INTRICON CORP
Form 10-Q
May 15, 2017

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	**23-1069060**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1260 Red Fox Road **Arden Hills, Minnesota**	**55112**
(Address of principal executive offices)	(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

I N D E X

PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	March 31, 2017 (Unaudited)	**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	23,464	21,974
Machinery and equipment	40,202	40,152
Less: Accumulated depreciation	33,755	33,546
Net machinery and equipment	6,447	6,606
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)	$45,007	$43,758
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	14,727	13,518
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)	26,468	24,747
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	18,469	18,556
Non-controlling interest	70	455
Total equity	18,539	19,011
Total liabilities and equity	$45,007	$43,758

(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	5,676	5,098
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	6,022	4,587
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	$(428)	$ 15
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:	$(0.06)	$ 0.00
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:	$(0.06)	$ 0.00
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 (Unaudited)	March 31, 2016 (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	$(751)	$ (21)

(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	(584)	(931)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(273)	(624)
Other	(94)	(18)
Net cash used in investing activities	(367)	(642)
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	639	1,659
Effect of exchange rate changes on cash	25	100
Net increase (decrease) in cash	(287)	186
Cash, beginning of period	667	367
Cash, end of period	$380	$ 553

(See accompanying notes to the consolidated condensed financial statements)

INTRICON CORPORATION

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 though 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 shared-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	$ 123
Accounts payable	22
Accrued compensation and other liabilities	101
Current liabilities of discontinued operations	$ 123

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	(113)	(300)

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	$164
Fair value of consideration received	—
Loss on sale of discontinued operations, net of income taxes	$164

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	$6,447	$ 6,606

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	$20,088	$18,064

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	$ 7,795	$ 1,770	$ 3,674	$13,239

December 31, 2016				
Domestic	$ 5,731	$ 1,324	$ 2,609	$9,664
Foreign	1,751	284	644	2,679
Total	$ 7,482	$ 1,608	$ 3,253	$12,343

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	$9,830	$ 9,284

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	$(472)	$ 315

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 Pan, 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	$(428)	$15
Denominator:		
Basic – weighted shares outstanding	6,826	5,981
Weighted shares assumed upon exercise of stock options	—	247
Diluted – weighted shares outstanding	6,826	6,228
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:	$(0.06)	$0.00
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:	$(0.06)	$0.00

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.

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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	$20,088	$18,064

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 though 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 severed 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 though 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 Physiolink™ 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 PhysioLink technologies.

Core Technologies Overview

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

ULP DSP

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

ULP Wireless

Wireless connectivity is fast becoming a required technology, and wireless capabilities are especially critical in new body-worn devices. IntriCon's BodyNet™ ULP technology, including the nanoLink™ and PhysioLink™ wireless systems, offers solutions for transmitting the body's activities to caregivers, and wireless audio links for professional communications and surveillance products 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”, “potential”, “opportunity”, “project”, “forecast”, “confident”, “projections”, “schedule”, “designed”, “future”, “discussion”, “if 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:

			Change	
Three Months Ended March 31	2017	2016	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:

	2017	**2016**