u>19,011</u>
Total liabilities and equity	<u>\$ 45,007</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 \$5,040 at March 31, 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 \$4,166 at March 31, 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	
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Sales, net	\$ 20,088	\$ 18,064
Cost of sales	14,412	12,966
Gross profit	<u>5,676</u>	<u>5,098</u>
Operating expenses:		
Sales and marketing	2,311	1,156
General and administrative	2,558	2,266
Research and development	1,153	1,165
Total operating expenses	<u>6,022</u>	<u>4,587</u>
Operating income (loss)	(346)	511
Interest expense	(182)	(126)
Other income (expense)	56	(70)
Income (loss) from continuing operations before income taxes and discontinued operations	(472)	315
Income tax expense	64	34
Income (loss) from continuing operations before discontinued operations	(536)	281
Loss on sale of discontinued operations (Note 3)	(164)	—
Loss from discontinued operations (Note 3)	(113)	(300)
Net loss	(813)	(19)
Less: Loss allocated to non-controlling interest	(385)	(34)
Net income (loss) attributable to IntriCon shareholders	<u>\$ (428)</u>	<u>\$ 15</u>
Basic income (loss) per share attributable to IntriCon shareholders:		
Continuing operations	\$ (0.02)	\$ 0.05
Discontinued operations	(0.04)	(0.05)
Net income (loss) per share:	<u>\$ (0.06)</u>	<u>\$ 0.00</u>
Diluted income (loss) per share attributable to IntriCon shareholders:		
Continuing operations	\$ (0.02)	\$ 0.05
Discontinued operations	(0.04)	(0.05)
Net income (loss) per share:	<u>\$ (0.06)</u>	<u>\$ 0.00</u>
Average shares outstanding:		
Basic	6,826	5,981
Diluted	6,826	6,228

(See accompanying notes to the consolidated condensed financial statements)

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

	Three Months Ended	
	March 31, 2017	March 31, 2016
	(Unaudited)	(Unaudited)
Net loss	\$ (813)	\$ (19)
Interest rate swap, net of taxes of \$0	12	(37)
Pension and postretirement obligations, net of taxes of \$0	5	5
Foreign currency translation adjustment, net of taxes of \$0	45	30
Comprehensive loss	<u>\$ (751)</u>	<u>\$ (21)</u>

(See accompanying notes to the consolidated condensed financial statements)

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

	Three Months Ended	
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)
Cash flows from operating activities:		
Net loss	\$ (813)	\$ (19)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	562	494
Stock-based compensation	218	181
Change in deferred gain	—	(28)
Loss on sale of discontinued operations	164	—
Change in allowance for doubtful accounts	(3)	1
Equity in loss of partnerships	12	54
Changes in operating assets and liabilities:		
Accounts receivable	(888)	(629)
Inventories	(905)	(85)
Other assets	(121)	(454)
Accounts payable	1,670	492
Accrued expenses	(531)	(913)
Other liabilities	51	(25)
Net cash used in operating activities	<u>(584)</u>	<u>(931)</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(273)	(624)
Other	(94)	(18)
Net cash used in investing activities	<u>(367)</u>	<u>(642)</u>
Cash flows from financing activities:		
Proceeds from long-term borrowings	4,520	3,628
Repayments of long-term borrowings	(3,920)	(1,951)
Proceeds from employee stock purchases and exercise of stock options	60	24
Change in restricted cash	(21)	(42)
Net cash provided by financing activities	<u>639</u>	<u>1,659</u>
Effect of exchange rate changes on cash	<u>25</u>	<u>100</u>
Net increase (decrease) in cash	(287)	186
Cash, beginning of period	<u>667</u>	<u>367</u>
Cash, end of period	<u>\$ 380</u>	<u>\$ 553</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 March 31, 2017 and December 31, 2016, and the consolidated results of its operations and cash flows for the three months ended March 31, 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.

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. The transaction is expected to close in 2017. The results of Hearing Help Express are consolidated into the Company's financial statements as of October 31, 2016.

In April 2017, we entered into an agreement to acquire a 49 percent stake in Soundperience. 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 in the Company's financial statements using the equity method.

The Company notes Hearing Help Express's pro forma financial statements were not included for 2016 as this company was in bankruptcy and this year was not reflective of the normal operations of Hearing Help Express.

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 January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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.

In March 2016, the FASB issued ASU 2016-9, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, this ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The adoption of the guidance does not have a material impact on our 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 cardiac diagnostic monitoring business balance sheet as of December 31, 2016:

	December 31, 2016
Accounts receivable, net	\$ 123
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	
	March 31, 2017	March 31, 2016
Sales, net	\$ 140	\$ 194
Operating costs and expenses	(253)	(494)
Net loss from discontinued operations	<u>(113)</u>	<u>(300)</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 March 31, 2017	Body Worn Devices	Hearing Health Direct-to- Consumer	Total
Revenue, net	\$ 18,672	\$ 1,416	\$ 20,088
Loss from continuing operations	(83)	(453)	(536)
Identifiable assets (excluding goodwill)	30,416	4,036	34,452
Goodwill	9,551	1,004	10,555
Depreciation and amortization	495	67	562
Capital expenditures	213	60	273

5. Geographic Information

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

	March 31, 2017	December 31, 2016
United States	\$ 4,572	\$ 4,640
Singapore	1,339	1,413
Other – primarily United Kingdom and Indonesia	536	553
Consolidated	<u>\$ 6,447</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, intangible assets 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 months ended March 31, 2017 and 2016 were as follows:

Net Sales to Geographical Areas	Three Months Ended	
	March 31, 2017	March 31, 2016
United States	\$ 15,523	\$ 11,730
Europe	2,478	3,297
Asia	1,910	2,868
All other countries	177	169
Consolidated	<u>\$ 20,088</u>	<u>\$ 18,064</u>

Geographic net sales are allocated based on the location of the customer. All other countries include net sales primarily to various countries in Europe and in the Asia Pacific region.

For the three months ended March 31, 2017, one customer accounted for 46% of the Company's consolidated net sales. For the three months ended March 31, 2016, one customer accounted for 39% of the Company's consolidated net sales.

At March 31, 2017, two customers combined accounted for 31% 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
March 31, 2017				
Domestic	\$ 6,212	\$ 1,401	\$ 2,955	\$ 10,568
Foreign	1,583	369	719	2,671
Total	<u>\$ 7,795</u>	<u>\$ 1,770</u>	<u>\$ 3,674</u>	<u>\$ 13,239</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:

	March 31, 2017	December 31, 2016
Domestic asset-based revolving credit facility	\$ 4,078	\$ 3,218
Note payable	2,000	2,000
Foreign overdraft and letter of credit facility	1,247	1,243
Domestic term loan	5,000	5,250
Unamortized finance costs	(127)	(81)
Total debt	12,198	11,630
Less: current maturities	(2,368)	(2,346)
Total long-term debt	<u>\$ 9,830</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 March 31, 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 6.82% for the three months ended March 31, 2017 and 4.36% for the year ended December 31, 2016. The outstanding balance of the revolving credit facility was \$4,078 and \$3,218 at March 31, 2017 and December 31, 2016, respectively. The total availability on the revolving credit facility was approximately \$4,508 and \$5,121 at March 31, 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 March 31, 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 3.87% and 3.50% for the three months ended March 31, 2017 and the year ended December 31, 2016, respectively. The outstanding balance was \$1,247 and \$1,243 at March 31, 2017 and December 31, 2016, respectively. The total remaining availability on the international senior secured credit agreement was approximately \$476 and \$455 at March 31, 2017 and December 31, 2016, respectively.

Note Payable

Hearing Help Express has a \$2,000 note payable to a party holding 80% of its equity interest. The note is secured by substantially all of the assets of Hearing Help Express. 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 months ended March 31, 2017 was \$64 compared to \$34 for the same period in 2016. The expense for the three months ended March 31, 2017 and 2016, was primarily due to foreign operations. The Company has net operating loss carryforwards for U.S. federal income tax purposes and, consequently, minimal federal 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 months ended March 31, 2017 and 2016.

	Three Months Ended	
	March 31, 2017	March 31, 2016
United States	\$ (387)	\$ (32)
Singapore	(93)	204
Indonesia	16	18
United Kingdom	(125)	55
Germany	117	70
Income (loss) before income taxes	<u>\$ (472)</u>	<u>\$ 315</u>

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 March 31, 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 months ended March 31, 2017 and 2016.

Stock option activity as of and during the three months ended March 31, 2017 was as follows:

	Number of Shares	Weighted-average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2016	1,385	\$ 6.54	
Options forfeited, cancelled or expired	(4)	7.38	
Options granted	145	6.90	
Options exercised	(26)	5.09	
Outstanding at March 31, 2017	1,500	\$ 6.60	\$ 4,463
Exercisable at March 31, 2017	1,116	\$ 6.48	\$ 3,641
Available for future grant at December 31, 2016	404		
Available for future grant at March 31, 2017	272		

The number of shares available for future grants at March 31, 2017 does not include a total of up to 1,124 shares subject to options outstanding under the 2006 plan as of March 31, 2017, 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. The weighted average fair value of options granted was \$3.98 for options granted during the three months ended March 31, 2017. The weighted average fair value of options granted was \$7.58 for options granted during the three months ended March 31, 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.

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 outstanding and exercisable was 4.36 years and 5.33 years as of March 31, 2017 and December 31, 2016, respectively.

The Company recorded \$218 of non-cash stock option expense for the three months ended March 31, 2017. The Company recorded \$181 of non-cash stock option expense for the three months ended March 31, 2016. As of March 31, 2017, there was \$1,247 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 March 31, 2017, provides that a maximum of 300 shares may be sold under the Purchase Plan. There were a total of 4 shares purchased under the plan for the three months ended March 31, 2017 and a total of 4 shares purchased for the three months ended March 31, 2016.

10. Income (loss) Per Share

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

	Three Months Ended	
	March 31, 2017	March 31, 2016
Numerator:		
Income (loss) from continuing operations before income taxes and discontinued operations	\$ (536)	\$ 281
Loss on sale of discontinued operations	(164)	
Loss from discontinued operations, net of income taxes	(113)	(300)
Net loss	(813)	(19)
Less: loss allocated to non-controlling interest	(385)	(34)
Net income (loss) attributable to shareholders	<u>\$ (428)</u>	<u>\$ 15</u>
Denominator:		
Basic – weighted shares outstanding	6,826	5,981
Weighted shares assumed upon exercise of stock options	—	247
Diluted – weighted shares outstanding	<u>6,826</u>	<u>6,228</u>
Basic income (loss) per share attributable to IntriCon shareholders:		
Continuing operations	\$ (0.02)	\$ 0.05
Discontinued operations	(0.04)	(0.05)
Net income (loss) per share:	<u>\$ (0.06)</u>	<u>\$ 0.00</u>
Diluted income (loss) per share attributable to IntriCon shareholders:		
Continuing operations	\$ (0.02)	\$ 0.05
Discontinued operations	(0.04)	(0.05)
Net income (loss) per share:	<u>\$ (0.06)</u>	<u>\$ 0.00</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 three months ended March 31, 2017 were outstanding in the money options to purchase approximately 294 common shares because the effect would have been anti-dilutive due to the Company's net income (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 \$450.

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

On March 10, 2017, the Company's entered into a Fourth Extension Agreement to the Amended and Restated Office/Warehouse Lease with Arden Partners I, L.L.P., the landlord of the Company's facility in Arden Hills, Minnesota. Pursuant to the lease as amended, the Company leases office and factory space from a partnership consisting of three present or former officers of the Company, including Mark Gorder, a member of the Company's Board of Directors and the President and Chief Executive Officer of the Company. The Company 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 for the three months ended March 31, 2017 and approximately \$121 for the three months ended March 31, 2016. 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 months ended March 31, 2017, the Company paid that firm approximately \$72 for legal services and costs. For the three months ended March 31, 2016, the Company paid that firm approximately \$67 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	
	March 31, 2017	March 31, 2016
Medical	\$ 11,671	\$ 9,839
Hearing Health	5,619	6,468
Hearing Health Direct-to-Consumer	1,416	—
Professional Audio Communications	1,382	1,757
Total Revenue	<u>\$ 20,088</u>	<u>\$ 18,064</u>

14. Subsequent Events

On May 3, 2017, IntriCon, Inc., a wholly owned subsidiary of the Company, entered into an Investment Agreement with Rheinton GmbH and Soundperience GmbH, each of which is a German company with limited liability, pursuant to which IntriCon, Inc. ultimately will acquire a 49% interest in Soundperience, a self-fitting hearing aid technology provider. Under the Investment Agreement, IntriCon, Inc. acquired a 16.67% interest in Soundperience in settlement of a 400 € loan (approximately \$440) made by IntriCon, Inc. and will acquire a 32.33% interest in Soundperience for an additional investment of 800 € (approximately \$880) upon the satisfaction of certain milestones for the development of self-fitting hearing aid software, anticipated to be completed in the 2017 fourth quarter. As part of the initial investment, IntriCon, Inc. entered into an irrevocable, worldwide license with Soundperience for the self-fitting hearing aid software. The license is exclusive in the United States.

The foregoing description of the Investment Agreement does not purport to be complete and is qualified in its entirety by reference to the English translation of the Investment Agreement, a copy of which is filed as Exhibit 10.4 hereto and is incorporated herein by reference.

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, the United Kingdom and Germany.

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 Hearing Help Express. The transaction is expected to close in 2017. The results of Hearing Help Express are consolidated into the Company's financial statements as of October 31, 2016.

In April 2017, we entered into an agreement to acquire a 49 percent stake in Soundperience. 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 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 emerging value based hearing healthcare market, the medical bio-telemetry market and the professional audio communication market. Revenue from the medical bio-telemetry and value hearing health markets is reported on the respective medical and hearing health 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. Further guidance is expected later in 2017.

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 percent of Hearing Help Express, Inc., a direct-to-consumer mail order hearing aid provider. In January 2017, we exercised an option to acquire the remaining 80% equity interest. Hearing Help Express 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 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. Hearing Help Express 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 percent stake in Soundperience. Soundperience has designed state of the art, self-fitting hearing aid technology. Soundperience software applications are the first psycho-acoustic way of analyzing peripheral hearing and central hearing processing.

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. 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, 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 one of the main suppliers 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, and is scheduled to be launched in the spring of 2017. 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. 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 hearing health 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 Physioliink 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 include 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 with the increase of greater interventional care that 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 the products 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 consolidated and variable interest entities, 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 months ended March 31, 2017 and 2016:

Three Months Ended March 31	2017	2016	Change	
			Dollars	Percent
Medical	\$ 11,671	\$ 9,839	\$ 1,832	18.6%
Hearing Health	5,619	6,468	(849)	-13.1%
Hearing Health Direct-to-Consumer	1,416	—	1,416	—
Professional Audio Communications	1,382	1,757	(375)	-21.3%
Consolidated Net Sales	\$ 20,088	\$ 18,064	\$ 2,024	11.2%

For the three months ended March 31, 2017, we experienced an increase of 18.6% in net sales in the medical market compared to the same period in 2016. Medtronic revenues were up year-over-year and we continue to anticipate Medtronic revenue growth throughout 2017 driven by market share growth for legacy products and the introduction of new products. 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 months ended March 31, 2017 decreased 13.1% compared to the same period in 2016. The decrease for the three months ended March 31, 2017 was primarily due to decreases in the traditional hearing health market. The Company remains 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, 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 months ended March 31, 2017 increased due to the acquisition of 20% equity interest and control of Hearing Help Express during the fourth quarter of 2016.

Net sales to the professional audio device sector decreased 21.3% for the three months ended March 31, 2017 compared to the same period 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 months ended March 31, 2017 and 2016, was as follows:

Three Months Ended March 31	2017		2016		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Gross Profit	\$ 5,676	28.3%	\$ 5,098	28.2%	\$ 578	11.3%

The 2017 gross profit increase over the comparable prior year period was primarily due to higher overall sales volumes.

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 months ended March 31, 2017 and 2016 were as follows:

Three Months Ended March 31	2017		2016		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Sales and Marketing	\$ 2,311	11.5%	\$ 1,156	6.4%	\$ 1,155	99.9%
General and Administrative	2,558	12.7%	2,266	12.5%	292	12.9%
Research and Development	1,153	5.7%	1,165	6.4%	(12)	-1.0%

Sales and marketing expenses increased over the prior year due to the addition of Hearing Help Express during 2017. General and administrative expenses were greater than the prior year period primarily due to increased support costs along with costs at Hearing Help Express. Research and development remained steady with the prior year three month period.

Interest expense

Net interest expense for the three months ended March 31, 2017 was \$182 compared to \$126 for the comparable three month period in 2016. The increase in interest expense was primarily due to higher interest expense charges along with interest expenses generated from Hearing Help Express that were not incurred in the prior year period.

Other income (expense)

Other income (expense) for the three months ended March 31, 2017 was \$56 compared to other income (expense) of \$(70) for the same period in 2016. The change in other income (expense) primarily related to changes in the currency exchange rates.

Income tax expense

Income tax expense for the three months ended March 31, 2017 was \$64 compared to \$34 for the same period in 2016. The expense increase for the three months ended March 31, 2017 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 March 31, 2017, we had \$380 of cash on hand. Sources of our cash for the three months ended March 31, 2017 have been from our financing 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:

	Three Months Ended	
	March 31, 2017	March 31, 2016
Cash provided by (used in):		
Operating activities	\$ (584)	\$ (931)
Investing activities	(367)	(642)
Financing activities	639	1,659
Effect of exchange rate changes on cash	25	100
Increase (decrease) in cash	\$ (287)	\$ 186

The most significant items that contributed to the \$(584) of cash used in operating activities was a net loss, increases in accounts receivable and inventory and a decrease in accrued expenses partially offset by an increase in accounts payable and add backs for non-cash depreciation and amortization and stock compensation.

Net cash used in investing activities of \$(367) consisted primarily of purchases of property, plant and equipment.

Net cash provided by financing activities of \$639 was comprised primarily of proceeds from long-term borrowings partially offset by repayments of borrowings under our credit facilities.

The Company had the following bank arrangements:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Total borrowing capacity under existing facilities	\$ 15,308	\$ 15,287
Facility Borrowings:		
Domestic revolving credit facility	4,078	3,218
Domestic term loan	5,000	5,250
Foreign overdraft and letter of credit facility	1,247	1,243
Total borrowings and commitments	<u>10,325</u>	<u>9,711</u>
Remaining availability under existing facilities	<u>\$ 4,983</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 March 31, 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.

Weighted average interest on the revolving credit facility was 6.82% for the three months ended March 31, 2017 and 4.36% for the year ended December 31, 2016. The outstanding balance of the revolving credit facility was \$4,078 and \$3,218 at March 31, 2017 and December 31, 2016, respectively. The total availability on the revolving credit facility was approximately \$4,508 and \$5,121 at March 31, 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 March 31, 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 3.87% and 3.50% for the three months ended March 31, 2017 and the year ended December 31, 2016, respectively. The outstanding balance was \$1,246 and \$1,243 at March 31, 2017 and December 31, 2016, respectively. The total remaining availability on the international senior secured credit agreement was approximately \$476 and \$455 at March 31, 2017 and December 31, 2016, respectively.

Capital Adequacy

We believe that funds expected to be generated from operations, the available borrowing capacity through our revolving credit loan facilities and the control of capital spending will be sufficient to meet our anticipated cash requirements for operating needs 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 March 31, 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 March 31, 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 May 3, 2017, IntriCon, Inc., a wholly owned subsidiary of the Company, entered into an Investment Agreement with Rheinton GmbH and Soundperience GmbH, each of which is a German company with limited liability, pursuant to which IntriCon, Inc. ultimately will acquire a 49% interest in Soundperience, a self-fitting hearing aid technology provider. Under the Investment Agreement, IntriCon, Inc. acquired a 16.67% interest in Soundperience in settlement of a 400 € loan (approximately \$440) made by IntriCon, Inc. and will acquire a 32.33% interest in Soundperience for an additional investment of 800 € (approximately \$880) upon the satisfaction of certain milestones for the development of self-fitting hearing aid software, anticipated to be completed in the 2017 fourth quarter. As part of the initial investment, IntriCon, Inc. entered into an irrevocable, worldwide license with Soundperience for the self-fitting hearing aid software. The license is exclusive in the United States

The foregoing description of the Investment Agreement does not purport to be complete and is qualified in its entirety by reference to the English translation of the Investment Agreement, a copy of which is filed as Exhibit 10.4 hereto and is incorporated herein by reference.

ITEM 6. Exhibits

(a) Exhibits

- 10.1 Amended and Restated Office/Warehouse Lease Fourth Extension Agreement dated as of March 10, 2017 between IntriCon Inc. and Arden Partners I, L.L.P. (Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2016.)
- 10.2 Guaranty dated as of March 10, 2017 by IntriCon Corporation in favor of Arden Partners I, L.L.P. (Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2016.)
- 10.3 Tenth Amendment to Loan and Security Agreement and Waiver among the Company, IntriCon, Inc. and The PrivateBank and Trust Company, dated as of March 9, 2017. (Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2016.)
- 10.4* Investment Agreement dated as of April 19, 2017 among IntriCon, Inc., Rheinton GmbH and Soundperience GmbH (English translation).
- 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 March 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Condensed Balance Sheets as of March 31, 2017, (Unaudited) and December 31, 2016; (ii) Consolidated Condensed Statements of Operations (Unaudited) for the Three Months Ended March 31, 2017 and 2016; (iii) Consolidated Condensed Statements of Comprehensive Income (Loss) (Unaudited) for the Three Months Ended March 31, 2017 and 2016; (iv) Consolidated Condensed Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 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: May 15, 2017

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

Date: May 15, 2017

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

EXHIBIT INDEX

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* Filed herewith.

DATED 19 APRIL 2017

RHEINTON GMBH

as Shareholder

and

INTRICON INC.

as Investor

and

SOUNDPERIENCE GMBH

as Company

INVESTMENT AGREEMENT

(BETEILIGUNGSVERTRAG)

PERTAINING TO SOUNDPERIENCE GMBH

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**INVESTMENT AGREEMENT
(THE "AGREEMENT")**

- (1) **Rheinton GmbH**, having its registered seat in Rüdeshheim am Rhein, registered in the commercial register of the local court of Wiesbaden under no. HRB 20157, with registered business address at Ingelheimer Strasse 11, 65385 Rüdeshheim am Rhein, Germany, (the "**Shareholder**" or "**Rheinton**");
- (2) **INTRICon Inc.**, a corporation formed under the laws of Minnesota, USA, registered in the state of Minnesota with the Secretary of State, with [registered] business address at 1260 Red Fox Road, Arden Hills, MN 55112, USA (the "**Investor**" or "**IntriCon**"); and
- (3) **SOUNDPERIENCE GmbH**, having its registered seat in Rüdeshheim am Rhein, registered in the commercial register of the local court of Wiesbaden under no. HRB 26144, with registered business address at Ingelheimer Strasse 11, 65385 Rüdeshheim am Rhein, Germany, (the "**Company**" or "**Soundperience**"; the Shareholder, the Investor and the Company each a "**Party**" and together the "**Parties**")

agree as follows:

Reference Deed

In order to facilitate notarisation, the Parties have agreed on 18 April 2017 on a reference deed including annexes (the "**Reference Deed**") to deed roll number 348/2017-B of the notary Rudolf Bezler with registered business address in Stuttgart-Bad Canstatt.

This Reference Deed is present in the original at today's notarisation. All Parties involved waive the reading out aloud and the addition of the Reference Deed at today's notarisation. The Reference Deed and annexes thereto are referred to.

The content of the Reference Deed is known to all Parties involved. Insofar as reference is made to the following Investment Agreement including annexes, the Parties involved are in agreement that this pertains to the annexes or appendices of the Reference Deed, unless otherwise explicitly referred to.

PREAMBLE

- (A) The Parties desire to enter into this Agreement for the purposes, among others of (i) providing for the investment by IntriCon of certain amounts in the Company, (ii) providing for the creation of new shares in the Company and their acquisition by IntriCon, (iii) providing for development of certain software by the Company, (iv) assuring continuity in the management and ownership of the Company and (v) limiting the manner and terms by which shares in the Company may be transferred.
- (B) The Investor has advanced to the Company a EUR 400,000.00 loan (the "**STEP 1 LOAN**"). In lieu of full repayment of the Step 1 Loan, the Shareholder, the Investor

and the Company have agreed that (i) the Shareholder will increase the nominal capital of the Company by an additional 5,001 shares, (ii) the Shareholder will be excluded from the subscription to the new shares, (iii) the Shareholder will permit the Investor to subscribe to, and acquire (*übernehmen*), such new shares, (iv) the Investor will pay the nominal value of the new shares of EUR 5,001.00 to the Company, (v) the Investor will pay a premium for such new shares in the amount of EUR 394,999.00 by offsetting this amount against repayment of an equal amount of the Step 1 Loan and (vi) the Company will repay to Investor the balance of the EUR 5,001.00 owed on the Step 1 Loan.

- (C) The Investor has agreed, and has already started, to advance to the Company an additional EUR 800,000.00 loan (the “**STEP 2 LOAN**”). In lieu of full repayment of the Step 2 Loan, the Shareholder, the Investor and the Company have agreed that (i) the Shareholder and the Investor as the then shareholders in the Company will further increase the nominal capital of the Company by an additional 19,019 shares, (ii) the Shareholder will be excluded from the subscription to the new shares, (iii) the Shareholder and the Investor will only permit the Investor to subscribe to, and acquire (*übernehmen*), such new shares, (iv) the Investor will pay the nominal value of the new shares of EUR 19,019.00 to the Company, (v) the Investor will pay a premium for such new shares in the amount of EUR 780,981.00 by offsetting this amount against repayment of an equal amount of the Step 2 Loan and (vi) the Company will repay to Investor the balance of the EUR 19,019.00 owed on the Step 2 Loan.

1. DEFINITIONS

1.1 In this Agreement:

“**Action**” is defined in Clause 9.1.12.

“**Affiliate**” means, with respect to a particular person or entity, any person or entity controlling, controlled by or under common control with that person or entity or its other Affiliates.

“**Agreement**” means this Investment Agreement.

“**Budget**” is defined in Clause 11.2.1.

“**Business Opportunity**” is defined Clause 13.

“**Company**” is defined at the beginning of this Agreement.

“**Director**” is defined in Clause 11.1.1.

“**Encumbrance**” means, with respect to any property or asset (including IP Rights), any pledges, charges, encumbrances (registered or unregistered), security interests, (statutory) liens, land charges or mortgages (*Grundpfandrechte*), public easements (*Baulasten*), other easements (*Grunddienstbarkeiten*), attachments (*Pfändungen*), hereditary building rights, options or other adverse rights or any right of any kind in respect of any property or asset (e.g. retention of title rights, rights for transfer of ownership in the relevant property or asset, rights to use the relevant property or asset, covenants not to sue and similar arrangements).

“**Existing Shares**” is defined in Clause 3.2.

“**Financial Statements**” is defined in Clause 9.1.14.

“**Future Shareholder**” is defined in Clause 11.1.

“**IntriCon**” is defined at the beginning of this Agreement.

“**Investor**” is defined at the beginning of this Agreement.

“**Laws**” is defined in Clause 9.1.11.

“**Non-Transferring Shareholder**” is defined in Clause 12.2.1.

“**Notice**” is defined in Clause 12.2.1.

“**Offered Shares**” is defined in Clause 12.3.

“**Other Business**” is defined in Clause 13.

“**Repayment Request**” is defined in Clause 4.2.

“**Representations and Warranties**” is defined in Clause 9.1.

“**Rheinton**” is defined at the beginning of this Agreement.

“**Shares**” means collectively, the Existing Shares, and when issued, the Step 1 Shares and the Step 2 Shares.

“**Shareholder**” is defined at the beginning of this Agreement.

“**SHAREHOLDER’S BEST KNOWLEDGE**” means that, on the date of this Agreement, the Shareholder or any of its Affiliates, or any of their respective representatives, including Mr Andreas Perscheid, had actual knowledge (*positive Kenntnis*) or lack of knowledge due to negligence.

“**Software**” is defined in Clause 4.1.

“**Soundperience**” is defined at the beginning of this Agreement.

“**Step 1 Loan**” is defined in the Preamble.

“**Step 1 Shares**” is defined in Clause 3.3.

“**Step 2 Completion Date**” is defined in Clause 4.2.

“**Step 2 Loan**” is defined in the Preamble.

“**Step 2 Shares**” is defined in Clause 3.3.

“**Terms**” is defined in Clause 12.2.1.

“**Transfer**” is defined in Clause 12.1.

“**Transferring Shareholder**” is defined in Clause 12.2.1.

1.2 Unless otherwise indicated, the definition of a term in the singular shall include the definition of such term in the plural and vice versa.

2. INTERPRETATION

2.1 The index and headings are for convenience only and shall be ignored in construing this Agreement.

2.2 Unless expressly otherwise provided in this Agreement, any reference to a Clause or a Schedule is a reference to a Clause or a Schedule of this Agreement.

2.3 Any reference to a defined document is a reference to that defined document as amended, restated, waived, varied, supplemented, novated, extended or changed in any other way from time to time.

2.4 The words “including”, “includes”, “in particular” or “such as” shall be deemed to be followed by the phrase “without limitation” and shall not be construed to express limitation in any way.

3. SUBJECT MATTER OF THIS AGREEMENT

- 3.1 The Company is a limited liability company (*Gesellschaft mit beschränkter Haftung*), incorporated under the laws of the Federal Republic of Germany, having its registered seat in Rüdeshheim am Rhein, Germany, registered in the commercial register of the local court of Wiesbaden under no. HRB 26144, with registered business address at Ingelheimer Strasse 11, 65385 Rüdeshheim am Rhein, Germany.
- 3.2 The share capital of the Company in the amount of EUR 25,000 is divided into 25,000 shares in the nominal amount of EUR 1 per share with the consecutive numbers 1 to 25,000 (together the “**EXISTING SHARES**”). All Existing Shares are held by the Shareholder. The Shareholder is also listed as the holder of all Existing Shares in the last list of shareholders dated 20 December 2012 which is recorded in the commercial register.
- 3.3 Pursuant to the terms of this Agreement, the Shareholder intends to increase the nominal capital of the Company twice, and to create (i) in the context of the conclusion of this Agreement 5,001 new shares (the “**STEP 1 SHARES**”), and (ii) together with the Investor, upon the Step 2 Completion Date, an additional 19,019 new shares (the “**STEP 2 SHARES**”) in the Company, and permit only the Investor to subscribe to, and acquire (*übernehmen*), these new shares.
- 3.4 The Company does not own any real property.

4. INVESTMENT IN SOUNDPERIENCE AND DEVELOPMENT OF SOFTWARE

4.1 Step 1 Investment

Prior to the date hereof, IntriCon has advanced to the Company the sum of EUR 400,000.00 as the Step 1 Loan, the receipt of which is hereby acknowledged by the Company and the Shareholder, for the purpose of developing certain self-fitting software that communicates and interoperates with IntriCon's hearing aids, as further described in Schedule 4.1.(A) attached hereto (the “**Software**”). With regard to the Software, the Parties hereto have entered into and have executed a license agreement, corresponding, in form and content, to Schedule 4.1 (C) attached hereto. The Parties agree that work to be performed under Step 1 on Schedule 4.1.(A) has been completed and, as consideration, the Step 1 Shares shall be created and acquired (*übernommen*) by IntriCon (representing approximately 16.67% (post capital increase) of the Company's nominal share capital) pursuant to Clause 5. Attached as Schedule 4.1 (B) hereto is the study conducted in the German market required under the Step 1 Investment described in this paragraph.

4.2 Step 2 Investment

IntriCon has agreed, and already started, to advance to the Company the sum of EUR 800,000.00 as the Step 2 Loan at the times and in the amounts as indicated on the Funding Schedule set forth under Step 2 on Schedule 4.1(A). The Company shall use its best efforts to continue to develop the Software, as further described under Step 2 on Schedule 4.1(A). Upon completion of the work identified under Step 2 on Schedule 4.1(A) (the “**STEP 2 COMPLETION DATE**”), the Shareholder and the Investor shall create the Step 2 Shares (representing approximately 32.33% (post the second capital increase) of the Company's nominal share capital) pursuant to Clause 6, bringing the total shares in the Company held by IntriCon to 24,020 shares (representing approximately 49% of the then nominal share capital).

of the Company). In the event that the work to be performed under Step 2 is not completed on a timely and – from IntriCon's perspective – satisfactory basis as outlined in Schedule 4.1(A), upon written notice to the Company, IntriCon shall have the right to cease funding Step 2 and the Company shall repay, without undue delay (*unverzüglich*) the total investment then provided by IntriCon under Step 2 (the "REPAYMENT REQUEST"). Achievement of the timing under Step 2 is dependent on progress and documentation of the new hearing aid product line, which is the responsibility of IntriCon. The Company is not responsible for missing hearing aid documents, mistakes on hearing aid product developments and hearing aid hardware failures or missing features. The Company will request the needed materials to keep within the Step 2 timeline as described under Step 2 on Schedule 4.1(A) and IntriCon shall use its commercially reasonable efforts to deliver the materials as agreed between IntriCon and the Company. Neither the Company nor Rheinton is responsible for delays or failures of hearing aid hardware, software supplied by a third party, or IntriCon's firmware.

5. STEP 1 CAPITAL INCREASE

- 5.1 Immediately after the notarization of this Agreement, the Shareholder will adopt the resolution to increase the share capital of the Company as attached as Schedule 5.1(A), and the Shareholder and the Company shall cause the commercial register application attached as Schedule 5.1(B) to be filed without undue delay (*unverzüglich*).
- 5.2 The Shareholder, the Investor and the Company hereby agree that the Investor will be entitled to offset the claim for repayment of the Step 1 Loan in the amount of EUR 394,999.00 against the Investor's future obligation to pay the premium in the same amount, as further described in more detail in Schedule 5.1 (A).
- 5.3 The Company hereby confirms to the Investor that the obligation to pay the premium described in more detail in Schedule 5.1 (A) will have been fulfilled upon the Investor declaring the offsetting against the repayment of the Step 1 Loan in the amount of EUR 394,999.00.
- 5.4 The Company shall pay to the Investor the amount of EUR 5,001.00 without undue delay (*unverzüglich*) representing the balance of the Step 1 Loan.

6. STEP 2 CAPITAL INCREASE

- 6.1 As of the earlier of
 - (i) the Step 2 Completion Date, or
 - (ii) at the option of the Investor, the Repayment Request not having been fulfilled within 20 Business Days in Frankfurt am Main, Germany,the Shareholder and the Investor will adopt the resolution to increase the share capital of the Company as attached as Schedule 6.1(A), and the Shareholder, the Investor and the Company shall cause the commercial register application attached as Schedule 6.1 (B) to be filed without undue delay (*unverzüglich*) thereafter.
- 6.2 The Shareholder, the Investor and the Company hereby agree that the Investor will be entitled to offset the claim for repayment of the Step 2 Loan in the amount advanced to the Company against the Investor's future obligation to pay the premium in the same amount, as further described in more detail in Schedule 6.1 (A).

6.3 The Company hereby confirms to the Investor that the obligation to pay the premium described in more detail in Schedule 6.1 (A) will have been fulfilled upon the Investor declaring the offsetting against the repayment of the Step 2 Loan in the amount advanced to the Company, up to a maximum amount of EUR 780,981.00.

6.4 Immediately after the capital increase and offsetting described in more detail in subparas. 6.2 and 6.3, the Company shall pay to the Investor the amount of EUR 19,019.00 without undue delay (*unverzüglich*) representing the balance of the Step 2 Loan.

7. [INTENTIONALLY OMITTED]

8. **AMENDMENT OF ARTICLES OF ASSOCIATION**

Immediately prior to the notarization of this Agreement, the Shareholder adopted a notarized resolution to amend the articles of association of the Company to reflect the amendment set out in Schedule 5.1(A) (AoA) and the managing director of the Company has signed an application to file the amended articles of association with the commercial register, which the acting notary will file in the context of the capital increase.

9. **REPRESENTATIONS AND WARRANTIES**

9.1 The Shareholder hereby represents and warrants to the Investor by way of an independent guarantee (*selbstständiges Schuldversprechen*) within the meaning of section 311 (1) German Civil Code (*Bürgerliches Gesetzbuch*) that the statements set forth in this Clause 9.1 (together the "**REPRESENTATIONS AND WARRANTIES**") are correct on the date of this Agreement and at the points in time at which the Investor will acquire (*übernehmen*) the Step 1 Shares and the Step 2 Shares, respectively.

9.1.1 The Company is a corporation duly established and validly existing as a limited liability company (*Gesellschaft mit beschränkter Haftung*) under the laws of the Federal Republic of Germany.

9.1.2 The information in Clause 3 is correct and complete. The Shares are fully paid in. The share capital of the Company has not been repaid or reimbursed to the shareholders. There are no obligations to make further contributions (*Nachschusspflichten*).

9.1.3 The Shareholder is the legal and economic owner of the Shares. The Shares are not subject to a trust relationship (*Treuhandverhältnis*).

9.1.4 The Shares are free and clear of any Encumbrances or other third party rights and have not been previously pledged or charged in favour of third parties. There are no options or rights which entitle any person to have any Shares in the Company issued or transferred.

9.1.5 The Shareholder is entitled to create the Step 1 Shares and the Step 2 Shares and when issued to Investor as contemplated by this Agreement, such shares shall be fully paid and free and clear of any Encumbrances or other third party rights.

9.1.6 All facts and circumstances concerning the Company which are capable of being registered in the commercial register have been registered therein. As of the date of this Agreement, the last list of shareholders

dated 20 December 2012 recorded in the commercial register is correct and complete.

- 9.1.7 The Company is not party to any silent partnership agreements (*stille Gesellschaften*), any profit and loss transfer and/or control agreements (*Ergebnisabführungs- und/oder Beherrschungsverträge*), any enterprise agreements (*Unternehmensverträge*) within the meaning of sections 291, 292 German Stock Corporation Act (*Aktiengesetz*) or similar arrangements under which any third party would be entitled to a participation in the profit or revenue of the Company.
- 9.1.8 With regard to the Shareholder and the Company, no insolvency proceedings are pending and no filing for such proceedings has been made nor is such filing required. Neither the Shareholder nor the Company are imminently illiquid within the meaning of section 18 German Insolvency Code (*Insolvenzordnung*).
- 9.1.9 The place from which the Shareholder and the Company are actually administrated and where all material decisions are taken (*tatsächlicher Verwaltungssitz*) is located in the Federal Republic of Germany.
- 9.1.10 Each of Rheinton and the Company has full power and authority to enter into this Agreement and the documents to be delivered hereunder, to carry out its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement constitutes the legal, valid and binding obligation of each of Rheinton and the Company, enforceable against each of Rheinton and the Company in accordance with its terms.
- 9.1.11 The execution and performance by each of Rheinton and the Company of this Agreement and the documents to be delivered hereunder, and the consummation of the transactions contemplated hereby, do not and will not: (a) violate or conflict with the articles of association or other organizational documents of each of Rheinton and the Company; (b) violate or conflict with any judgment, order, decree, statute, law, ordinance, rule or regulation (collectively, "**Laws**") applicable to Rheinton or the Company; (c) conflict with, or result in (with or without notice or lapse of time or both) any violation of, or default under, or give rise to a right of termination, acceleration or modification of any obligation or loss of any benefit under any contract or other instrument to which Rheinton or the Company is a party; or (d) result in the creation or imposition of any Encumbrances on the Step 1 Shares or the Step 2 Shares or the assets of the Company. No consent, approval, waiver, permit, license or authorization is required to be obtained by Rheinton or the Company from any person or entity (including any governmental authority) in connection with the execution and performance by them of this Agreement and the consummation of the transactions contemplated hereby.
- 9.1.12 There is no claim, action, suit, proceeding or governmental investigation ("**Action**") of any nature pending or threatened against or by Rheinton or the Company.
- 9.1.13 Each of Rheinton and the Company has been and remains in compliance with all applicable Laws and there exists no condition or event relating to Rheinton or the Company which would give rise to a violation or default of any applicable Law. Each of Rheinton and the Company maintains in full

force and effect all licenses, permits, certifications or other governmental authorizations necessary for their respective continued lawful operation, and no such licenses, permits, certifications or other governmental authorizations will be forfeited or affected by the transactions contemplated by this Agreement.

- 9.1.14 True, correct and complete copies of the unaudited balance sheet and statements of operations of the Company as of and for the years ended 2014 and 2015 and August 2016 year-to-date (collectively, the “**FINANCIAL STATEMENTS**”) are attached as Schedule 9.1.14 hereto. Except as set forth on the Financial Statements, the Company does not have any liabilities or obligations of any kind.
 - 9.1.15 Attached hereto as Schedule 8 5.1 (A) is a true and correct copy of the articles of association of the Company as amended by way of a shareholder’s resolution. Other than the articles of association of the Company, there are no voting trusts, proxies or other agreements or understandings in effect with respect to the voting or transfer of any of the Shares or management of the Company.
 - 9.1.16 The Company owns and has valid title to the Software or holds full licenses for the sale, use, assignment and licensing of the Software. To the Shareholder’s Best Knowledge, the Software does not infringe, violate, dilute or misappropriate the intellectual property of any person or entity or contain any virus or other malware designed to damage, detrimentally interfere with or expropriate any systems, data, personal information or property of another. To the Shareholder’s Best Knowledge, none of the source, object or executable code housed in or delivered with the Software is subject to any open source agreement or other agreement which would restrict the Company’s or IntriCon’s rights to use, reproduce, or distribute the same.
 - 9.1.17 No broker, finder or investment banker is entitled to any brokerage, finder’s or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of each of Rheinton and the Company.
- 9.2 The Representations and Warranties are given only within the scope of and subject to the limitations, rights and remedies set forth in Clause 10 which constitute an integral part of the Representations and Warranties.
- 9.3 The Representations and Warranties shall not constitute an agreement on a certain condition (*Beschaffenheitsvereinbarung*) within the meaning of section 434 German Civil Code or a guarantee of quality concerning a condition (*Beschaffenheitsgarantie*) within the meaning of section 443 German Civil Code, but a sui generis contractual liability regime (*vertragliches Haftungsregime sui generis*) to which sections 443, 444 German Civil Code shall not apply.

10. REMEDIES

- 10.1 In the event that any of the Representations and Warranties is incorrect, the Shareholder shall, within four weeks of receipt of a corresponding request by the Investor, establish the situation that would exist had the relevant Representations and Warranties been correct (restitution in kind (*Naturalrestitution*)). If and to the extent that (i) the Shareholder fails to effect restitution in kind within such time

period or (ii) restitution in kind is not possible, the Investor shall have the right to claim monetary damages from the Shareholder.

- 10.2 For the purposes of determining the liability of the Shareholder, sections 249 to 257 German Civil Code (*Bürgerliches Gesetzbuch*) shall apply.
- 10.3 The rights and remedies provided for in this Clause 10 shall be the exclusive rights and remedies of the Investor in respect of any incorrectness of the Representations and Warranties. Subject to the initial claims for specific performance and rights and remedies for a breach of obligations and covenants expressly set forth in this Agreement, all other rights and remedies of the Investor, irrespective of their nature, amount or legal basis, are excluded. This shall apply in particular to rights for breach of contractual or pre-contractual obligations, any rights to reduction of the purchase price, to withdrawal or to avoidance (*Anfechtung*) and any rights for frustration of agreement pursuant (section 313 German Civil Code).
- 10.4 All rights and claims of the Investor under or in connection with this Agreement shall become time-barred (*verjähren*) within 24 months of the notarization of this Agreement.
- 10.5 Nothing in this Agreement shall have the effect of limiting any liability of the Shareholder arising from misconduct (*Vorsatz*) or fraudulent misrepresentation (*arglistige Täuschung*).

11. MANAGEMENT

11.1 Managing Directors

As from the date of this Agreement, each of IntriCon and Rheinton (each a "**FUTURE SHAREHOLDERS**" and collectively, the "**Future Shareholders**") shall vote all Shares held by such Future Shareholder and shall take all other necessary or desirable actions within such Future Shareholder's control (including attendance at meetings in person or by proxy for purposes of obtaining a quorum and execution of written consents in lieu of meetings), and the Future Shareholders shall cause the Company to take all necessary or desirable actions within its control (including calling special director and shareholder meetings), so that

- 11.1.1 The number of managing directors (each a "**Director**" and, collectively, the "**Directors**") of the Company shall be one or, if IntriCon so requests two, or such other number as may be unanimously determined by the Future Shareholders from time to time; and
- 11.1.2 Each of the Shareholders shall have the right to designate one person to be elected to serve as a Director at all times. The initial designee of Rheinton is Andreas Perscheid; IntriCon does not wish to designate a Director at this time; and
- 11.1.3 No Director shall be authorised to represent the Company when entering into transactions with himself/herself, including as the representative of a third party (restrictions set forth in section 181 German Civil Code, *Bürgerliches Gesetzbuch*), unless the Future Shareholders have explicitly previously approved of this in writing.
- 11.1.4 The Company shall, and the Future Shareholders shall cause each Director designated by them (it being understood that Andreas Perscheid has been designated by the Shareholder) to, obtain each Future

Shareholders' written approval prior to entering into any transaction outside ordinary business that has not been provided for and approved by the Future Shareholders in the Budget, including but not limited to those items described in Section 11.2.

To the extent that any of the persons elected pursuant to the foregoing procedure cease to be a Director for any reason, the vacancy shall be filled by the election of a person designated by the Shareholder whose designee ceased to be a Director.

11.2 Actions Requiring the Consent of all of the Future Shareholders

Notwithstanding any provision of this Agreement to the contrary, the Company shall not take, and the Future Shareholders shall cause each Director designated by them not to take, any of the following actions, directly or indirectly, without the prior written consent of each Future Shareholder:

- 11.2.1 Incur or guarantee any indebtedness, other than as provided in a budget approved by the Future Shareholders (the "**Budget**"). The Budget will be prepared by the Managing Director on or before 30 October of each calendar year and will submit the Budget to the Future Shareholders. It is deemed adopted, if no Future Shareholder has objected on or before 31 December of the same calendar year. In case of doubt, the Future Shareholders decide by shareholder resolution, in an extraordinary shareholder meeting requiring the consent of all Future Shareholders.
- 11.2.2 Require the Future Shareholders to make any additional capital contribution to the Company;
- 11.2.3 Declare or pay any distributions or dividends to Future Shareholders;
- 11.2.4 Pledge any securities, Software or other material assets of the Company;
- 11.2.5 Issue or sell any additional shares in the Company, including the Shares, (in this case each Future Shareholder shall have a pre-emptive right to purchase its pro rata share of any additional shares);
- 11.2.6 Make any capital expenditure, other than as provided in the Budget;
- 11.2.7 Sell, dispose or license all or a substantial portion of the assets of the Company, including without limitation any of the Software, or merge with any other entity; the licensing of Software in the the ordinary course of business is permitted;
- 11.2.8 Acquire all or any material portion of the equity or assets of another company, whether by merger, acquisition, combination or otherwise;
- 11.2.9 Dissolve or liquidate the Company, or take any other similar action; or
- 11.2.10 Amend the Company's articles of association.

12. RESTRICTIONS ON TRANSFER

12.1 General

No Future Shareholder shall sell, transfer, assign, pledge, grant a security interest in, or grant, cause or permit any Encumbrance on, or otherwise dispose of (whether with or without consideration and whether voluntarily or involuntarily or by operation of Law) (a "**Transfer**") any interest in its shares in the Company, including the Shares, other than with the unanimous written consent of the other

Future Shareholder. For the avoidance of doubt, the sale of stocks of IntriCon or to IntriCon's parent shall not be deemed a Transfer under this Agreement.

12.2 Transfer Requirements

In the event that any Future Shareholder desires to transfer shares in the Company, including the Shares, such Transfer shall not be effected until:

12.2.1 such Future Shareholder (the "**TRANSFERRING SHAREHOLDER**") shall have notified the other Future Shareholder (the "**Non-TRANSFERRING SHAREHOLDER**") in writing (the "**Notice**") of the proposed disposition and shall have furnished the Non-Transferring Shareholder with a detailed statement of the circumstances surrounding the proposed Transfer, including any proposed terms of the Transfer, including Transfer price (collectively, the "**Terms**"), and the Non-Transferring Shareholder shall have (i) declined or failed to exercise its right of first refusal set forth in Clause 12.3 and (ii) consented (in its sole and absolute discretion) in writing to such proposed Transfer; and

12.2.2 the transferee has agreed in writing to be bound by the terms of this Agreement.

12.3 Right of First Refusal

Without limiting the generality of the preceding Section, the Non-Transferring Shareholder shall have the option to purchase all of the shares ("**OFFERED SHARES**") which is the subject of the proposed Transfer at the price and on the other terms and conditions contained in the Terms, and may exercise its option by giving written notice of exercise to the Transferring Shareholder within 45 days after the date of the Notice, and closing on such shares shall occur within 15 days thereafter via electronic transmission of documents.

12.4 Transfers in Violation of Agreement

Any Transfer or attempted Transfer of any shares in the Company, including the Shares, in violation of any provision of this Agreement shall be void, and the Shareholder, the Investor and the Company shall not cause to be filed or permit to be filed any amended shareholders' list with the commercial register and the Company shall not treat any purported transferee of such shares as the owner of such shares for any purpose.

13. OTHER BUSINESS ACTIVITIES

The Parties hereto, including the Company, expressly acknowledge and agree that: (i) each Future Shareholder and its Affiliates are permitted to have, and may presently or in the future have, investments or other business or strategic relationships, ventures, agreements or other arrangements with persons or entities other than the Company or any Company subsidiary that are engaged in the business of the Company or any Company subsidiary, or any other business, or that are or may be competitive with the Company or any Company subsidiary, (any such other investment or relationship, an "**OTHER BUSINESS**"), except that no party may enter into agreements with third parties with comparable content to the Signison Agreement which agreements directly compete with Signison (as defined below); (ii) no Future Shareholder or its Affiliates will be prohibited by virtue of such Shareholder's investment in the Company from pursuing and engaging in any Other Business; (iii) no Future Shareholder or its Affiliates will be obligated to

inform the Company or any other Future Shareholder of any opportunity, relationship or investment in any Other Business (a “**Business Opportunity**”) or to present any Business Opportunity to the Company, and the Company and each Future Shareholder hereby renounces any interest in any Business Opportunity and any expectancy that a Business Opportunity will be offered to it; (iv) nothing contained herein shall limit, prohibit or restrict any Director from serving on the board of directors or other governing body or committee of any Other Business; and (v) no Future Shareholder will acquire, be provided with an option or opportunity to acquire, or be entitled to any interest or participation in any Other Business or Business Opportunity as a result of the participation therein of any of a Future Shareholder or its Affiliates. The parties hereto expressly authorize and consent to the involvement of the any Future Shareholder and/or its Affiliates in any Other Business. The parties hereto expressly waive, to the fullest extent permitted by applicable Law, any rights to assert any claim that such involvement breaches any fiduciary or other duty or obligation owed to the Company or any Future Shareholder or to assert that such involvement constitutes a conflict of interest by such persons or entities with respect to the Company or any Future Shareholder. “**SIGNISON AGREEMENT**” means that certain agreement dated as of 6 October, 2016 between Soundperience, IntriCon GmbH (registered with the commercial register in Munich under HRB 76453) and IntriCon Corp. (registered in the State of Pennsylvania with the Secretary of State, with business address at 1260 Red Fox Road, Arden Hills, MN 55112, USA), and “**Signison**” means Signison GmbH.

14. COSTS AND EXPENSES

The costs for the notarization of this Agreement shall be borne by the Investor. The costs for the capital increases described in this Agreement, including the cost of amending the Articles of Amendment and making any filings with the commercial register, shall be borne by the Investor. Any other costs and expenses shall be borne by the party to this Agreement commissioning or incurring the relevant costs and expenses.

15. NOTICES AND COMMUNICATION

- 15.1 Any notice or other communication under this Agreement shall be in English or, if in any other language, accompanied by a translation into English.
- 15.2 All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by an internationally recognized overnight courier (receipt requested); or (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next business day if sent after normal business hours of the recipient. Such communications must be sent to the respective parties at the addresses indicated below (or at such other address for a party as shall be specified in a notice given in accordance with this Section). Any notice to the Company shall be given by providing notice to each of the Shareholders as set forth below.

If to IntriCon:
IntriCon
Attention: Scott Longval
1260 Red Fox Road
Arden Hills, MN 55112
USA

with a copy to:
Facsimile: +1 651-636-8944
E-mail: Slongval@intricon.com
Blank Rome LLP
Attention: Francis E. Dehel
One Logan Square
Philadelphia PA 19103
USA

If to Rheinton:
Facsimile: +1 215-832-5532
E-mail: dehel@blankrome.com

Rheinton GmbH
Attention: Geschäftsführung
Ms Kerstin Perscheid
Ingelheimer Strasse 11
65385 Rüdesheim am Rhein
Germany
Facsimile: +49 6722 500985
E-mail: kperscheid@rheinton.de

If to the Company:
Soundperience GmbH
Attention: Geschäftsführung
Mr. Andreas Perscheid
Ingelheimer Strasse 11
65385 Rüdesheim am Rhein
Germany
Facsimile: +49 6722 710788
E-mail: andreas.perscheid@soundperience.com

with a copy to:
IntriCon
Attention: Scott Longval
1260 Red Fox Road
Arden Hills, MN 55112
USA
Facsimile: +1 651-636-8944
E-mail: Slongval@intricon.com

16. MISCELLANEOUS

- 16.1 Governing law. This Agreement shall be governed by and construed in accordance with the laws of the Federal Republic of Germany and excluding any international conflict-of-law rules.
- 16.2 Venue. Exclusive place of jurisdiction for all disputes arising under or in connection with this Agreement is Frankfurt am Main, Germany.
- 16.3 Entire Agreement. This Agreement, including the Schedules thereto as well as a License Agreement among the parties, constitute the sole and entire agreement of the parties to this Agreement with respect to the subject matter contained herein, and supersede all prior and contemporaneous understandings and agreements, both written and oral, with respect to such subject matter. The Parties acknowledge and agree that this Agreement shall not affect or modify their joint venture agreement regarding Signison.
- 16.4 Assigns. No party to this Agreement is entitled to transfer its rights under this Agreement without the prior written consent of the other party to this Agreement, except that (a) if IntriCon shall merge or consolidate with or into, or sell or otherwise transfer all or substantially all of its assets to, another entity which assumes IntriCon's obligations under this Agreement, IntriCon may assign its rights hereunder to that entity and (b) IntriCon may assign this Agreement to any entity which directly or indirectly owns all of the equity of IntriCon. Any attempted transfer or assignment in violation of this Section shall be void.
- 16.5 Severability. Should any individual provision of this Agreement be or become wholly or partially invalid or unrealisable, or should there prove to be an omission herein, this shall not affect the validity of the remaining provisions. In the place of the invalid or unrealisable provision or in order to fill the gap, the parties to this Agreement undertake to agree on an appropriate provision that, within the framework of what is legally permissible, comes closest to what the parties to this Agreement intended or would have intended in accordance with the purpose of this Agreement if they had considered the matter at the outset.
- 16.6 No Third-Party Beneficiaries. This Agreement is for the sole benefit of the parties hereto and their respective successors and permitted assigns and nothing herein, express or implied, is intended to or shall confer upon any other person or entity any legal or equitable right, benefit or remedy of any nature whatsoever, under or by reason of this Agreement.
- 16.7 Headings. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.
- 16.8 Amendment and Modification; Waiver. This Agreement may only be amended, modified or supplemented by an agreement in writing signed by each party hereto. No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. Except as otherwise set forth in this Agreement, no failure to exercise, or delay in exercising, any rights, remedy, power or privilege arising from this Agreement shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.
- 16.9 Form requirement. The parties to this Agreement shall agree on any amendments, or adjustments to this Agreement pursuant to Clause 16.5, in each

case including this Clause 16.9, in writing unless notarization is required in which case such amendments or adjustments have to be notarized.

The above record was read aloud by the notary to the persons appearing, approved by them and signed by the persons appearing and the acting notary in their own hand as follows:

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: May 15, 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: May 15, 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 March 31, 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: May 15, 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 March 31, 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: May 15, 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.
