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Operator: Good day and welcome to the IntriCon's Second Quarter 2018 Results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Scott Longval, Chief Financial Officer. Please go ahead, sir.

Scott Longval: Thank you, Operator. Joining me on today's call is Mark Gorder, IntriCon's CEO. Before we begin, I'd like to preface our remarks with the customary safe harbor statements. Today's conference call contains certain forward-looking statements. These statements are based on current estimates and assumptions of IntriCon's management and are subject to uncertainty and changes in circumstances. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

Actual results may vary materially from the expectations contained in today's call. Important factors that could cause such differences include, among others, those set forth under the headings, Risk Factors, and Management's Discussion Analysis of financial condition and results of operations and our 10-K filing for the year ended December 31, 2017.

With that, I'd like to introduce Mark for a strategic look at IntriCon's second quarter.

Mark Gorder: Thank you, Scott and thank you everyone for joining us today. I would like to begin by reviewing key highlights and results for the second quarter. After that, Scott will cover the financials in more detail, and then we'll take your questions.

By this time, most of you have had a chance to review our second quarter press release. We are excited to announce another strong quarter as we continue to execute on our key growth initiatives. The company reported net sales of $30.2 million, up 33.9% from $22.5 million in the prior year period.

Our medical, direct-to-end-consumer and indirect-to-end-consumer value hearing health businesses continue to drive strong top and bottom-line performance, leading to another quarter of record sales that surpassed our expectations.

Looking at our two primary businesses, our medical business increased 48.8% in the 2018 second quarter from the prior year period. The gain was primarily driven by the ongoing production of Medtronic's MiniMed wireless continuous glucose monitoring systems.

The company remains very well positioned with Medronic for 2018 and beyond, providing key system components, including the CGM systems, sensor assembly and related accessories. We anticipate system demand will continue to increase throughout the second half of 2018.

To support the medical volume increases, during the quarter we began operations in our newly leased 37,000 square foot manufacturing in clean room space located near our headquarters in Arden Hills.

The additional manufacturing floor space is designed to accommodate robotic assembly of medical components and systems. In conjunction with the volume increases, over the last several quarters, key medical customers have invested or made commitments to invest several million dollars in capital equipment.

Furthermore, we are also increasing our molding capacity. In the first half of 2018, the company added 6 presses and has another 11 presses on order for delivery by the end of 2018.

Turning to hearing health. Beginning last quarter to provide greater transparency within our hearing health businesses, we started providing more detail of the quarterly revenue. Specifically we have broken out our three distinct revenue streams. The value-based direct-to-end consumer, value-based indirect-to-end consumer and legacy OEM.

As a reminder, the value-based direct consumer is our hearing help express business that sells products directly to the end consumer. In contrast, the value-based indirect-to-end consumer revenue is from our customers who sell to the end consumer through the nontraditional models.

Lastly, legacy OEM revenue is product being sold into the traditional hearing health model. We believe this breakout will provide greater viability to the disability, to the progress we are making in our stated goal to drive growth in the value hearing health space.

Hearing health sales increased by 13.4% over the prior year second quarter, led by our value-based direct-to-end consumer indirect-to-end consumer businesses, which posted strong sales growth at 45.6% and 16.9% respectively.

As anticipated, these games were partially offset by the declining conventional sales channel. Within HHE, we continue to make progress in delivering high-quality hearing health care into the underserved market.

For the quarter, HHE posted revenue of $2.1 million its highest revenue quarter since the company took its initial equity position in October 2016. Along with this, we completed our first phase of ethnographic research, which will enhance the development of HHE's consumer centric ecosystem of hearing healthcare. Additionally, from an operations perspective, HHE increased its inside sales representatives and marketing expertise during the second quarter.

Looking forward, we continue to test different advertising campaigns into targeted market segments. This will continue to be refined as we incorporate data from our ethnographic research. At the appropriate time, we intend to increase our marketing and advertising investments to further accelerate revenue growth.

On the technology front, we continue to build our value-based hearing healthcare technology portfolio, with wireless and self-fitting technologies that are a critical step in creating a high-quality, low-cost hearing healthcare ecosystem.

During the quarter, the company launched the industry's most power efficient, wireless audio streaming hearing aids into the market: IntriCon's Lumen 155 product family which incorporates NXP Semiconductor's NxH2003 Bluetooth Low Energy audio streaming system-on-a-chip.

By integrating NXP's NxH2003 into our Lumen 155 product family, we can provide outcome-based features, connecting hearing aids devices with various wireless accessories. The Lumen 155 can stream wireless audio to IntriCon's wireless accessories such as remote microphones, consuming only 2.6 milliamps current at 1.2 volts, which is industry-leading figure.

We are very excited about the launch of the wireless Lumen 155 with streaming audio. In the near-term, we intend to integrate the Lumen 155 with a smart device app which will allow for remote adjustments. Also, in anticipation of the new FDA regulations, we intend to integrate this product line with our Sentibo Smart Brain self-fitting software, which is designed to improve both channel productivity and the quality of first-time fittings, resulting in lower prices, greater access and increased customer satisfaction.

Shifting to public policy. Progress is being made on the Hearing Aid Act of 2017. While it could take up to three years from when the bill was signed in August 2017 for this legislation to move through the necessary government channels. We continue to believe based on discussions we have had with Senator Warren's office over the last several months that a draft regulation will be issued for comments in the second half of 2018.

Furthermore, in mid-August we have a meeting scheduled with the FDA to review our Sentibo Smart Brain self-fitting software and the benefits it can provide in creating our high-quality low-cost hearing health care ecosystem, thus reducing cost and other barriers of adoption in the U.S. market.

Now I'd like to turn the call back over to Scott.

Scott Longval: Thank you, Mark. I'll begin by reviewing our second quarter financial results in more detail. For the 2018 second quarter, the company reported net sales of $30.2 million, up 33.9% from $22.5 million in the prior year period. The increase was primarily due to the year-over-year revenue gains from Medtronic and growth in the value-based hearing health direct-to-end-consumer and indirect-to-end-consumer businesses.

We posted net income attributable to shareholders of $2 million, or $0.25 per diluted share, versus $668,000 or $0.09 per diluted share for the 2017 second quarter. Second-quarter gross profit margins were 33.1%, up from 29.5% in the second quarter of the prior year. The increase primarily stemmed from greater sales volume.

Operating expenses for the second quarter were $7.3 million, compared to $6 million in the prior-year period. The increase stemmed from increased advertising investments at Hearing Help Express and other support costs related to key initiatives to drive the business' growth.

Additionally, we amended - we mentioned in the press release we amended our credit facilities with CIBC Bank USA in July, increasing our capital expenditure loan capacity to $10 million and its revolving credit facility to $11 million to support investments associated with our growth initiatives.

For the six-month period ended June 30, 2018, the company reported sales of $55.5 million, up 26.9% from the $43.7 million in 2017. The company delivered net income attributable to shareholders of $2.8 million, or $0.35 per diluted share, versus $398,000, or $0.06 per diluted share, in 2017.

In terms of guidance, we feel good about the growth opportunities in our markets and our competitive position in these markets. Based on the information currently available, we anticipate 2018 third-quarter net sales to range between $30 million and $31 million.

For the year, we are increasing our sales guidance, and anticipate sales to range between $115.5 million and $117.0 million. One final item I'd like to note, as we reported in our 2017 10-K filing, we had federal and state net operating losses totaling $23.7 million and $9.4 million as of December 31, 2017.

Given our 2018 year-to-date income of $2.8 million and revenue projections for the remainder of 2018, we're reviewing the financial impact of utilizing the related deferred tax assets to offset current and future income. We expect to provide additional detail in the second half of 2018.

Now I'd like to turn the call back over the operator so we can take any questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing Star 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, if you would like to ask a question, please press Star 1. We'll pause for just a moment to allow everyone an opportunity to signal. And our first question comes from Andrew D'Silva with B. Riley FBR.

Andrew D'Silva: Hey good afternoon, thanks for taking my questions and very nice job making progress during the quarter. Just a few quick ones here, first off, can you please just touch base on manufacturing utilization, where are you on the new facility, and perhaps some color on what we should think about from a gross margin standpoint? Should we expect it to be slightly lower in the third quarter as you improve utilization or was the second quarter where you experienced most of that as essentially utilization burden?

Mark Gorder: Thanks Andy, good talking to you. We took occupancy at the beginning of June. It began to move in operations and it was basically at the end of the quarter we actually started producing product out there. I would say right now that's kind of in process. I would say we're roughly about 25% up in running in the new facility we're going to be experiencing greater utilization as the year moves on. So, in the current quarter, as we mentioned, we had about 125 basis point from drag on margin and I would anticipate that to carry forward into Q3 and Q4 and by the end of the year we fully expect to be up in running at a much higher utilization.

Andrew D'Silva: So that 33.1% gross margin that you had on the second quarter that's - that's actually kind of where you should be at, plus or minus 30 or 40 basis points for right now. Oh, wow, okay, that's much better than what I was expecting. And then just moving over to the hearing aid side of the business would the graph guidance for the OTC Hearing Aid Act, are you feeling like there's a big sense of urgency right now for them to FDA to get the draft guidance out before the mid-term elections or is that not really a focal point when you got, when you talk to them to establish the framework for the guidance and then related to that can you just discuss what you are hoping for or what you would like to see in the guidance that might be up in there right now?

Mark Gorder: Sure Andrew, this is Mark. I don't - with the government there - I never get the sense that there is a sense of urgency but having met with Senator Warren's office I know that the political process is putting a lot of pressure on the FDA to move forward.

They - in our last discussion we got the feedback that they still anticipate something in the second half of the year. I'm going to be at the FDA on August 13, and we're going to present our Sentibo self-fitting system to them with the idea that that we want to gauge where they're at with the guidance document and what we're doing with self-fitting. Does that fit into the draft guidance? We don't want to find out after the fact that we're not going down the right path.

So, we don't know yet exactly what they're going to have in there regarding some of these new technologies like connectivity and self-fitting, remote adjustments. The legislation allows for that to take place, but the wireless devices are still listed as Class II exempt and they're going to have to make some changes for that to get this into an OTC configuration. So we would anticipate that they would write a draft spec that would be very much consistent with some of the consumer-electronics limitations for listening devices.

You won't be able to have a power that exceeds safety limits. The inclusion of things like wireless connectivity we think will happen, so that you can use apps and it will allow call centers and trained people to do remote adjustments. We're not - still not sure about the self-fitting, but we'll have a better idea after the meeting on the 14th. We still expect guidance to come out by the end of the year.

Andrew D'Silva: Okay. Perfect. Go ahead.

Mark Gorder: Did I give you enough color on that?

Andrew D'Silva: Yes. That was great color, absolutely. Just moving over to my last question really is just on attachment rates. So, just looking at data that's been released shown a meaningful pickup, almost a double. Can you help me understand what that means from an ASP standpoint and revenue growth standpoint? Obviously, you gave additional color with revised guidance. I'm not looking for guidance. Just any sort of idea on how to think about it? Whether it would be one for one kind of ratio or one to .9 or 1.8 is really what I'm looking, you can provide any color with that?

Scott Longval: Andy, this is Scott. Thanks for the question. Part of this is really tied to what products that are being sold by Medtronic. So, clearly for the new 670G system, the way they're marketing, the transmitter comes along as part of that full system. So we are going to see clearly much higher attachments rates than what we've seen in the past. And I think if look at some of their public filings you'll pick that up. There are still areas where geographically where that product is not been approved over in Europe and some other places. So, the attachment rates will be a little bit lower.

But as we've talked about we are the sole supplier and manufactured of record of the transmitter. So as they'll make progress with their new system we are going to be the benefit of moving from those historical attachment rates of 30% to 35% upwards to basically one for one.

Andrew D'Silva: Okay, great. And when I was actually asking with the 1:1 was more from an average sales point, average sales price standpoint. So, say attachments rates double would should we expect that to be like a 1:1 correlation with sales from the previous year? Or should we kind of figure being a 01 to .9 or 01 to .8 and the main reason I ask that is because with the new manufacturing facility and things being automated and stuff of that nature, I figured there's some variability and thing we should think as we start modeling out years?

Scott Longval: Yes. That's a good point. And I would look at it a little less than the 1:1 probably closer to the one to .8 and part of that is obviously as we get volume we'll be able to reduce our costs which eventually will find its way back into some discussions that we'll have on pricing with the customer. And we'll also look at doing some of the production in lower cost facilities. So all that's going to bleed to a point where it’s not necessarily 1:1 or closer to one to 1.8 or to .8, excuse me.

Andrew D'Silva: That's still very meaningful. I take it. So basically attachment rates thus far showing it double. They have a goal of eventually getting it to a 100%. And then there on top of that adding some new CGM-only equipment that completely ties to what you're doing. And they are planning on growing the market, so just growing organically and adding new customers? Is that kind of the right framework is going on with Medtronic right now?

Scott Longval: Yes. And as we've talked about historically we've been the supplier of the transmitter that's been primarily targeted for the Type 1 market integrated with their pump system. And as you mentioned the recent announcement of their Guardian Connect product that's more themed to the type 2 market and their entree into the standalone CGM basically they have very little to know market share in the past, so only thing that they do in that market would be additive growth.

Andrew D'Silva: Great. All right. Thank you very much. Good luck going forward and congratulations on the progress.

Scott Longval: Thank you, Andy.

Operator: And once again, if you would like to ask a question, please press the star key followed by the 1 key on your touch-tone phone now. Again, to ask a question, please press Star 1. And our next question comes from Jon Block from Stifel, Nicolaus.

Jon Block: Great. Thanks guys. Good afternoon. I think I've got maybe two or three questions for you and I might just bounce around between Mark and Scott. So the first one on the hearing side of things, the return rates with the direct to end consumer, I know that's an initiative at IntriCon of bringing this down. Maybe more if you can talk about the progress there? And I'm guessing that legislation can help a step function improvement down the road. But what do you guys able to do and execute on the in term to minimize those return rates?

Scott Longval; I would classify probably put it into three steps Jon, the first thing we're doing is we're experimenting with the concept called Hypercare or - it’s an extensive high-touch follow-up process which we weren't doing before. And we feel very strongly that this is a high-touch model. And the initial data that we're taking in our design of experiments, although it’s very preliminary, shows significant improvement in stick rates which is the first time keeping of a device when we send it out.

And what we're hoping is that we can refine that process a little bit during the next few months and then roll this out across the board. Today we're only using it on a very small experimental basis with one new product line. And we had very positive results. So I would anticipate that in 2019 you would see us roll that out across the board and use it extensively on all of our sales this follow-up care process.

And the way it works is we'll call you when you get it, kind of an out-of-box experience call, and to make sure you understand what you have, how you suppose to use it, how do you put the battery in, how do you put the tips on, how do you adjust it, so on and so forth, then we follow-up maybe a week later to see how they're doing. We continue that follow-up. And then over a period of say 90 days we look and see how that's affected that stick rate. And we think it will be quite significant. So that's the first step.

Second step is using our wireless technology to allow us to do remote adjustments. It's quite common when a new user wears a hearing aid that it takes them some time to acclimate. And typically what will hear is they'll call back and say, well, it sounds weak and initially they may have felt that that was okay, because they never use hearing aids before, but over time they realized that it's not loud enough. The way that works today is they'll either send it back because they don't feel it's working right and then we'll have to do some kind of maybe send them a powerful device or change the power settings on the device they have, but it's very costly and it's not very consumer friendly.

If we have a certain segment of people where we can access their hearing aids remotely, if they have a smart device for example, where we can connect on the phone through the cloud to their device, we're going to introduce some technology on a pilot during probably the mid to the end of next year that we feel we'll further enhance the consumer experience because they won't have to send the device back to make these kind of adjustments.

And then the last one which probably won't happen until after the OTC legislation passes is we can then put it self-fitting technology where the consumer can absolutely fit that device to their exact requirements and then we're going to get probably the best result out of all of those. However all three of those are additive, we would continue to do all three even if we have self-fitting we'd still do the customer care calls and we still do the remote adjustments to assist the consumer.

Jon Block: And I was just going to say, and to your point, the first two you can move today, the third one somewhat question of waiting for the legislation move to the pipeline?

Scott Longval: Correct. There's a lot we can do without the OTC legislation.

Jon Block: Understood. Perfect, and very helpful. And just stick to hearing for a moment. Value-based indirect-to-end consumer was up 17%, certainly a solid number, but 1Q if I remember correctly was 100% or 100% plus and I can see a big part sort of backing into the implied numbers from the six months that you gave as clearly the comp. So can you guys just talk about with the increase level of disclosure as we the investors and analyst try to get arm around this, maybe the variability on the indirect-to-end consumer versus out of the direct-to-end consumer, are you shipping some of those products a little bit more in bulk? Will that be lumpy quarter to quarter? I don't know, Scott, if you want to take that, but hopefully that question made sense and just how we can think about that particular part of the business evolving over the next several quarters?

Mark Gorder: I'll take it first, Jon and then let's Scott kind of tag team with it, but I think the way that business is evolving is going to be somewhat lumpy. Some of these customers they are in a start and stop mode. So they are doing some experimentation as well like we are and trying to figure out what the right formula is to go direct to consumer. And so we've got several of these people like MD Hearing, EARGO, FirstSTREET, ICOT and they all are using different methods and we - they tense to be very lumpy. UnitedHealthcare, our insurance people they are also in that group and they are little bit more steady, but the other ones around them are more lumpy. And Scott, I don't know if you have anything to add to that.

Scott Longval: No. I think that's a very good point. And we have from time to time seen some lumpiness and we do expect that kind of going forward, Jon.

Jon Block: Okay. Perfect. And maybe last one from me, and then I'll follow-up with you guys offline later tonight. But just on the guidance and Scott, you've done a really job with the guidance over the past couple of years, even tracking you guys going back, you walked up throughout 2017. You walked up in 1Q, 2018, but this was really an inflection point with the magnitude of the increase. So maybe if you can talk about what that's attributable to, is that all medical, it is shared somewhat between medical and hearing, any color would be great? Thanks for your time guys.

Scott Longval: Yes. Thanks for the question. I would say it's predominantly due to the increase in Medtronic and the one of the things that we've been very cognition of making sure that we don't get too far ahead of ourselves. So we understand how Medtronic is positioned in the diabetes market. We know they have very aggressive growth aspirations and we are closely aligned with them. With that being said, we're not in full control of that growth. So we typically try to take a conservative approach to how we view that business and how we provide guidance off of that.

And as we mentioned in the press release, now that kind of been even surpassed our internal expectations, so that's typically again how we kind of view that and how we have guided going forward.

Mark Gorder: But I'll add a little more color to that. One of the things that because a lot of the assembly we're still doing as manual, we have ramped up very rapidly to try to meet Medtronic's requirements. But we are at the limit of our manual assembly capability. And as Scott mentioned in the press release said in the call here we have our Great Fox facility up and its open now, but that automation is not yet up on line. It's being - it will be installed over the next several quarters. And we're somewhat capacity constrained for the next couple of quarters with what we can do with Medtronic. And I think that's also reflected in Scott guidance.

Jon Block: Okay. Thanks for the color guys. Appreciate it and I'll follow-up with the offline.

Scott Longval: Thanks Jon.

Operator: Our next question comes from Dick Ryan from Dougherty & Company.

Dick Ryan: Thanks for taking my questions guys. Say in the non-Medtronic medical side, you said you're seeing some investment being made by customers there, how will that shape? Will that be a broad-based contribution or will that kind of migrate to a couple large customers at the end of the day?

Mark Gorder: Well, step one, Dick, you'll see it more concentrated customers that we have and securing additional business, but we also know that we have a host of core technologies and core competencies that can be utilize by other tier 1 medical manufacturers. We are one of Medtronic largest suppliers on the diabetes side. We do work with Smiths Medical. We know our offering would be covered by other medical device supplier. So, one of the things that we've talked about and are currently working on is putting the infrastructure to go out and attack other opportunities with customers that aren't currently in our database today. So I think it’s kind of two prongs. Initially you'll see further inroads with existing customers and from a longer term perspective you'll see us bringing in new top tier customers as well.

Dick Ryan: Okay. Thank you. On hearing health, can you refresh me what's your - are you fully rolled out with your digital products there now and what kind of is the mix of revenue analog to digital?

Scott Longval: At this point Dick, we're full integrated with digital products into HHE. So the analog is - there might be a few minor revenue items coming out of there with analog, but it basically all digital at this point.

Dick Ryan: Okay. And can you discuss what you're seeing now over in the U.K.?

Scott Longval: Basically we're including the UK in our traditional OEM business and we're in the process of focusing that business only on hearing aid sales. And in the past it had some additional revenue streams that were that targeted at accessories and things related to an education that were related but not really in our core business, so we're trying to get those reduced and focus all of our efforts on selling hearing aids, but you'll see that revenue in the OEM, traditional OEM category that we have on there. So we continue to make progress there, but we're in the process of I would say restructuring that business.

Dick Ryan: Okay. And what is the current sales force look like over there?

Scott Longval: It’s a four direct sales people in four different territories. And they call on the major clinics.

Dick Ryan: And on the conventional side I mean that story has been you've discuss that story widely what's going on there, but you've seen some additional consolidation and although it's been kind of retail. Any changes in the dynamics in that conventional channel at all?

Scott Longval: The consolidation continues to accelerate. And you mentioned that I don't if you - we use to call the oligopoly the big six. Recently Sivantos, which was the former Siemens hearing aid division, merge with Widex out of Denmark. So now there's only five and the five that are continue to buy up - they continue to expand horizontally. We just had a customer, GAES in Spain, got bought by Autophone, Amplifon which is a distribution business that buys all their products from the oligopoly, so that consolidation continues and will continue, and we would anticipate more consolidation amongst the oligopoly because they're simply too much capacity to serve the available market.

Dick Ryan: Is that shaking - I know you have that initiative with the ADA is that shaking any change in what some of the domestic non-captive audiologists are thinking?

Scott Longval: Not really. The assumptions we made there that we tested with that basically we learned that the change there is going to be very slow in that traditional distribution system and it's not going to change fast enough for us to benefit from it. We continue to maintain a connection there because we want to learn what they're doing and keep an ear to rail so to speak.

Dick Ryan: Okay, great. Thank you and congratulations.

Scott Longval: Thank you, Dick.

Operator: Thank you. That concludes today's Q&A portion. I'd like to now turn the call over to Mr. Mark Gorder, Chief Executive Officer.

Mark Gorder: Thank you very much. Once again we appreciate, you taking time out of your day to join the call. In closing I'd like to reiterate that I'm excited with the direction we're headed. We continue to deliver record performance in the second quarter driven by our key medical and value-based hearing heath businesses. The expansion of our robotic assembly, microelectronic assembly and molding capacity not only position us to meet current demand, but enable us to pursue new medical opportunities that would benefit from our core competencies.

Furthermore, we continue to make meaningful progress developing and advancing our direct to end consumer hearing health channel providing affordable and accessible solutions to millions of unserved or underserved Americans. We look forward to updating you on our progress next quarter. Thank you again for joining our call.

Operator: Thank you ladies and gentlemen, this concludes today's teleconference. You may now disconnect.