

INTRICON CORP  
Form 10-Q  
August 13, 2008  
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

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

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(State or other jurisdiction of organization)

(I.R.S. Employer Identification No.)

**1260 Red Fox Road**

**Arden Hills, Minnesota**

(Address of principal executive offices)

**55112**

(Zip Code)

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

**N/A**

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

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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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act)

Yes  No

The number of outstanding shares of the registrant's common stock, \$1.00 par value, on July 18, 2008 was 5,314,760 (net of 515,754 treasury shares).

**INTRICON CORPORATION**

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Table of Contents**PART I: FINANCIAL INFORMATION****ITEM 1. Financial Statements****INTRICON CORPORATION****Consolidated Condensed Balance Sheets****Assets**

	<b>June 30, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
Current assets:		
Cash	\$ 1,228,747	\$ 1,324,862
Restricted cash	424,917	398,514
Accounts receivable, less allowance for doubtful accounts of \$266,000 at June 30, 2008 and \$259,000 at December 31, 2007	9,223,730	8,408,149
Inventories	9,099,536	9,835,060
Refundable income tax	45,894	28,297
Note receivable from sale of discontinued operations, less allowance of \$225,000 at June 30, 2008 and December 31, 2007		75,000
Other current assets	962,070	775,206
Total current assets	20,984,894	20,845,088
Machinery and equipment	37,187,054	36,959,184
Less: Accumulated depreciation	29,155,612	28,500,318
Net machinery and equipment	8,031,442	8,458,866
Goodwill	8,266,438	8,238,020
Investment in partnerships	1,611,992	1,590,426
Other assets, net	1,529,719	1,543,127
Total Assets	\$40,424,485	\$40,675,527

(See accompanying notes to the consolidated condensed financial statements)

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Table of Contents**INTRICON CORPORATION****Consolidated Condensed Balance Sheets****Liabilities and Shareholders' Equity**

	<b>June 30, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
Current liabilities:		
Checks written in excess of cash	\$ 706,476	\$ 1,209,642
Current maturities of long-term debt	1,628,865	1,476,665
Accounts payable	3,287,636	3,965,914
Customers' advance payments on contracts		190,062
Income taxes payable	31,076	74,549
Deferred gain on building sale	110,084	110,084
Partnership payable	260,000	260,000
Other accrued liabilities	4,189,164	4,192,693
Total current liabilities	10,213,301	11,479,609
Long term debt, less current maturities	7,058,420	6,963,410
Other postretirement benefit obligations	729,913	816,532
Long term partnership payable	1,020,000	1,020,000
Note payable, net of current portion	259,360	259,360
Deferred income taxes	92,273	89,273
Accrued pension liabilities	643,346	624,517
Deferred gain on building sale	770,589	825,631
Other accrued liabilities	49,894	
Total liabilities	20,837,096	22,078,332

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### Shareholders' equity:

Common shares, \$1.00 par value per share; 20,000,000 and 10,000,000 shares authorized; 5,830,131 and 5,813,491 shares issued; 5,314,377 and 5,297,737 outstanding	5,830,131	5,813,491
Additional paid-in capital	13,785,113	13,391,449
Retained earnings	1,437,507	877,733
Accumulated other comprehensive loss	(200,284 )	(220,400 )
Less: 515,754 common shares held in treasury, at cost	(1,265,078 )	(1,265,078 )
Total shareholders' equity	19,587,389	18,597,195
	<b>\$40,424,485</b>	<b>\$40,675,527</b>

(See accompanying notes to the consolidated condensed financial statements)

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#### **INTRICON CORPORATION**

#### **Consolidated Condensed Statements of Operations**

**(Unaudited)**

	<b>Three Months Ended</b>	
	<b>June 30, 2008 (Unaudited)</b>	<b>June 30, 2007 (Unaudited)</b>
Sales, net	\$ 17,525,127	\$ 16,937,697
Cost of sales	13,270,711	12,731,182
Gross margin	4,254,416	4,206,515
Operating expenses:		
Selling expense	985,035	962,872
General and administrative expense	1,734,956	1,613,217
Research and development expense	867,459	650,777
Total operating expenses	3,587,450	3,226,866
Operating income	666,966	979,649
Interest expense	(186,081 )	(333,129 )
Interest income	1,287	12,047
Equity in earnings of partnerships	(590 )	(60,000 )
Other (expense) income, net	(42,839 )	35,788

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Income before income taxes	438,743	634,355
Income tax expense	28,785	107,511
Net income	\$ 409,958	\$ 526,844
Earnings per share:		
Basic	\$.08	\$.10
Diluted	\$.07	\$.10
Average shares outstanding:		
Basic	5,309,904	5,200,137
Diluted	5,574,222	5,455,743

(See accompanying notes to the consolidated condensed financial statements)

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**INTRICON CORPORATION**

**Consolidated Condensed Statements of Operations**

**(Unaudited)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Sales, net	\$ 34,116,507	\$ 31,516,964
Cost of sales	26,017,400	24,099,192
Gross margin	8,099,107	7,417,772
Operating expenses:		
Selling expense	1,981,261	1,805,638
General and administrative expense	3,387,335	3,033,481
Research and development expense	1,655,232	1,383,458
Total operating expenses	7,023,828	6,222,577
Operating income	1,075,279	1,195,195
Interest expense	(381,706 )	(486,406 )
Interest income	8,547	50,783
Equity in earnings of partnerships	21,566	(80,000 )

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Other (expense) income, net	(48,297	)	10,051
Income before income taxes	675,389		689,623
Income tax expense	115,615		135,271
Net income	\$ 559,774		\$ 554,352
Earnings per share:			
Basic	\$ .11		\$ .11
Diluted	\$ .10		\$ .10
Average shares outstanding:			
Basic	5,306,559		5,198,542
Diluted	5,583,736		5,410,192

(See accompanying notes to the consolidated condensed financial statements)

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**INTRICON CORPORATION**

**Consolidated Condensed Statements of Cash Flows**

**(Unaudited)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2008</b>	<b>2007</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Cash flows from operating activities:		
Net income	\$ 559,774	\$ 554,352
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,172,699	957,838
Stock-based compensation	268,121	141,699
Gain on disposition of property	(1,900	(3,858
Change in deferred gain	(55,042	(55,042
Change in allowance for doubtful accounts	7,127	(17,536
Equity in earnings of partnerships	(21,566	80,000
Provision for deferred income taxes	3,000	
Changes in operating assets and liabilities:		
Accounts receivable	(753,253	222,782
Inventories	736,130	(206,432
Other assets	(166,399	(88,416
Accounts payable	(694,964	(1,666,218
Accrued expenses	(125,391	130,523

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Customer advances	(190,062	)	35,454
Other liabilities	(49,895	)	(38,980
Net cash provided by operating activities	688,379		46,166
Cash flows from investing activities:			
Purchases of property, plant and equipment	(746,853	)	(1,625,091
Cash paid for acquisition of Tibbetts, Inc., net of cash received			(4,565,465
Proceeds from sales of property, plant and equipment	1,100,091		7,296
Proceeds from note receivable	75,000		150,000
Net cash provided (used) by investing activities	428,238		(6,033,260
Cash flows from financing activities:			
Proceeds from long-term borrowings	7,290,881		10,906,486
Repayments of long-term borrowings	(8,141,862	)	(4,841,097
Proceeds from employee stock purchases and exercise of stock options	136,071		15,956
Change in restricted cash	(7,245	)	
Change in checks written in excess of cash	(503,166	)	312,766
Net cash (used) provided by financing activities	(1,225,321	)	6,394,111
Effect of exchange rate changes on cash	12,589		3,163
Net (decrease) increase in cash	(96,115	)	410,180
Cash, beginning of period	1,324,862		297,817
Cash, end of period	\$ 1,228,747		\$ 707,997
Noncash financing and investing activities:			
Acquisition of equipment through capital lease obligation	\$ 1,098,191		\$
Increase in other asset by accounts payable			460,000

(See accompanying notes to the consolidated condensed financial statements)

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### **INTRICON CORPORATION**

### **Notes to Consolidated Condensed Financial Statements (Unaudited)**

#### **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 consolidated financial position as of June 30, 2008 and December 31, 2007, and the consolidated results of its operations for the three and six months ended June 30, 2008 and 2007. Results of operations for the interim periods are not necessarily indicators of the results of the operations expected for the full year.

Certain prior-year balances have been reclassified to be consistent with the current-year presentation including; \$326,283, \$308,979 and \$301,642 of restricted cash previously included in cash on the balance sheet as of December 31, 2007, June 30, 2007 and December 31, 2006, respectively.

## 2. New Accounting Pronouncements

On December 4, 2007, the FASB issued FASB Statement No. 141 (Revised 2007), *Business Combinations*. FAS 141(R) will significantly change the accounting for business combinations. Under Statement 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. FAS 141R will change the accounting treatment for certain specific items, including:

Acquisition costs will be generally expensed as incurred;

Noncontrolling interests (formerly known as minority interests) will be valued at fair value at the acquisition date);

Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;

In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;

Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and

Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

FAS 141(R) also includes a substantial number of new disclosure requirements. The statement applies to the Company prospectively for business combinations for which the acquisition date is on or after January 1, 2009. Earlier adoption is prohibited.

On December 4, 2007, the FASB issued FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*. Statement 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. Statement 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. Statement 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest.

Statement 160 is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning with the year ended December 31, 2009. Earlier adoption is prohibited.

### 3. Acquisitions

On May 22, 2007, the Company completed the acquisition of substantially all of the assets, other than real estate, of Tibbetts Industries, Inc. (Tibbetts), a privately held designer and manufacturer of components used in hearing aids and medical devices, based in Camden, Maine. The acquisition expanded the Company's component technology and customer base.

Pursuant to an asset purchase agreement, dated as of April 19, 2007, by and among the Company and Tibbetts and certain of the principal shareholders of Tibbetts, the Company purchased substantially all of the assets of Tibbetts, other than real estate, for cash of \$4,500,000, subject to a closing adjustment, and the assumption of certain liabilities (total purchase price of \$5,569,000 including acquisition costs of \$228,000). Certain escrow amounts will be distributed to the seller at the conclusion of the respective escrow periods. The acquisition was financed with borrowings under the Company's new credit facility, as further described in Note 7.

In addition, the Company entered into a five year lease and a ten year lease, respectively, for Tibbetts' two facilities in Camden, Maine, in each case with an option to renew for two additional periods of five years each.

The Company has accounted for the Tibbetts acquisition, utilizing the generally accepted accounting principles of SFAS Nos. 141, Business Combinations, and 142, Goodwill and Other Intangible Assets. Under the purchase method of accounting, the assets and liabilities of Tibbetts were recorded as of the acquisition date at their respective fair values and consolidated with those of the Company. Likewise, the results of operations of the Tibbetts' operations since May 22, 2007 have been included in the accompanying consolidated statements of operations. The allocation of the net purchase price of the acquisition resulted in goodwill of approximately \$2,317,000. The goodwill represents operating and market synergies that the Company expects to be realized as a result of the acquisition and future opportunities and is also deductible for tax purposes based on a 15 year amortization schedule. The purchase price allocation is based on estimates of fair values of assets acquired and liabilities assumed. The valuation required the use of significant assumptions and estimates. These estimates were based on assumptions the Company believed to be reasonable. However, actual results may differ from these estimates.

The purchase price was as follows (amounts in thousands):

Cash	\$4,500
Liabilities assumed	841
Acquisition costs	228
Total purchase price	\$5,569

The following table summarizes the purchase price allocation for the Tibbetts acquisition (amounts in thousands):

Cash	\$ 130
Other current assets	1,964
Intangible assets subject to amortization (through 2022)	108
Goodwill	2,317
Other long-term assets	1,050
Current liabilities	(841)
Total purchase price allocation, net of liabilities assumed	\$4,728

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company as if the acquisition of Tibbetts had occurred at January 1, 2007. All amounts presented are in thousands. The historical consolidated financial information has been

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adjusted to give effect to pro forma events that are directly attributable to the acquisition and are factually supportable, including the increase in interest expense related to the borrowings used to fund the acquisition and the increase in depreciation expense of Tibbetts related to the step-up of fixed assets to fair value. The unaudited pro forma condensed consolidated financial information is presented for informational purposes only. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the acquisition been completed on the dates indicated. In addition, the unaudited pro forma condensed consolidated financial information does not purport to project the future financial position or operating results of the Company after completion of the acquisition.

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<b>(amounts in thousands)</b>	<b>Three months ended March 31, 2007</b>
Net sales	\$ 16,115
Cost of sales	12,700
S, G & A	3,510
Interest expense	267
Other expense	11
Loss from continuing operations before income taxes	\$(373 )
Earnings per share:	
Basic and diluted	\$(0.08 )
Weighted average number of shares outstanding:	
Basic	5,197
Diluted	5,197

The pro forma income from continuing operations for the period presented includes the increase in interest expense related to the borrowings used to fund the acquisition and the increase in depreciation expense of Tibbetts related to the step-up of fixed assets to fair value.

#### 4. Product Warranty

In general, the Company warrants its products to be free from defects in material and workmanship and will fully conform to and perform to specifications for a period of one year. The following table presents changes in the Company's warranty liability for the six months ended June 30, 2008:

	<b>June 30, 2008</b>
Beginning balance (December 31, 2007)	\$ 136,000
Warranty expense	21,900
Closed warranty claims	(38,400 )
Ending balance (June 30, 2008)	\$ 119,500

#### 5. Geographic Information

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

Long-lived Assets	<b>June 30,</b>	<b>December 31,</b>
	<b>2008</b>	<b>2007</b>
United States	\$ 18,344,279	\$ 18,737,623
Other	1,095,312	1,092,816
Consolidated	\$ 19,439,591	\$ 19,830,439

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

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The geographical distribution of net sales to geographical areas for the three and six months ended June 30, 2008 and 2007 were as follows:

Net Sales to Geographical Areas:	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30, 2008</b>	<b>June 30, 2007</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>
United States	\$ 12,900,654	\$ 12,078,091	\$ 24,767,235	\$ 22,461,029
Germany	1,162,821	938,629	2,151,771	1,619,430
China	753,621	908,631	1,565,503	1,670,710
France	372,252	103,168	759,064	163,895
Switzerland	231,005	823,671	615,690	1,405,176
Japan	245,711	426,218	432,896	875,701
United Kingdom	234,551	163,519	416,557	361,566
Singapore	230,696	364,527	393,095	695,668
Turkey	112,524	157,816	283,359	212,077
Russia	110,746	27,617	263,056	128,561
All other countries	1,170,546	945,810	2,468,281	1,923,151
Consolidated	\$ 17,525,127	\$ 16,937,697	\$ 34,116,507	\$ 31,516,964

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 Asian Pacific.

For the three months ended June 30, 2008, one customer accounted for 11 percent of the Company's consolidated net sales. For the three months ended June 30, 2007, no one customer accounted for more than 10 percent of the Company's consolidated net sales. For the six months ended June 30, 2008 and 2007, one customer accounted for 12 percent and 11 percent of the Company's consolidated net sales, respectively.

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At June 30, 2008, no one customer accounted for more than 10 percent of the Company's consolidated accounts receivable. At December 31, 2007, one customer accounted for 14 percent of the Company's consolidated accounts receivable.

### 6. Inventories

Inventories consisted of the following at:

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Raw materials	\$4,831,405	\$4,936,949
Work-in-process	2,751,362	2,822,784
Finished products and components	1,516,769	2,075,327
Total Inventories	\$9,099,536	\$9,835,060

### 7. Short and Long Term Debt

Short and long term debt is summarized as follows:

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Domestic Asset-Based Revolving Credit Facility	\$3,500,000	\$3,000,000
Foreign Overdraft and Letter of Credit Facility	979,811	1,071,009
Domestic Term Loan	3,037,500	4,275,000
Domestic Capital Equipment Leases	1,169,974	94,066
Total Debt	8,687,285	8,440,075
Less: Current maturities	(1,628,865)	(1,476,665)
Total Long Term Debt	\$7,058,420	\$6,963,410

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

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

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eligible inventory, less a reserve.

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

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

As of June 30, 2008, the Company was in compliance with all financial covenants under the credit facility, as amended.

In June 2008, the Company completed a sale-leaseback of machinery and equipment with Bank of America. The transaction generated proceeds of \$1,098,000, of which \$1,013,000 was used to pay down the domestic term loan. The capital lease agreement expires in June 2014, requires monthly payments of \$15,800 and has a present value of future minimum lease payments of \$1,098,000 with an effective interest rate of 5.14%.

The Company also has entered into several other capital lease agreements to fund the acquisition of machinery and equipment. The total principal amount of all capital leases (including the sale-leaseback described above) was \$1,412,000 with effective interest rates ranging from 5.1% to 8.0%. These agreements range from 3 to 6 years. The outstanding balance under these capital lease agreements at June 30, 2008 and December 31, 2007 was \$1,170,000 and \$94,000, respectively. The accumulated amortization on leased equipment was \$155,000 and \$119,000 at June 30, 2008 and December 31, 2007, respectively. The amortization of capital leases is included in depreciation expense for 2008 and 2007.

### 8. Income Taxes

Income tax expense for the three and six months ended June 30, 2008 was \$28,785 and \$115,615, respectively, compared to \$107,511 and \$135,271 for the same periods in 2007, respectively. The expense for the three and six months ended June 30, 2008 and 2007 was primarily due to foreign taxes on German and Singapore operations. The Company is in a net operating loss position for U.S. federal income tax purposes and, consequently, minimal federal expense from the current period domestic operations was recognized as the deferred tax asset has a full valuation allowance.

The following was the income before income taxes for each jurisdiction that the Company has operations for the three and six months ended June 30, 2008 and 2007:

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
United States	\$314,297	\$49,367	\$299,620	\$37,731
Singapore	43,336	473,159	189,180	504,883
Germany	81,110	111,829	186,589	147,009
Income before income taxes	\$438,743	\$634,355	\$675,389	\$689,623

### 9. Stockholders Equity and Stock-based Compensation

The Company applies the provisions of SFAS 123R, which establishes the accounting for stock-based awards.

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The Company has a 1994 stock option plan, a 2001 stock option plan, a non-employee directors' stock option plan and a 2006 equity incentive plan. New grants may not be made under the 1994, the 2001 and the non-employee directors' stock option plans; however certain option grants under these plans remain exercisable as of June 30, 2008. The aggregate number of shares of common stock for which awards could be granted under the 2006 Equity Incentive Plan as of the date of adoption was 698,500 shares. Additionally, as outstanding options under the 2001 stock option plan and non-employee directors' stock option plan expire, the shares of the Company's common stock subject to the expired options will become available for issuance under the 2006 Equity Incentive Plan.

Under the various plans, executives, employees and outside directors receive awards of options to purchase common stock. Additionally, the board has established the non-employee directors stock fee election program, referred to as the program, as an award under the 2006 equity incentive plan. The program gives each non-employee director the right under the 2006 equity incentive plan to elect to have some or all of his quarterly director fees paid in common shares rather than cash. There were 354 and 591 shares issued in lieu of cash for director fees under the program for the three and six months ended June 30, 2008. Under the 2006 equity incentive plan, the Company may also grant stock awards, stock appreciation rights, restricted stock units and other equity-based awards, although no such awards, other than awards under the program, had been granted as of June 30, 2008.

Under all awards, the terms are fixed on the grant date. Generally, the exercise price 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.

Stock option activity as of and during the six months ended June 30, 2008 was as follows:

	<b>Number of Shares</b>	<b>Weighted- average Exercise Price</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at December 31, 2007	854,231	\$5.83	\$5,680,636
Options forfeited	(45,131 )	9.82	
Options granted	86,950	10.07	
Options exercised	(1,900 )	2.51	
Outstanding at June 30, 2008	894,150	\$6.05	\$2,101,253
Exercisable at June 30, 2008	498,200	\$3.28	\$2,550,784
Available for future grant at December 31, 2007	424,746		
Available for future grant at June 30, 2008	352,205		

The number of shares available for future grant at June 30, 2008 does not include a total of up to 400,700 shares subject to options outstanding under the 2001 stock option plan and non-employee directors' stock option plan as of June 30, 2008, which will become available for grant under the 2006 Equity Incentive Plan in the event of the expiration of said options.

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

The Company calculates expected volatility for stock options and awards using both historical volatility as well as the average volatility of our peer competitors. Historical volatility is not strictly used due to the material changes in the Company's operations as a result of the sales of business segments that occurred in 2004 and 2005 (see Note 2 to the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007).

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

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

The weighted average remaining contractual life of options exercisable at June 30, 2008, was 6.7 years.

As of June 30, 2008, there was \$1,043,388 of total unrecognized compensation costs related to non-vested awards that are expected to be recognized over a weighted-average period of 2.6 years.

At the 2007 annual meeting of shareholders, the shareholders approved the IntriCon Corporation 2007 Employee Stock Purchase Plan (the Purchase Plan). A maximum of 100,000 shares may be sold under the Purchase Plan. There were 14,149 shares purchased under the plan as of June 30, 2008.

On July 23, 2008, the Compensation Committee of the Board of Directors approved the Non-Employee Director and Executive Officer Stock Purchase Program as an award under the 2006 Plan. The purpose of this program is to permit the Company's non-employee directors and executive officers to purchase shares of the Company's Common Stock directly from the Company. Pursuant to this program, participants may elect to purchase shares of Common Stock from the Company not exceeding an aggregate of \$100,000 during any fiscal year. Participants may make such election one time during each ten business day period following the public release of the Company's earnings announcement, referred to as a window period, and only if such participant is not in possession of material, non-public information concerning the Company and subject to the discretion of the Board to prohibit any transactions in Common Stock by directors and executive officers during a window period.

**10. Income (Loss) Per Share**

The following table presents a reconciliation of the denominators used in the computation of basic and diluted earnings per share related to the Company's employee stock option and equity plans:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30, 2008</b>	<b>June 30, 2007</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Basic weighted shares outstanding	5,309,904	5,200,137	5,315,382	5,198,542
Weighted shares assumed upon exercise of stock options	264,318	255,606	277,176	211,650
Diluted weighted shares outstanding	5,574,222	5,455,743	5,592,558	5,410,192

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 market method when computing the diluted earnings per share.

Excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2008, were options to purchase approximately 231,950 common shares with an average exercise price of \$12.96 because the effect would have been anti-dilutive. Excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2007, were options to purchase approximately 123,500 and 186,000 common shares, respectively, with an average exercise price of \$10.08 and \$8.94, respectively, because the effect would have been anti-dilutive.

**11. Derivative Financial Instruments**

Derivative financial instruments are used by the Company in the management of its interest rate and foreign currency exposure. The Company does not hold or issue derivative financial instruments for trading purposes. When entered into, the Company formally designates the derivative financial instrument as a hedge of a specific underlying exposure if such criteria are met, and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally assesses, both at inception and at least quarterly thereafter, whether the derivative financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Because of the high correlation between the derivative financial instrument and the underlying exposure being hedged, fluctuations in the value of the derivative financial instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. Any ineffective portion of a derivative financial instrument's change in fair value would be immediately recognized in earnings.

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The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in accumulated other comprehensive loss and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or accounts receivable and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. During the three and six months ended June 30, 2008 approximately \$12,000 and \$13,000, respectively, of said adjustments were recorded to interest expense. During the three and six months ended June 30, 2008, ineffectiveness from such hedges was \$0.

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At June 30, 2008, the Company had a United States Dollar ( USD ) denominated interest rate swap outstanding which effectively fixed the interest rate on floating rate debt, exclusive of lender spreads, at 5.36% for a notional principal amount of \$2,000,000 through December 2010. The derivative net loss on this contract recorded in accumulated other comprehensive loss at June 30, 2008 was \$79,998, which is expected to be reclassified from Accumulated other comprehensive loss into earnings over the next 15 months.

The Company uses forward contracts to manage its foreign currency exchange rate risk. The contracts are cash flow hedges, however, the Company has elected not to apply hedge accounting to these derivatives. We report changes in the fair value of these derivatives through *Other (expense) income net*. The contracts settle periodically with the amount and currency payable to the counter-party for currency exchange dependent upon the spot exchange rate respective to a predefined settlement rate. The earnings impact primarily relates to the settlement of the contracts. The cash flow hedges mature within 6 months or less.

### 12. Comprehensive Income

The components of comprehensive income, as required to be reported by SFAS No. 130, Reporting Comprehensive Income, were as follows:

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net income	\$409,958	\$526,844	\$559,774	\$554,352
Change in fair value of interest rate swap	57,741		(783 )	
Gain on foreign currency translation adjustment	(10,894 )	3,340	20,899	9,352
Comprehensive income	\$456,805	\$530,184	\$579,890	\$563,704

### 13. Legal Proceedings

We are a defendant along with a number of other parties in approximately 122 lawsuits as of June 30, 2008, (approximately 122 lawsuits as of December 31, 2007) 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. Due to the noninformative nature of the complaints, we do not know whether any of the complaints state valid claims against us. Certain insurance carriers have informed us that the primary policies for the period August 1, 1970-1973, have been exhausted and that the carriers will no longer provide a defense under those policies. We have requested that the carriers substantiate this situation. We believe we have additional policies available for other years which have been ignored by the carriers. As settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, we believe when settlement payments are applied to these additional policies, we will have availability under the years deemed exhausted. We do not believe that the asserted exhaustion of the primary insurance coverage for this period will have a material adverse effect on our financial condition, liquidity, or results of operations. Management believes that the number of insurance carriers involved in the defense of the suits and the significant number of policy years and policy limits, to which these insurance carriers are insuring us, make the ultimate disposition of these lawsuits not material to our consolidated financial position or results of operations.

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

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We are 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.

### 14. Related-Party Transactions

One of the Company's subsidiaries leases office and factory space from a partnership consisting of three present or former officers of the subsidiary, including Mark Gordor, the President and Chief Executive Officer of the Company. The subsidiary is required to pay all real estate taxes and operating expenses. In the opinion of management, the terms of the lease agreement are comparable to those which could be obtained from unaffiliated third parties. The total base rent expense incurred under the lease was approximately \$92,000 for each of the three months ended June 30, 2008 and 2007, and \$184,000 for each of the six months ended June 30, 2008 and 2007. Annual lease commitments approximate \$475,000 through October 2011.

The Company uses the law firm of Blank Rome LLP for legal services. A partner of that firm is the son-in-law of the Chairman of the Company's Board of Directors. For the three and six months ended June 30, 2008, the Company paid that firm approximately \$118,000 and \$161,000, respectively, for legal services and costs. The Chairman of our Board of Directors is considered independent under applicable Nasdaq and SEC 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.

### 15. Statements of Cash Flows

The following table provides supplemental disclosures of cash flow information:

	Six months ended	
	June 30, 2008	June 30, 2007
Interest received	\$ 16,856	\$ 51,280
Interest paid	193,759	317,182
Income taxes paid	114,772	134,138

### 16. Investment in Equity Instruments

The Company owns a 9% partnership interest in the Hearing Instrument Manufacturers Patent Partnership (HIMPP), and is a party to a license agreement that grants the Company access to over 45 US registered patents. The Company has recorded a \$108,000 decrease in the carrying amount of the investment, reflecting amortization of the patents, other intangibles and the Company's portion of the partnership's operating results for the six months ended June 30, 2008.

The Company's subsidiary, IntriCon Tibbetts Corporation, owns a 50% interest in a joint venture with a Swiss company to market, design, manufacture, and sell audio coils to the hearing health industry. The Company has recorded a \$130,000 increase in the carrying amount of the investment, reflecting the Company's portion of the joint venture's operating results for the six months ended June 30, 2008.

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

Headquartered in Arden Hills, Minnesota, IntriCon Corporation (formerly Selas Corporation of America) (IntriCon, the Company, we, us or our) is an international firm engaged in the designing, developing, engineering and manufacturing of body-worn devices. The Company serves the body-worn device market by designing, developing, engineering and manufacturing micro-miniature components, systems and molded plastic parts primarily for the hearing instrument, electronics, professional communications, computer and medical device industries. In addition to its operations in Minnesota, the Company has facilities in California, Maine, Singapore, and Germany.

The Company has one operating segment, its precision miniature medical and electronics products segment. Our expertise is focused on four main markets within this segment: medical, hearing health, professional audio and electronics. Within these chosen markets, we combine ultra-miniature mechanical and electronics capabilities with proprietary technologies, such as low-power digital signal processing (DSP) and ultra low-power wireless (ULP), that enhances the performance of body-worn devices.

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

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

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

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

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

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

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

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

On May 22, 2007, the Company completed the acquisition of substantially all of the assets of Tibbetts Industries, Inc., other than real estate. The acquisition was financed with borrowings under the Company's credit facility, as further described in Liquidity and Capital Resources. The addition of Tibbetts provides us with incremental gains in both our medical and professional audio businesses. We believe the benefits of this acquisition will eventually carry over to hearing health, where we expect to incorporate Tibbetts' pioneering magnetic telecoil and miniature transducer technology into key hearing aid components. Tibbetts' surveillance capabilities also expand our markets to include security products, which are reflected in our professional audio performance.

### 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, expect, should, optimistic, continue or the negative thereof or other variations thereon, 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

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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, the impact of new accounting pronouncements and litigation.

Forward-looking statements also include, without limitation, statements as to the Company's expected future results of operations and growth, the Company's ability to meet working capital requirements, the Company's business strategy, the expected increases in operating efficiencies, anticipated trends in the Company's precision miniature medical and electronic products markets, estimates of goodwill impairments and amortization expense of other intangible assets, the effects of changes in accounting pronouncements, the effects of litigation and the amount of insurance coverage, and statements as to trends or the Company's or management's beliefs, expectations and opinions.

Forward-looking statements are subject to risks and uncertainties and may be affected by various 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:

- risks related to the Tibbetts acquisition, including unanticipated liabilities and expenses;
- the ability to successfully implement the Company's 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 therewith;
- the volume and timing of orders received by the Company;
- changes in estimated future cash flows;
- ability to collect on our accounts receivable;
- foreign currency movements in markets the Company services;

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- changes in the global economy and financial markets;
- changes in the mix of products sold;
- ability to meet increasing demand;
- changes in customer requirements;
- timing and extent of research and development expenses;
- acceptance of the Company's products;
- competitive pricing pressures;
- pending and potential future litigation;
- availability of electronic components for the Company's products;
- ability to create and market products in a timely manner and develop products that are inexpensive to manufacture;
- ability to repay debt when it comes due;

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the loss of one or more of our major customers;  
ability to identify and integrate acquisitions;  
effects of legislation;  
effects of foreign operations;  
ability to recruit and retain engineering and technical personnel;  
the costs and risks associated with research and development investments;  
our ability and the ability of our customers to protect intellectual property; and  
loss of members of our senior management team.

For a description of these and other risks, see **Risk Factors** in Part I, Item 1A: Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 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.

### Results of Operations

#### **Sales, net**

Consolidated net sales for the three and six months ended June 30, were as follows (in thousands):

	<b>2008</b>	<b>2007</b>	<b>Change Dollars</b>	<b>Percent</b>	
Three months ended June 30	\$ 17,525	\$ 16,938	\$ 587	3.5	%
Six months ended June 30	\$ 34,117	\$ 31,517	\$ 2,600	8.2	%

Our net sales are comprised of four main sectors: hearing health, medical, professional audio device and electronics. Sales, net for the three and six months ended June 30, 2008 were up 3 and 8 percent, respectively over the same prior year periods, driven by our focus on enhancing the mobility and effectiveness of body-worn devices.

Net sales to the professional audio device sector grew 35 and 57 percent for the three and six month periods ended June 30, 2008, respectively, fueled by higher demand for communication devices from existing customers and a full year for revenue from our May 2007 acquisition of IntriCon Tibbetts. We believe our extensive portfolio of communication devices that are portable and perform well in noisy or hazardous environments will provide for future growth. These products are well suited for applications in fire, law enforcement, safety, aviation and military markets.

For the three and six months ended June 30, 2008, we experienced an increase of 20 and 23 percent, respectively, in net sales in the medical equipment market as a direct result of increased sales to existing original equipment manufacturer, or OEM, customers. Management believes there is an industry-wide trend toward further miniaturization and ambulatory operation enabled by wireless connectivity, referred to as bio-telemetry, which resulted in further growth in our medical business. Current examples of IntriCon bio-telemetry products used by medical device manufacturers include components found in wireless glucose sensor pumps that introduce drugs into the bloodstream.

Net sales in our hearing health business for the three and six months ended June 30, 2008 decreased 10 and 7 percent, respectively from 2007, primarily due to lower demand from our customers in this market. The U.S. hearing health industry was down approximately 2% - 5% in total for the six months ended June 30, 2008 compared to the same period in 2007, as reported by the Hearing Industry Association. We believe this lower demand is consistent with the feedback we are receiving from most of our customers. We believe the softness in the market may continue throughout 2008. Despite the anticipated short-term softness, we believe our longer term prospects in our hearing health business remain strong as we continue to development advanced technologies, such as our nanoDSP , which will enhance the performance of hearing devices. In addition, we believe the market indicators in the hearing health industry, including the aging world population, suggest long-term industry growth.

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Electronics net sales for the three and six months ended June 30, 2008 decreased 21 and 18 percent, respectively, from 2007 primarily due to lower demand from one customer. In addition, management has made an effort to eliminate lower margin revenue from non-strategic customers in attempt to maximize profit from this business line.

**Gross profit**

Gross profit margins for the three and six months ended June 30, were as follows (in thousands):

	<b>2008</b>		<b>2007</b>		<b>Change</b>			
	<b>Dollars</b>	<b>Percent of Sales</b>	<b>Dollars</b>	<b>Percent of Sales</b>	<b>Dollars</b>	<b>Percent</b>		
Three months ended June 30	\$ 4,254	24.3 %	\$ 4,207	24.8 %	\$ 48	1.1 %		
Six months ended June 30	\$ 8,099	23.7 %	\$ 7,418	23.5 %	\$ 681	9.2 %		

The gross profit margin as a percentage of sales decreased for the three months ended June 30, 2008 primarily due to an unfavorable sales mix particularly in our electronics businesses. Gross margins increased for the six months ended June 30, 2008 compared to the previous year periods primarily due to a higher sales volume, partially offset by a lower margin product mix.

**Selling, general and administrative expenses (SG&A)**

Selling, general and administrative expenses (SG&A) for the three months ended June 30 were as follows (in thousands):

<b>2008</b>	<b>2007</b>	<b>Change</b>
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	<b>Dollars</b>	<b>Percent of Sales</b>		<b>Dollars</b>	<b>Percent of Sales</b>		<b>Increase Dollars</b>	<b>Percent Increase</b>	
Selling	\$985	5.6	%	\$963	5.7	%	\$22	2.3	%
General and Administrative	1,735	9.9		1,613	9.5		122	7.5	
Research and Development	867	4.9		651	3.8		217	33.3	

The increased general and administrative, and research and development expenses for three months ended June 30, 2008 as compared to the prior year period were primarily driven by a \$70,000 increase in our SFAS 123R non-cash stock option expense and our continued emphasis on investing in research and development to develop new products and technology to further enhance our product portfolio.

Selling, general and administrative expenses (SG&A) for the six months ended June 30 were as follows (in thousands):

	<b>2008</b>		<b>2007</b>		<b>Change</b>		<b>Percent</b>		
	<b>Dollars</b>	<b>Percent of Sales</b>	<b>Dollars</b>	<b>Percent of Sales</b>	<b>Increase Dollars</b>	<b>Percent Increase</b>			
Selling	\$1,981	5.8	%	\$1,806	5.7	%	\$176	9.7	%
General and Administrative	3,387	9.9		3,033	9.6		354	11.7	
Research and Development	1,655	4.9		1,383	4.4		272	19.6	

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The increased selling, general and administrative, and research and development expenses for the six months ended June 30, 2008 as compared to the prior year periods were primarily driven by a full year of IntriCon Tibbetts expenses, \$126,000 increase in our SFAS 123R non-cash stock option expense and our continued emphasis on investing in research and development to develop new products and technology to further enhance our product portfolio.

### **Net interest expense**

Net interest expense for the three and six months ended June 30, 2008, was \$185,000 and \$373,000, respectively, compared to \$321,000 and \$436,000 for the same periods in 2007. The decrease in net interest expense was due primarily to charges related to the refinancing of the credit facility that were incurred in 2007 in connection with the Tibbetts acquisition and lower interest rates in effect on outstanding debt in 2008, offset in part by decreased interest income as a result of the lower balance of the note receivable.

### **Equity in earnings of partnerships**

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The equity in earnings of partnerships for the three and six months ended June 30, 2008 was (\$1,000) and \$22,000, respectively compared to (\$60,000) and (\$80,000) for the same periods in 2007, respectively.

The Company recorded a \$71,000 and \$108,000 decrease in the carrying amount of the investment in HIMPP for the three and six months ended June 30, 2008, respectively, reflecting amortization of the patents and other intangibles and the Company's portion of the partnership's operating results.

For the three and six months ended June 30, 2008, the Company recorded a \$71,000 and \$130,000 increase, respectively, in the carrying amount of Tibbetts' investment in joint venture, reflecting the Company's portion of the joint venture's operating results for those periods.

### **Other expense, net**

Other expense, net for the three and six months ended June 30, 2008, was \$43,000 and \$48,000, respectively compared to other income of \$36,000 and \$10,000, respectively for the same periods in 2007. The change in other expense, net primarily related to the changes in foreign currency exchange rates.

### **Income taxes**

Income tax expense for the three and six months ended June 30, 2008, was \$29,000 and \$116,000, respectively, compared to \$108,000 and \$135,000 for the same periods in 2007, respectively. The decreased expense in 2008 was primarily due to increased domestic earnings which are taxed at lower rates. The Company is in a net operating loss position for U.S. federal income tax purposes and, consequently, minimal expense from the current period domestic operations was recognized.

### **Liquidity and Capital Resources**

As of June 30, 2008, we had approximately \$1.6 million of cash on hand. Sources of our cash for the six months ended June 30, 2008 have been from our operations and investing activities, as described below.

The Company's cash flows from operating, investing and financing activities, as reflected in the statement of cash flows, are summarized as follows (in thousands):

	<b>Six months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2008</b>	<b>2007</b>
Cash provided (used) by:		

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Continuing operations	\$688	\$46
Investing activities	428	(6,033 )
Financing activities	(1,225 )	6,394
Effect of exchange rate changes on cash	13	3
Increase (decrease) in cash and cash equivalents	\$(96 )	\$410

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The Company had the following bank arrangements (in thousands):

	<b>June 30,</b>	<b>December 31,</b>
	<b>2008</b>	<b>2007</b>
Total borrowing capacity under existing facilities	\$ 13,321	\$ 13,623
Facility Borrowings:		
Domestic revolving credit facility	3,500	3,000
Domestic term loan	3,038	4,275
Foreign overdraft and letter of credit facility	980	1,071
Domestic capital equipment leases	1,170	94
Total Borrowings	8,687	8,440
Total borrowing availability under existing facilities	\$4,634	\$ 5,183

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

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

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

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

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

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

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

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

Weighted average interest on the domestic revolving credit facilities (including the prior credit facility) was 5.49% and 8.34% for the three months ended June 30, 2008 and 2007, respectively, and 6.17% and 8.54% for the six months ended June 30, 2008 and 2007, respectively.

The new credit facility will expire and all outstanding loans will become due and payable on June 30, 2012. The term loan requires quarterly principal payments, commencing on September 30, 2007, based on an increasing installment schedule, with any balance due on June 30, 2012.

The outstanding balance of the revolving credit facilities was \$3,500,000 and \$3,000,000 at June 30, 2008 and December 31, 2007, respectively. The total remaining availability on the revolving credit facility was approximately \$3,702,000 at June 30, 2008.

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

In June 2008, the Company completed a sale-leaseback of machinery and equipment with Bank of America. The transaction generated proceeds of \$1,098,000, of which \$1,013,000 was used to pay down the domestic term loan. The capital lease agreement expires in June 2014, requires monthly payments of \$15,800 and has a present value of future minimum lease payments of \$1,098,000 with an effective interest rate of 5.14%.

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The Company also has entered into several other capital lease agreements to fund the acquisition of machinery and equipment. The total principal amount of all capital leases (including the sale-leaseback described above) was \$1,412,000 with effective interest rates ranging from 5.1% to 8.0%. These agreements range from 3 to 6 years. The outstanding balance under these capital lease agreements at June 30, 2008 and December 31, 2007 was \$1,170,000 and \$94,000, respectively. The accumulated amortization on leased equipment was \$155,000 and \$119,000 at June 30, 2008 and December 31, 2007, respectively. The amortization of capital leases is included in depreciation expense for 2008 and 2007.

We are subject to various covenants under the credit facility, including financial covenants relating to tangible net worth, funded debt to EBITDA, fixed charge coverage ratio and capital expenditures. Under the credit facility, except as otherwise permitted, the borrowers may not, among other things, incur or permit to exist any indebtedness; grant or permit to exist any liens or security interests on their assets or pledge the stock of any subsidiary; make investments; be a party to any merger or consolidation, or purchase of all or substantially all of the assets or equity of any other entity; sell, transfer, convey or lease all or any substantial part of its assets or capital securities; sell or assign, with or without

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recourse, any receivables; issue any capital securities; make any distribution or dividend (other than stock dividends), whether in cash or otherwise, to any of its equityholders; purchase or redeem any of its equity interests or any warrants, options or other rights in respect thereof; enter into any transaction with any of its affiliates or with any director, officer or employee of any borrower; be a party to any unconditional purchase obligations; cancel any claim or debt owing to it; enter into any agreement inconsistent with the provisions of the credit facility or other agreements and documents entered into in connection with the credit facility; engage in any line of business other than the businesses engaged in on the date of the credit facility and businesses reasonably related thereto; or permit its charter, bylaws or other organizational documents to be amended or modified in any way which could reasonably be expected to materially adversely affect the interests of the lender. Effective as of September 30, 2007, the credit facility was amended to change the tangible net worth covenant. As of June 30, 2008 the Company was in compliance with all financial covenants under the credit facility, as amended.

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

The prior credit facility provided for:

a \$5,500,000 domestic revolving credit facility, bearing interest at an annual rate equal to the greater of 5.25%, or 0.5% over prime. Under the revolving credit facility, the availability of funds depended on a borrowing base composed of stated percentages of our eligible trade receivables and eligible inventory, less a reserve; and

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

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

The credit facility originally included a real estate loan with an original principal balance of \$1,500,000, which was associated with our Vadnais Heights manufacturing facility. In June 2006, we completed a sale-leaseback of the Vadnais Heights manufacturing facility. The transaction generated proceeds of \$2,650,000, of which \$1,388,000 was used to repay the associated real estate loan and the remainder to pay down our domestic revolver. The remaining gain on the sale of \$881,000 is being recognized over the initial 10-year lease term as the renewal options in the lease are not assured and a penalty does not exist if we do not exercise the renewal options.

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In addition to our domestic credit facilities, on August 15, 2005, our wholly-owned subsidiary, IntriCon PTE LTD., entered into an international senior secured credit agreement with Oversea-Chinese Banking Corporation Ltd. that provides for a \$1.6 million line of credit. Borrowings bear interest at a rate of 6.47%. The outstanding balance was \$980,000 and \$1,071,000 at June 30, 2008 and December 31, 2007, respectively. The total remaining availability on the international senior secured credit agreement was \$931,000 at June 30, 2008.

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

Recent Accounting Pronouncements

As previously discussed under note 2 to the Consolidated Condensed Financial Statements, on December 4, 2007, the FASB issued FASB Statement No. 141 (Revised 2007), Business Combinations. FAS 141(R) will significantly change the accounting for business combinations. Under Statement 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. FAS 141R will change the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Noncontrolling interests (formerly known as minority interests) will be valued at fair value at the acquisition date);
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;
- In-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;
- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and
- Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

FAS 141(R) also includes a substantial number of new disclosure requirements. The statement applies to the Company prospectively for business combinations for which the acquisition date is on or after January 1, 2009. Earlier adoption is prohibited.

On December 4, 2007, the FASB issued FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51. Statement 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. Statement 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. Statement 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest.

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Statement 160 is effective for the Company for fiscal years, and interim periods within those fiscal years, beginning with the year ended December 31, 2009. Earlier adoption is prohibited.

### Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period.

Certain accounting estimates and assumptions are particularly sensitive because their significance to the consolidated condensed financial statements and the possibility that future events affecting them may differ markedly. The accounting policies of the Company with significant estimates and assumptions include the Company's revenue recognition, accounts receivable reserves, inventory reserves, discontinued operations, goodwill, long-lived assets and deferred taxes policies. 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 or incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

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## **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

For information regarding the Company's exposure to certain market risks, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. There have been no material changes in the Company's market risk exposures which have occurred since December 31, 2007.

In April 2008, the Company entered into a U.S. dollar to Singapore dollar forward currency hedge contract to manage its foreign currency exchange rate risk. The contract has a term of six months and settles periodically with the amount and currency payable to the counter-party for currency exchange dependent upon the spot exchange rate respective to a predefined settlement rate. As such, the notional value of the contract ranges from \$1.2 million to \$2.7 million. The contract is a cash flow hedge, however, the Company has elected not to apply hedge accounting to this derivative. We report changes in the fair value of this derivative through Other (expense) income net. The other expense of \$3,000 for the three months ended June 30, 2008 primarily relates to the settlement of the contracts.

## **ITEM 4. Controls and Procedures**

The Company's management, with the participation of its chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of June 30, 2008 (the Disclosure Controls Evaluation). Based on the Disclosure Controls Evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective to provide a reasonable level of assurance that: (i) information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the specific time periods in the Securities and Exchange Commission's rules and forms and (ii) information

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required to be disclosed in the reports the Company files or submits under Exchange Act is accumulated and communicated to management, including the chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure, all in accordance with Exchange Act Rule 13a-15(e).

There were no changes in the Company's internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the quarter ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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## **PART II - OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

The information contained in note 13 to the Consolidated Condensed Financial Statements in Part I of this quarterly report is incorporated by reference herein.

### **ITEM 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect the Company's business, financial condition or future results. The risk factors in the Company's Annual Report on Form 10-K have not materially changed. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

**ITEM 3. Defaults upon Senior Securities**

None.

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

At the 2008 Annual Meeting of Shareholders of the Company held on April 23, 2008:

Mr. Robert N. Masucci was re-elected as a director of the Board of Directors of the Company for a term expiring at the 2011 Annual Meeting. In the election, 4,439,345 votes were cast for Mr. Masucci. Under Pennsylvania law, votes cannot be cast against a candidate. Proxies filed at the 2008 Annual Meeting by the holders of 138,174 shares withheld authority to vote for Mr. Masucci. The terms of the following directors continued after the Annual Meeting: Nicholas A. Giordano, Mark S. Gorder, Michael J. McKenna and Philip N. Seamon.

The amendment to the Company's Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares of Common Stock from 10,000,000 shares to 20,000,000 shares was also approved. In the election, 4,279,548 votes were cast in favor of approval, while 290,582 were cast opposing approval, and holders of 7,387 shares abstained. Additionally, there were 3 broker non-votes.

The appointment of Virchow, Krause & Company, LLP as the Company's independent auditor for fiscal year 2008 was also ratified. In the election, 4,559,430 votes were cast in favor of ratification of the appointment, while 15,383 were cast opposing ratification of the appointment, and holders of 2,707 shares abstained. There were no broker non-votes.

**ITEM 5. Other Information**

None.

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**ITEM 6. Exhibits**

- (a) Exhibits

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- 3.1 IntriCon's Amended and Restated Articles of Incorporation, as amended (incorporated by reference to IntriCon's Current Report on Form 8-K filed with the SEC on April 28, 2008).
  
- 10.1 Second Amendment to Loan and Security Agreement dated as of June 30, 2008, by and among IntriCon, IntriCon, Inc. (formerly known as Resistance Technology, Inc.), RTI Electronics, Inc., IntriCon Tibbetts Corporation and LaSalle Bank National Association (incorporated by reference to IntriCon's Current Report on Form 8-K filed with the SEC on July 7, 2008)
  
- 31.1 Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
  
- 31.2 Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
  
- 32.1 Certification of principal executive officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
  
- 32.2 Certification of principal financial officer to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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INTRICON CORPORATION

SIGNATURE

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

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INTRICON CORPORATION  
(Registrant)

Date: August 13, 2008

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

Date: August 13, 2008

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

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EXHIBIT INDEX

- 31.1 Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of principal executive officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of principal financial officer to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

