INTRICON CORP
Form 10-K
March 14, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)
x ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011
or
o 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)
Registrant s telephone number, including area code	(651) 636-9770

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, $1 par value per share	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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 x No o

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined by rule 12b-2 of the Act). Yes o No x

The aggregate market value of the voting common shares held by non-affiliates of the registrant on June 30, 2011 was $19,174,288. Common shares held by each officer and director and by each person who owns 10% or more of the outstanding common shares have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the registrant s common shares on February 29, 2012 was 5,662,854.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s definitive proxy statement for the 2012 annual meeting of shareholders are incorporated by reference into Part III of this report; provided, however, that the Audit Committee Report and any other information in such Proxy Statement that is not required to be included in this Annual Report on Form 10-K, shall not be deemed to be incorporated herein or filed for the purposes of the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended.

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PART I

ITEM 1. Business

Company Overview

IntriCon Corporation (together with its subsidiaries referred herein as the Company , or IntriCon , we , us or our) is an international com engaged in designing, developing, engineering and manufacturing body-worn devices. The Company serves the body-worn device market by designing, developing, engineering and manufacturing micro-miniature products, microelectronics, micro-mechanical assemblies and complete assemblies, primarily for bio-telemetry devices, hearing instruments and professional audio communication devices. The Company, headquartered in Arden Hills, Minnesota, has facilities in Minnesota, California, Maine, Singapore, Indonesia and Germany, and operates through subsidiaries. The Company is a Pennsylvania corporation formed in 1930. The Company has gone through several transformations since its formation. The Company s core business of body-worn devices was established in 1993 through the acquisition of Resistance Technologies Inc., now known as IntriCon, Inc. The majority of IntriCon s current management came to the Company with the Resistance Technologies Inc. acquisition, including IntriCon s President and CEO, who was a co-founder of Resistance Technologies Inc.

Currently, the Company operates in one operating segment, the body-worn device segment. In 2009, the Company decided to exit its non-core electronic products segment, to allow for greater focus on its body-worn device segment. On May 28, 2010, the Company completed the sale of substantially all of the assets of its electronics business to an affiliate of Shackleton Equity Partners (Shackleton). For all periods presented, the Company has classified its former electronics products segment as discontinued operations. Unless otherwise indicated, the following description of our business refers only to our continuing operations.

Information contained in this Annual Report on Form 10-K and expressed in U.S. dollars or number of shares are presented in thousands (000s), except for per share data and as otherwise noted.

Business Highlights

Major Events in 2011

In October 2011, the Company announced it entered into a manufacturing agreement to become a supplier of hearing aids to hi HealthInnovations, a UnitedHealth Group company. hi HealthInnovations launched a suite of high-tech, lower-cost hearing devices for the estimated 36 million Americans with hearing loss. An estimated 75 percent of people in the United States who can benefit from hearing devices do not use them, largely due to the high cost. hi HealthInnovations is offering consumers technically advanced hearing aids, including those based on IntriCon s new APT Open in-the-canal (ITC) hearing aid platform. The Company devoted a considerable amount of time, resources and capital during 2011 to securing the agreement and preparing for the program s launch.

During the second quarter of 2011, IntriCon established a subsidiary in Indonesia. During the third quarter of 2011, the Company signed a lease agreement for a manufacturing facility in Batam, Indonesia. The purpose of the expansion is to increase the Company s low cost manufacturing presence in Asia. The Company is transferring labor intensive product assembly to the facility. The Company commenced manufacturing at the facility in October 2011.

In August 2011, the Company amended its credit facilities with The PrivateBank and Trust Company. Terms of the amendment included, among other things, extending the term of the $8,000 revolving credit facility, with a subfacility for letters of credit, to mature in August 2014 and increasing the Company s term loan facility to $4,000, amortized in quarterly principal installments of $250, and an extension of the maturity to August 2014. The $12,000 in credit facilities includes London Interbank Offered Rate (LIBOR) interest rate options at varying rates based on funded debt to EBITDA levels. In addition, the amendment reset certain financial covenants. The Company is using the facilities to fund current growth opportunities, expand low-cost manufacturing footprint and meet anticipated working capital requirements. The credit facilities are further described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Major Events in 2010

On May 28, 2010 the Company completed the sale of substantially all of the assets of its electronics business to an affiliate of Shackleton, pursuant to an Asset Purchase Agreement dated May 28, 2010. Shackleton paid $850 cash at closing for the assets and assumed certain operating liabilities of IntriCon s electronics business, subject to an accounts receivable adjustment. As part of the sale, the Company recognized a gain, net

of taxes, of $35.

The Company relocated its Singapore facility during the 2010 fiscal year, as required by the Singapore government, which is redeveloping the land where the former Singapore facility was located. In connection with the relocation, the Company entered into a lease agreement for a new facility in Singapore.

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Major Events in 2009

On December 29, 2009, the Company decided to exit the electronics products segment operated by its wholly-owned subsidiary, RTI Electronics, and divest the assets used in the business. The decision to exit the electronics products segment was made to allow the Company to focus on its core body-worn device segment and to improve the Company s overall margins and profitability. In connection with its decision to divest the electronics business, the Company evaluated assets for impairment and severance costs and recorded the following: (i) an impairment charge of $685 relating to goodwill, (ii) a reduction to realizable value of $720 to tangible assets, and (iii) $275 in employee termination costs for the year ended December 31, 2009. An additional $200 in termination costs were recorded in 2010.

On August 13, 2009, the Company acquired all of the outstanding stock of Jon Barron, Inc. doing business as Datrix (Datrix), a privately held developer, manufacturer, tester and marketer of medical devices and related software products, based in Escondido, California. The acquisition provides the Company entry into the cardiac diagnostic monitoring (CDM) market.

The purchase price included a closing cash payment of $1,225, issuance of 75 shares of restricted common stock of the Company and the issuance of a promissory note in the amount of $1,050 bearing annual interest at 6%. In addition, the Company paid off Datrix s outstanding line of credit with Wells Fargo of $130 at closing.

The principal amount of the promissory note is payable in three installments of $350 on August 13, 2010, August 13, 2011 and August 13, 2012. The note bears annual interest at 6% and is payable with each principal payment as set forth above.

Core Technologies Overview:

IntriCon serves the body-worn device market by designing, developing, engineering and manufacturing micro-miniature products, microelectronics, micro-mechanical assemblies and complete assemblies, primarily for bio-telemetry devices, hearing instruments and professional audio communication devices. Over the past five years, the Company has increased investments in the continued development of four critical core technologies: Ultra-Low-Power (ULP) Digital Signal Processing (DSP), Ultra-Low-Power Wireless, Microminiaturization, and Miniature Transducers. These four 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. The continued advancements in this area have allowed the Company to further enhance the mobility and effectiveness of miniature body-worn devices.

Ultra-Low-Power Digital Signal Processing
DSP converts real-world analog signals into a digital format. Through its 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 has recently made improvements on its Reliant CLEAR feedback canceller, offering increased added stable gain and faster reaction time. The Company also introduced its patent pending AcousTAP Switch, allowing the user to change programs when the ear is patted, which eliminates the physical push button, saving size and cost.

Ultra-Low-Power 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 measuring and transmitting the body s activities to caregivers, and wireless audio links for professional communications and surveillance products. Potential BodyNet applications include electrocardiogram (ECG) diagnostics and monitoring, diabetes monitoring, sleep apnea studies and audio streaming for hearing aids.

IntriCon is in the final stages of commercializing its PhysioLink 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 to ear-worn and body-worn applications over distances of up to five meters.

Microminiaturization
At IntriCon, we are experts in miniaturization. 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.

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Miniature Transducers

IntriCon s advanced microphone and receiver technology has been pushing the limits of size and performance for over a decade. In 2007, we increased our product portfolio and expertise in miniature transducers through the acquisition of Tibbett s Industries, Inc. Our miniature transducers, which have been incorporated into various product platforms, enhance the reliability, sensitivity, supply voltage, and output level in body-worn devices. These enhancements allow us to make devices that are extremely portable and perform well in noisy or hazardous environments. We recently introduced our 151Hi SPL microphone which provides the latest advances in microphone technology. These small devices are well-suited for applications in the aviation, fire, law enforcement, safety and military markets. Our technology also is used for technical surveillance by law enforcement and security agencies, and by performers and production staff in the music and stage performance markets. Also included in our transducer line are medical coils and micro coils used in pacemaker programming and interventional catheter positioning applications.

Market Overview:

Our core technologies expertise is focused on three main markets: medical, hearing health and professional audio communications.

Medical

In the medical market, the Company is focused on sales of multiple bio-telemetry devices from life-critical diagnostic monitoring devices to drug-delivery systems. Using our nanoDSP and ULP nanoLink technology, 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. Targeted customers include medical product manufacturers of portable and lightweight battery powered devices.

The medical industry is faced with pressures to reduce the cost 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, are more miniature, use less power, and are lighter. These devices measure with greater accuracy and provide more functions while reducing the costs to manufacture these devices. The industry-wide trend toward further miniaturization and ambulatory operation enabled by wireless connectivity is commonly referred to as bio-telemetry. Through the further development of our ULP BodyNet family, we believe the 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 Corp. (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 wireless continuous glucose monitors that measure glucose levels and provide real-time blood glucose trend information and CDM devices.

During the second quarter of 2011, IntriCon submitted the Centauri, its first generation CDM device, for 510(k) approval with the Food and Drug Administration (FDA). The Company received FDA approval in August of 2011. The features of the Centauri ECG monitor are event recording combined with wireless transmission of the patient data to a remote service center, which then forwards the information to the doctor.

The Sirona, a CDM device which incorporates PhysioLink technology, was submitted for 510(k) approval in the third quarter of 2011. The Company received FDA approval in November of 2011. The Sirona electrocardiogram (ECG) platform is essentially two products in one design since it can be used as an event recorder and a holter monitor.. This platform is very small, rechargeable, and water spray proof. The Company is working to incorporate both the Centauri and Sirona devices into the customized software packages of future customers and believes the devices will drive further gains in latter 2012.

In addition, 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 original equipment manufacturing (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.

Hearing Health

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 instrument 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.

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Based on our investments in core technologies, specifically nanoDSP and our new wireless PhysioLink technologies, IntriCon is building a new generation of affordable, high-quality hearing aids and similar amplifier devices under contracts for OEM s. DSP devices have better clarity, attractive pricing points and an improved ability to filter out background noise. During 2010 we introduced the Overtus DSP amplifier. The Overtus DSP amplifier is designed to optimize open in the canal (ITC) type fittings. The amplifier algorithm contains two patented features, an advanced adaptive feedback canceller, Reliant CLEAR, optimized for open ITC fittings and an acoustic switch, AcousTAP, eliminating the need for a mechanical switch and allowing for further miniaturization. Further, with the Overtus technology, we have developed our own complete hearing device, the all-new, patent-pending APT Open ITC. The APT is powered by the Overtus which includes our Reliant CLEAR adaptive feedback canceller and the AcousTAP acoustic push button. In addition, the APT utilizes the patent pending Concha Lock System technology that allows for the suspension of an open in-the-ear device in the ear canal. These features create stable and effective amplification, occlusion-free comfort and easy integration into existing fitting systems. Our OEM customers now have the option of using Overtus in their own devices, or purchasing our complete APT device. We believe the introductions of the APT and Lumen devices and the Overtus amplifier will solidify our position as a leader of high-performance adaptive DSP hearing instrument amplifiers. Furthermore, we believe our strategic alliance with Dynamic Hearing will allow us to develop new body-worn applications and further expand both our hearing health and professional audio product portfolio.

In October 2011, the Company announced it has entered into a manufacturing agreement to become a manufacturer of hearing aids to hi HealthInnovations, a UnitedHealth Group company. hi HealthInnovations launched a suite of high-tech, lower-cost hearing devices for the estimated 36 million Americans with hearing loss. An estimated 75 percent of people who can benefit from hearing devices do not use them, largely due to the high cost. hi HealthInnovations will offer consumers technically advanced hearing aids, including those based on the APT hearing aid platform.

Overall, we believe the hearing health market holds significant opportunities for the Company. In the United States, Europe and Japan, the 65-year-old-plus age demographic is one of the fastest growing segments of the population, and many of those individuals could, at some point, benefit from a hearing device that uses IntriCon s proprietary technology.

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 homeland security and 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. The Company also serves homeland security agencies in this market. 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.

During 2012, we will be marketing our line of situational listening devices (SLD s) intended to help people hear in noisy environments like restaurants and automobiles, and listen to television, music, and direct broadcast by wireless connection. Such devices are intended to be supplements to conventional hearing aids, which do not handle those situations well. The SLD s will be based on our ULP wireless nanoLink technology and our PhysioLink technology, which were recently demonstrated at the annual convention of the American Academy of Audiology. The product line consists of an earpiece, TV transmitter, companion microphone, iPod/iPhone transmitter, and USB transmitter.

For information concerning our net sales, net income and assets, see the consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

Marketing and Competition. IntriCon sells its hearing instrument components directly to domestic hearing instrument manufacturers and distributors through an internal sales force. Sales of medical and professional audio communications products are also made primarily through an internal sales force. In recent years, five companies have accounted for a substantial portion of the Company s sales.

In 2011, one customer accounted for approximately 22 percent of the Company s net sales. During 2011, the top five customers accounted for approximately $25,000, or 44 percent, of the Company s net sales. See note 4 to the consolidated financial statements for a discussion of net sales and long-lived assets by geographic area.

Internationally, sales representatives employed by IntriCon GmbH (GmbH), a wholly owned German subsidiary, solicit sales from European hearing instrument manufacturers.

IntriCon believes that it is the largest supplier worldwide of micro-miniature electromechanical components to hearing instrument manufacturers and that its full product line and automated manufacturing process allow it to compete effectively with other manufacturers within this market. In the market of hybrid amplifiers and molded plastic faceplates, hearing instrument manufacturers produce a substantial portion of their internal needs for these components.

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IntriCon markets its high performance microphone products to the radio communication and professional audio industries and has several larger competitors who have greater financial resources. IntriCon holds a small market share in the global market for microphone capsules and other related products.

Employees. As of December 31, 2011, the Company had a total of 599 full time equivalent employees, of whom 32 are executive and administrative personnel, 17 are sales personnel and 550 are engineering and operations personnel. The Company considers its relations with its employees to be satisfactory. None of the Company s employees are represented by a union.

As a supplier of parts for consumer and medical products, IntriCon is subject to claims for personal injuries allegedly caused by its products. The Company maintains what it believes to be adequate insurance coverage.

Research and Development. IntriCon conducts research and development activities primarily to improve its existing products and proprietary technology. The Company is committed to increasing its investment in the research and development of proprietary technologies, such as the ULP nanoDSP and ULP wireless technologies. The Company believes the continued development of key proprietary technologies will be the catalyst for long-term revenues and margin growth. Research and development expenditures were $4,876, $4,485, and $3,345 in 2011, 2010 and 2009, respectively. These amounts are net of customer and grant reimbursed research and development.

IntriCon owns a number of United States patents which cover a number of product designs and processes. The Company believes that, although these patents collectively add value to the Company, the costs associated with the submission of patent applications are expensed as incurred given the uncertainty of the patents providing future economic benefit to the Company.

Regulation. A large portion of our business operates in a marketplace subject to extensive and rigorous regulation by the FDA and by comparable agencies in foreign countries. In the United States, the FDA regulates the design control, development, manufacturing, labeling, record keeping, and surveillance procedures for medical devices.

United States Food and Drug Administration
FDA regulations classify medical devices based on perceived risk to public health as either Class I, II or III devices. Class I devices are subject to general controls, Class II devices are subject to special controls and Class III devices are subject to pre-market approval (PMA) requirements. While most Class I devices are exempt from pre-market submission, it is necessary for most Class II devices to be cleared by a 510(k) pre-market notification prior to marketing. 510(k) establishes that the device is substantially equivalent to a legally marketed predicate device which was legally marketed prior to May 28, 1976 or which itself has been found to be substantially equivalent, through the 510(k) process, after May 28, 1976. It is substantially equivalent if it has the same intended use and the same technological characteristics as the predicate. The 510(k) pre-market notification must be supported by data establishing the claim of substantial equivalence to the satisfaction of the FDA. The process of obtaining a 510(k) clearance typically can take several months to a year or longer. If the product is notably new or different and substantial equivalence cannot be established, the FDA will require the manufacturer to submit a PMA application for a Class III device that must be reviewed and approved by the FDA prior to sale and marketing of the device in the United States. The process of obtaining PMA approval can be expensive, uncertain, lengthy and frequently requires anywhere from one to several years from the date of FDA submission, if approval is obtained at all. The FDA controls the indicated uses for which a product may be marketed and strictly prohibits the marketing of medical devices for unapproved uses. The FDA can withdraw products from the market for failure to comply with laws or the occurrence of safety risks.

Our hearing aid devices are Class I medical devices, exempt from the 510(k) submission process. They are typically marketed to FDA approved manufacturers with IntriCon assisting in the design, development and production. Our ECG Recorder devices are classified as Class II medical devices and have received 510(k) marketing clearance from the FDA. Our manufacturing operations are subject to periodic inspections by the FDA, whose primary purpose is to audit the Company s compliance with the Quality System Regulations published by the FDA and other applicable government standards. Strict regulatory action may be initiated in response to audit deficiencies or to product performance problems. We believe that our manufacturing and quality control procedures are in compliance with the requirements of the FDA regulations and this has been substantiated with no findings cited during our most recent FDA audit in April of 2010.

Recent concerns have been raised by the public, internal FDA staff and Congress as to whether the current FDA 510(k) program achieves its goals of making safe and effective devices available to the public while also fostering innovation. In August 2010, the FDA Center for Devices and Radiological Health (CDRH) released two major FDA reports recommending changes to be taken by CDRH. The first report provides recommendations on how to strengthen the 510(k) program and the second report provided recommendations on how to incorporate new scientific information into regulatory decision making. The recommendations were adopted in 2011 and are not anticipated to have a significant impact on the Company. In addition, the FDA has requested that the Institute of Medicine conduct an independent study of the 510(k) program on whether legislative, regulatory or administrative changes are needed.

International Regulation

International regulatory bodies have established varying regulations governing product standards, packaging and labeling requirements, import restrictions, tariff regulations, duties and tax. Many of these regulations are similar to those of the FDA. We believe we are in compliance with the regulatory requirements in the foreign countries in which our medical devices are marketed.

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The registration system for our medical devices in the EU requires that our quality system conform to international quality standards and that our medical devices conform to essential requirements set forth by the Medical Device Directive (MDD). Manufacturing facilities and processes under which our ECG recorder devices are produced are inspected and audited by our International Organization for Standardization (ISO) registrar British Standards Institute (BSI). These devices are tested and certified by NEMKO (Norges Elektriske Material Kontroll) an independent Norwegian company. Our authorized representative, CE Partner 4U, maintains our technical file and registers our products with competent authorities in all EU member states. Manufacturing facilities and processes under which all of our other medical devices are produced are inspected and audited by the BSI. These audits verify our compliance with the essential requirements of the MDD. These certifying bodies verify that our quality system conforms to the international quality standard ISO 13485:2003 and that our products conform to the essential requirements and supplementary requirements set forth by the MDD for the class of medical devices we produce. These certifying bodies also certify our conformity with both the quality standards and the MDD requirements, entitling us to place the CE mark on all of our ECG recorder devices. Our Hearing Aid devices typically bear the CE mark of our customers who assume regulatory responsibilities for those devices.

Third Party Reimbursement

The availability and level of reimbursement from third-party payers for procedures utilizing our products is significant to our business. Our products are purchased primarily by OEM customers who sell into clinics, hospitals and other end-users, who in turn bill various third party payers for the services provided to the patients. These payers, which include Medicare, Medicaid, private health insurance plans and managed care organizations, reimburse all or part of the costs and fees associated with the procedures utilizing our products.

In response to the national focus on rising health care costs, a number of changes to reduce costs have been proposed or have begun to emerge. There have been, and may continue to be, proposals by legislators, regulators and third party payers to curb these costs. The development or increased use of more cost effective treatments for diseases could cause such payers to decrease or deny reimbursement for surgeries or devices to favor alternatives that do not utilize our products. A significant number of Americans enroll in some form of managed care plan. Higher managed care utilization typically drives down the payments for health care procedures, which in turn places pressure on medical supply prices. This causes hospitals to implement tighter vendor selection and certification processes, by reducing the number of vendors used, purchasing more products from fewer vendors and trading discounts on price for guaranteed higher volumes to vendors. Hospitals have also sought to control and reduce costs over the last decade by joining group purchasing organizations or purchasing alliances. We cannot predict what continuing or future impact these practices, the existing or proposed legislation, or such third-party payer measures within a constantly changing healthcare landscape may have on our future business, financial condition or results of operations.

Forward-Looking Statements

Certain statements included or incorporated by reference in this Annual Report on Form 10-K or the Company s other public filings and releases, which are not historical facts, or that include forward-looking terminology such as may , will , believe , anticipate , expect , should , opti continue or the negative thereof or other variations thereof, are forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, and the regulations thereunder), which are intended to be covered by the safe harbors created thereby. These statements may include, but are not limited to:

- statements in Business, Legal Proceedings and Risk Factors , such as the Company s ability to compete, statements concerning the Datrix and Tibbetts acquisitions, the divestiture of its electronic products segment, strategic alliances and their benefits, the adequacy of insurance coverage, government regulation, and potential increase in demand for the Company s products; and
- statements in Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes to the Consolidated Financial Statements, such as the net operating loss carryforwards, the ability to meet cash requirements for operating needs, the ability to meet liquidity needs, assumptions used to calculate future levels 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 body-worn device markets, the effect of compliance with environmental protection laws and other government regulations, estimates of goodwill impairments and amortization expense of other intangible assets, estimates of asset impairment, 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 risks, uncertainties and other factors that can cause actual results and developments to be materially different from those expressed or implied by such forward-looking statements, including, without limitation, the risk factors discussed in Item 1A of this Annual Report on Form 10-K.

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.

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Available Information

The Company files or furnishes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the SEC. You may read and copy any reports, statements and other information that the Company files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company s filings are also available on the SEC s Internet site as part of the EDGAR database (http://www.sec.gov).

The Company maintains an internet web site at www.IntriCon.com. The Company maintains a link to the SEC s website by which you may review its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended.

The information on the website listed above, is not and should not be considered part of this annual report on Form 10-K and is not incorporated by reference in this document. This website is and is only intended to be an inactive textual reference.

In addition, we will provide, at no cost (other than for exhibits), paper or electronic copies of our reports and other filings made with the SEC. Requests should be directed to:

Corporate Secretary
IntriCon Corporation
1260 Red Fox Road
Arden Hills, MN 55112

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ITEM 1A. Risk Factors

You should carefully consider the risks described below. If any of the risks events actually occur, our business, financial condition or results of future operations could be materially adversely affected. This Annual Report on Form 10-K contains forward-looking statements that involve risk and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by us described below and elsewhere in this Annual Report on Form 10-K.

We have experienced and expect to continue to experience fluctuations in our results of operations, which could adversely affect us.

Factors that affect our results of operations include, but are not limited to, the volume and timing of orders received, changes in the global economy and financial markets, changes in the mix of products sold, market acceptance of our products and our customer s products, competitive pricing pressures, global currency valuations, the availability of electronic components that we purchase from suppliers, our ability to meet demand, our ability to introduce new products on a timely basis, the timing of new product announcements and introductions by us or our competitors, changing customer requirements, delays in new product qualifications, and the timing and extent of research and development expenses. These factors have caused and may continue to cause us to experience fluctuations in operating results on a quarterly and/or annual basis. These fluctuations could materially adversely affect our business, financial condition and results of operations, which in turn, could adversely affect the price of our common stock.

The loss of one or more of our major customers could adversely affect our results of operations.

We are dependent on a small number of customers for a large portion of our revenues. In fiscal year 2011, our largest customer accounted for approximately 22 percent of our net sales and our five largest customers accounted for approximately 44 percent of our net sales. A significant decrease in the sales to or loss of any of our major customers could have a material adverse effect on our business and results of operations. Our revenues are largely dependent upon the ability of customers to develop and sell products that incorporate our products. No assurance can be given that our major customers will not experience financial, technical or other difficulties that could adversely affect their operations and, in turn, our results of operations.

We may not be able to collect outstanding accounts receivable from our customers.

Some of our customers purchase our products on credit, which may cause a concentration of accounts receivable among some of our customers. As of December 31, 2011, we had accounts receivable, less allowance for doubtful accounts, of $8,545, which represented approximately 49 percent of our shareholders equity as of that date. As of that date, one customer accounted for approximately 12 percent of our accounts receivable. Our financial condition and profitability may be harmed if one or more of our customers are unable or unwilling to pay these accounts receivable when due.

There are risks under our manufacturing agreement with hi HealthInnovations.

In 2011, we entered into a manufacturing agreement with hi HealthInnovations, a UnitedHealth Group company, to supply hearing aids. Under the agreement, we are required to establish and maintain a certain level of manufacturing, supply chain and delivery capacity. We devoted considerable time, resources and capital during 2011 to securing the agreement and preparing for the program s launch. hi HealthInnovations is not required to purchase any minimum amount under the manufacturing agreement and may cease purchases at any time. We also agreed that during the term of the agreement, we would not sell hearing aids or accessories to another health insurer or directly to consumers. For more information, see our Current Report on Form 8-K filed with the SEC on November 14, 2011.

Despite signs of improvement in economic conditions, the current domestic economic environment could cause a severe disruption in our operations.

Our business has been negatively impacted by the current domestic economic environment. If this environment is prolonged or worsens, there could be several severely negative implications to our business that may exacerbate many of the risk factors we identified including, but not limited to, the following:

Liquidity:

The domestic economic environment and the associated credit crisis could continue or worsen and reduce liquidity and this could have a negative impact on financial institutions and the country s financial system, which could, in turn, have a negative impact on our business.

We may not be able to borrow additional funds under our existing credit facility and may not be able to expand our existing facility if our lender becomes insolvent or its liquidity is limited or impaired or if we fail to meet covenant levels going forward. In addition, we may not be able to renew our existing credit facility at the conclusion of its current term or renew it on terms that are favorable to us.

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Demand:

The current recession has resulted in lower sales by our customers. Additionally, our customers may not have access to sufficient cash or short-term credit to obtain our products or services.

Prices:

Certain markets have experienced and may continue to experience deflation, which would negatively impact our average prices and reduce our margins.

If we are unable to continue to develop new products that are inexpensive to manufacture, our results of operations could be adversely affected.

We may not be able to continue to achieve our historical profit margins due to advancements in technology. The ability to continue our profit margins is dependent upon our ability to stay competitive by developing products that are technologically advanced and inexpensive to manufacture.

Our need for continued investment in research and development may increase expenses and reduce our profitability.

Our industry is characterized by the need for continued investment in research and development. If we fail to invest sufficiently in research and development, our products could become less attractive to potential customers and our business and financial condition could be materially and adversely affected. As a result of the need to maintain or increase spending levels in this area and the difficulty in reducing costs associated with research and development, our operating results could be materially harmed if our research and development efforts fail to result in new products or if revenues fall below expectations. In addition, as a result of our commitment to invest in research and development, management believes that research and development expenses as a percentage of revenues could increase in the future.

We operate in a highly competitive business and if we are unable to be competitive, our financial condition could be adversely affected.

Several of our competitors have been able to offer more standardized and less technologically advanced hearing and professional audio communication products at lower prices. Price competition has had an adverse effect on our sales and margins. There can be no assurance that we will be able to maintain or enhance our technical capabilities or compete successfully with our existing and future competitors.

Merger and acquisition activity in our hearing health market has resulted in a smaller customer base. Reliance on fewer customers may have an adverse effect on us.

Several of our customers in the hearing health market have undergone mergers or acquisitions, resulting in a smaller customer base with larger customers. If we are unable to maintain satisfactory relationships with the reduced customer base, it may adversely affect our operating profits and revenue.

Unfavorable legislation in the hearing health market may decrease the demand for our products, and may negatively impact our financial condition.

In some of our foreign markets, government subsidies cover a portion of the cost of hearing aids. A change in legislation that would reduce or eliminate these subsidies could decrease the demand for our hearing health products. This could result in an adverse effect on our operating results. We are unable to predict the likelihood of any such legislation.

Our failure to obtain required governmental approvals and maintain regulatory compliance for our required products would impact our ability to generate revenue from those products.

The markets in which our business operates are subject to extensive and rigorous regulation by the FDA and by comparable agencies in foreign countries. In the United States, the FDA regulates the design control, development, manufacturing, labeling, record keeping, and surveillance procedures for our medical devices.

The process of obtaining marketing clearance or approvals from the FDA for new products and new applications for existing products can be time-consuming and expensive, and there is no assurance that such clearance/approvals will be granted, or that the FDA review will not involve delays that would adversely affect our ability to commercialize additional products or additional applications for existing products. Some of our products in the research and development stage may be subject to a lengthy and expensive pre-market approval process with the FDA. The FDA has the authority to control the indicated uses of a device. Products can also be withdrawn from the market due to failure to comply with regulatory standards or the occurrence of unforeseen problems. The FDA regulations depend heavily on administrative interpretation, and there can be no assurance that future interpretations made by the FDA or other regulatory bodies, with possible retroactive effect, will not adversely affect us.

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The registration system for our medical devices in the EU requires that our quality system conform to international quality standards. Manufacturing facilities and processes under which our ECG recorder devices are produced are inspected and audited by various certifying bodies. These audits verify our compliance with applicable requirements and standards. Further, the FDA, various state agencies and foreign regulatory agencies inspect our facilities to determine whether we are in compliance with various regulations relating to quality systems, such as manufacturing practices, validation, testing, quality control, product labeling and product surveillance. A determination that we are in violation of such regulations could lead to imposition of civil penalties, including fines, product recalls or product seizures, suspensions or shutdown of production and, in extreme cases, criminal sanctions, depending on the nature of the violation.

Implementation of our growth strategy may not be successful, which could affect our ability to increase revenues.

Our growth strategy includes developing new products and entering new markets, as well as identifying and integrating acquisitions. Our ability to compete in new markets will depend upon a number of factors including, among others:

- our ability to create demand for products in new markets;
- our ability to manage growth effectively;
- our ability to successfully identify, complete and integrate acquisitions;
- our ability to respond to changes in our customers businesses by updating existing products and introducing, in a timely fashion, new products which meet the needs of our customers;
- the quality of our new products; and
- our ability to respond rapidly to technological change.

The failure to do any of the foregoing could have a material adverse effect on our business, financial condition and results of operations. In addition, we may face competition in these new markets from various companies that may have substantially greater research and development resources, marketing and financial resources, manufacturing capability and customer support organizations.

We have foreign operations in Singapore, Indonesia and Germany, and various factors relating to our international operations could affect our results of operations.

In 2011, we operated in Singapore, Indonesia and Germany. Approximately 19 percent of our revenues were derived from our facilities in these countries in 2011. As of December 31, 2011 approximately 27 percent of our long-lived assets are located in these countries. Political or economic instability in these countries could have an adverse impact on our results of operations due to diminished revenues in these countries. Our future revenues, costs of operations and profit results could be affected by a number of factors related to our international operations, including changes in foreign currency exchange rates, changes in economic conditions from country to country, changes in a country s political condition, trade protection measures, licensing and other legal requirements and local tax issues. Unanticipated currency fluctuations in the euro and other currencies could lead to lower reported consolidated revenues due to the translation of this currency into U.S. dollars when we consolidate our revenues and results from operations.

The recent recessions in Europe and the debt crisis in certain countries in the European Union could negatively affect our ability to conduct business in those geographies.

The continuing debt crisis in certain European countries could cause the value of the euro to deteriorate, reducing the purchasing power of our European customers. Financial difficulties experienced by our suppliers and customers, including distributors, could result in product delays and inventory issues; risks to accounts receivable could also include delays in collection and greater bad debt expense. Also, the effect of the debt crisis in certain European countries could have an adverse affect on the capital markets generally, specifically impacting our ability and the ability of our customers to finance our and their respective businesses on acceptable terms, if at all, the availability of materials and supplies and demand for our products.

We may explore acquisitions that complement or expand our business. We may not be able to complete these transactions and these transactions, if executed, pose significant risks and may materially adversely affect our business, financial condition and operating results.

We intend to explore opportunities to buy other businesses or technologies that could complement, enhance or expand our current business or product lines or that might otherwise offer us growth opportunities. We may have difficulty finding these opportunities or, if we do identify these opportunities, we may not be able to complete the transactions for various reasons, including a failure to secure financing. Any transactions that we are able to identify and complete may involve a number of risks, including: the diversion of our management s attention from our existing

business to integrate the operations and personnel of the acquired or combined business or joint venture; possible adverse effects on our operating results during the integration process; unanticipated liabilities; and our possible inability to achieve the intended objectives of the transaction. In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or employees. In addition, future acquisitions may result in dilutive issuances of equity securities or the incurrence of additional debt.

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We may experience difficulty in paying our debt when it comes due, which could limit our ability to obtain financing.

As of December 31, 2011, we had bank indebtedness of $10,750 and additional indebtedness of $350 payable to the former shareholder of Datrix. Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by general economic conditions and by financial, competitive, political, business and other factors. Many of these factors are beyond our control. We believe that availability under our existing credit facility combined with funds expected to be generated from operations and 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 are unable to renew these facilities or obtain waivers (see Liquidity and Capital Resources) in the future or do not generate sufficient cash or complete such financings on a timely basis, we may be required to seek additional financing or sell equity 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 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 and performance.

If we fail to meet our financial and other covenants under our loan agreements with our lenders, absent a waiver, we will be in default of the loan agreements and our lenders can take actions that would adversely affect our business.

There can be no assurances that we will be able to maintain compliance with the financial and other covenants in our loan agreements. In the event we are unable to comply with these covenants during future periods, it is uncertain whether our lenders will grant waivers for our non-compliance. If there is an event of default by us under our loan agreements, our lenders have the option to, among other things, accelerate any and all of our obligations under the loan agreements which would have a material adverse effect on our business, financial condition and results of operations.

Our success depends on our senior management team and if we are not able to retain them, it could have a materially adverse effect on us.

We are highly dependent upon the continued services and experience of our senior management team, including Mark S. Gorder, our President, Chief Executive Officer and director. We depend on the services of Mr. Gorder and the other members of our senior management team to, among other things, continue the development and implementation of our business strategies and maintain and develop our client relationships. We do not maintain key-man life insurance for any members of our senior management team.

Our future success depends in part on the continued service of our engineering and technical personnel and our ability to identify, hire and retain additional personnel.

There is intense competition for qualified personnel in our markets. We may not be able to continue to attract and retain engineers or other qualified personnel necessary for the development and growth of our business or to replace engineers or other qualified personnel who may leave our employ in the future. The failure to retain and recruit key technical personnel could cause additional expense, potentially reduce the efficiency of our operations and could harm our business.

We and/or our customers may be unable to protect our and their proprietary technology and intellectual property rights or keep up with that of competitors.

Our ability to compete effectively against other companies in our markets depends, in part, on our ability and the ability of our customers to protect our and their current and future proprietary technology under patent, copyright, trademark, trade secret and unfair competition laws. We cannot assure that our means of protecting our proprietary rights in the United States or abroad will be adequate, or that others will not develop technologies similar or superior to our technology or design around the proprietary rights we own or license. In addition, we may incur substantial costs in attempting to protect our proprietary rights.

Also, despite the steps taken by us to protect our proprietary rights, it may be possible for unauthorized third parties to copy or reverse-engineer aspects of our and our customers products, develop similar technology independently or otherwise obtain and use information that we or our customers regard as proprietary. We and our customers may be unable to successfully identify or prosecute unauthorized uses of our or our customers technology.

If we become subject to material intellectual property infringement claims, we could incur significant expenses and could be prevented from selling specific products.

We may become subject to material claims that we infringe the intellectual property rights of others in the future. We cannot assure that, if made, these claims will not be successful. Any claim of infringement could cause us to incur substantial costs defending against the claim even if the claim is invalid, and could distract management from other business. Any judgment against us could require substantial payment in damages and could also include an injunction or other court order that could prevent us from offering certain products.

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Environmental liability and compliance obligations may affect our operations and results.

Our manufacturing operations are subject to a variety of environmental laws and regulations as well as internal programs and policies governing:

- air emissions;
- wastewater discharges;
- the storage, use, handling, disposal and remediation of hazardous substances, wastes and chemicals; and
- employee health and safety.

If violations of environmental laws occur, we could be held liable for damages, penalties, fines and remedial actions. Our operations and results could be adversely affected by any material obligations arising from existing laws, as well as any required material modifications arising from new regulations that may be enacted in the future. We may also be held liable for past disposal of hazardous substances generated by our business or former businesses or businesses we acquire. In addition, it is possible that we may be held liable for contamination discovered at our present or former facilities.

We are subject to numerous asbestos-related lawsuits, which could adversely affect our financial position, results of operations or liquidity.

We are 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 we sold in March 2005. 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. Because 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. If our insurance policies do not cover the costs and any awards for the asbestos-related lawsuits, we will have to use our cash or obtain additional financing to pay the asbestos-related obligations and settlement costs. There is no assurance that we will have the cash or be able to obtain additional financings on favorable terms to pay asbestos related obligations or settlements should they occur. The ultimate outcome of any legal matter cannot be predicted with certainty. In light of the significant uncertainty associated with asbestos lawsuits, there is no guarantee that these lawsuits will not materially adversely affect our financial position, results of operations or liquidity.

The market price of our common stock has been and is likely to continue to be volatile, which may make it difficult for shareholders to resell common stock when they want to and at prices they find attractive.

The market price of our common stock has been and is likely to be highly volatile, and there has been limited trading volume in our common stock. The common stock market price could be subject to wide fluctuations in response to a variety of factors, including the following:

- announcements of fluctuations in our or our competitors operating results;
- the timing and announcement of sales or acquisitions of assets by us or our competitors;
- changes in estimates or recommendations by securities analysts;
- adverse or unfavorable publicity about our products, technologies or us;
- the commencement of material litigation, or an unfavorable verdict, against us;
- terrorist attacks, war and threats of attacks and war;
- additions or departures of key personnel; and
- sales of common stock.

In addition, the stock market in recent years has experienced significant price and volume fluctuations. Such volatility and decline has affected many companies irrespective of, or disproportionately to, the operating performance of these companies. These broad fluctuations and limited trading volume may materially adversely affect the market price of our common stock, and your ability to sell our common stock.

Most of our outstanding shares are available for resale in the public market without restriction. The sale of a large number of these shares could adversely affect the share price and could impair our ability to raise capital through the sale of equity securities or make acquisitions for common stock.

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Anti-takeover provisions may make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to shareholders.

We are a Pennsylvania corporation. Anti-takeover provisions in Pennsylvania law and our charter and bylaws could make it more difficult for a third party to acquire control of us. These provisions could adversely affect the market price of the common stock and could reduce the amount that shareholders might receive if we are sold. For example, our charter provides that the board of directors may issue preferred stock without shareholder approval. In addition, our bylaws provide for a classified board, with each board member serving a staggered three-year term. Directors may be removed by shareholders only with the approval of the holders of at least two-thirds of all of the shares outstanding and entitled to vote.

Further, under an agreement that we entered into with hi HealthInnovations, a UnitedHealth Group company, in connection with our manufacturing agreement, we are required to, among other things, offer to United Healthcare Services, Inc. the right to complete the acquisition of our company by a health insurer on the same terms and conditions and the right to participate in certain other sales of our company, all of which may have an anti-takeover effect. For more information, see our Current Report on Form 8-K filed with the SEC on November 14, 2011.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential shareholders and customers could lose confidence in our financial reporting, which could harm our business, the trading price of our stock and our ability to retain our current customers or obtain new customers.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, referred to as Section 404, we are required to include in our Annual Reports on Form 10-K, our management s report on internal control over financial reporting. Currently, we are not required to include a report of our independent registered public accounting firm on our internal controls because we are a smaller reporting company under SEC rules; therefore, shareholders do not have the benefit of an independent review of our internal controls. While we have reported no material weaknesses in the Form 10-K for the fiscal year ended December 31, 2011, we cannot guarantee that we will not have material weaknesses reported by our management in the future. Compliance with the requirements of Section 404 is expensive and time-consuming. If in the future we fail to complete this evaluation in a timely manner, or if we determine that we have a material weakness, we could be subject to regulatory scrutiny and a loss of public confidence in our internal control over financial reporting. In addition, any failure to establish an effective system of disclosure controls and procedures could cause our current and potential investors and customers to lose confidence in our financial reporting and disclosure required under the Securities Exchange Act of 1934, which could adversely affect our business and the market price of our common stock.

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ITEM 1B. Unresolved Staff Comments.

Not Applicable.

ITEM 2. Properties

The Company leases eight facilities, five domestically and three internationally, as follows:

a 47,000 sq. ft. manufacturing facility in Arden Hills, Minnesota, which also serves as the Company s headquarters, from a partnership consisting of two former officers of IntriCon Inc. and Mark S. Gorder who serves as the president and CEO of the Company and on the Company s Board of Directors. At this facility, the Company manufactures body-worn devices, other than plastic component parts. Annual base rent expense, including real estate taxes and other charges, is approximately $481. The Company believes the terms of the lease agreement are comparable to those which could be obtained from unaffiliated third parties. As amended, this lease expires in October 2013.

a 46,000 sq. ft. building in Vadnais Heights, Minnesota at which IntriCon produces plastic component parts for body-worn devices. Annual base rent expense, including real estate taxes and other charges, is approximately $382. This lease expires in June 2016.

two buildings in Camden, Maine, which contain manufacturing facilities and offices and consist of a total of 32,000 square feet. Annual base rent expense on the 25,000 square foot facility, including real estate taxes and other charges, is approximately $104. This lease expires in June 2012. Subsequent to December 31, 2011, the lease was amended to extend the term to June 2014 with annual base rent of approximately $109. Annual base rent expense on the 7,000 square foot facility, including real estate taxes and other charges, is approximately $62. This lease expires in June 2017.

a 4,000 square foot building in Escondido, California, which houses assembly operations and administrative offices relating to our cardiac monitoring business. Annual base rent expense, including real estate taxes and other charges, is approximately $48. This lease expires in April 2012.

a 28,000 square foot building in Singapore which houses production facilities and administrative offices. Annual base rent expense, including real estate taxes and other charges, of the 24,000 square foot portion of the building is approximately $340. This lease expires in October 2015. Annual base rent expense on the remaining 4,000 square foot portion is approximately $57. This lease expires in August 2013.

A 15,000 square foot facility in Indonesia which houses production facilities. Annual base rent expense, including real estate taxes and other charges is approximately $4. This lease expires in July 2016.

a 2,000 square foot facility in Germany which houses sales and administrative offices. Annual base rent expense, including real estate taxes and other charges, is approximately $48. This lease expires in June 2012.

See notes 14 and 15 to the Company s consolidated financial statements in Item 8 of the Annual Report on Form 10-K.

ITEM 3. 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 noninformative 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, 1970-1973, have been exhausted and that the carriers will no longer provide a defense under those policies. The Company has requested that the carriers substantiate this situation. The Company believes it has additional policies available for other years which have been ignored by the carriers. Because settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, the Company believes when settlement payments are applied to these additional policies, the Company will have availability under the years deemed exhausted. The Company does not believe that the asserted exhaustion of the primary insurance coverage for this 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, to 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 wholly owned French subsidiary, Selas SAS, filed for insolvency in France and is being managed by a court appointed judiciary administrator. The Company may be subject to additional litigation or liabilities as a result of the French insolvency proceeding.

The Company is also involved in other lawsuits arising in the normal course of business, as further described in Note 14 to the consolidated financial statements in Item 8. 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 the Company s consolidated financial position, liquidity, or results of operations.

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ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 4A. Executive Officers of the Registrant

The names, ages and offices (as of February 29, 2012) of the Company s executive officers were as follows:

Name	Age	Position
Mark S. Gorder	65	President, Chief Executive Officer and Director of the Company
Scott Longval	35	Chief Financial Officer and Treasurer of the Company
Christopher D. Conger	51	Vice President, Research and Development
Michael P. Geraci	53	Vice President, Sales and Marketing
Dennis L. Gonsior	53	Vice President, Operations
Greg Gruenhagen	58	Vice President, Corporate Quality and Regulatory Affairs

Mr. Gorder joined the Company in October 1993 when Resistance Technology, Inc. (RTI) (now known as IntriCon, Inc.) was acquired by the Company. Mr. Gorder received a Bachelor of Arts degree in Mathematics from the St. Olaf College, a Bachelor of Science degree in Electrical Engineering from the University of Minnesota and a Master of Business Administration from the University of Minnesota. Prior to the acquisition, Mr. Gorder was President and one of the founders of RTI, which began operations in 1977. Mr. Gorder was promoted to Vice President of the Company and elected to the Board of Directors in April 1996. In December 2000, he was elected President and Chief Operating Officer and in April 2001, Mr. Gorder assumed the role of Chief Executive Officer.

Mr. Longval has served as the Company s Chief Financial Officer since July 2006. Mr. Longval received a Bachelor of Science degree in Accounting from the University of St. Thomas. Prior to being appointed as CFO, Mr. Longval served as the Company s Corporate Controller since September 2005. Prior to joining the Company, Mr. Longval was Principal Project Analyst at ADC Telecommunications, Inc., a provider of innovative network infrastructure products and services, from March 2005 until September 2005. From May 2002 until March 2005 he was employed by Accellent, Inc., formerly MedSource Technologies, a provider of outsourcing solutions to the medical device industry, most recently as Manager of Financial Planning and Analysis. From September 1998 until April 2002, he was employed by Arthur Andersen, most recently as experienced audit senior.

Mr. Conger joined the Company in September 1997. Mr. Conger received a Bachelor of Science degree in Electrical Engineering from the University of Missouri and a Master of Science degree in Electrical Engineering from the University of Minnesota. He has served as the Company s Vice President of Research and Development since February 2005. Prior to that, Mr. Conger served as Director of Research and Development since 1997. Before joining IntriCon, Mr. Conger served in various positions in the hearing health industry including 3M Company and Siemens.

Mr. Geraci joined the Company in October 1983. Mr. Geraci received a Bachelor of Science degree in Electrical Engineering from Bradley University and a Master of Business Administration from the University of Minnesota Carlson School of Business. He has served as the Company s Vice President of Sales and Marketing since January 1995.

Mr. Gonsior joined the Company in February 1982. Mr. Gonsior received a Bachelor of Science degree from Saint Cloud State University. He has served as the Company s Vice President of Operations since January 1996.

Mr. Gruenhagen joined the Company in November 1984. Mr. Gruenhagen received a Bachelor of Science degree from Iowa State University. He has served as the Company s Vice President of Corporate Quality and Regulatory Affairs since December 2007. Prior to that, Mr. Gruenhagen served as Director of Corporate Quality since 2004 and Director of Project Management since 2000.

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PART II

ITEM 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Since January 2, 2008, the Company s common shares have been listed on the NASDAQ Global Market under the ticker symbol IIN . From April 4, 2005 through January 1, 2008 the Company s common shares were listed on the American Stock Exchange under the ticker symbol IIN .

Market and Dividend Information

The high and low sale prices of the Company s common stock during each quarterly period during the past two years were as follows:

	2011 Market Price Range		2010 Market Price Range	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 4.27	$ 3.75	$ 4.10	$ 2.84
Second	5.12	3.66	6.12	3.57
Third	4.60	2.84	6.30	3.51
Fourth	7.22	3.20	4.59	3.51

The closing sale price of the Company s common stock on March 1, 2012, was $6.00 per share.

At March 1, 2012 the Company had 304 shareholders of record of common stock. Such number of records does not reflect shareholders who beneficially own common stock in nominee or street name.

The Company ceased paying quarterly cash dividends in the fourth quarter of 2001 and has no intention of paying cash dividends in the foreseeable future. Any payment of future dividends will be at the discretion of the Board of Directors and will depend upon, among other things, the Company s earnings, financial condition, capital requirements, level of indebtedness, contractual restrictions with respect to the payment of dividends, and other factors that the Board of Directors deems relevant. Terms of the Company s banking agreements prohibit the payment of cash dividends without prior bank approval.

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Equity Compensation Plans of this Annual Report on Form 10-K for disclosure regarding our equity compensation plans.

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ITEM 6. Selected Financial Data

Five-Year Summary of Operations

Years ended December 31,	2011	2010	2009 (c)	2008	2007(a)
Sales, net	**$ 56,058**	$ 58,697	$ 51,676	$ 57,908	$ 59,669
Gross profit	**12,666**	15,013	11,051	14,657	15,425
Operating expenses	**13,858**	13,419	11,681	12,360	12,360
Interest expense	**(609)**	(655)	(836)	(678)	(942)
Equity in income (loss) of partnerships	**174**	(135)	(150)	(4)	(158)
Other income (expense), net	**42**	(4)	(220)	(36)	(79)
Income (loss) from continuing operations before income taxes and discontinued operations	**(1,585)**	800	(1,836)	1,579	1,886
Income tax (expense) benefit	**160**	(145)	34	(265)	(173)
Income (loss) from continuing operations before discontinued operations	**(1,425)**	655	(1,802)	1,314	1,713
Gain on sale of discontinued operations, net of income taxes		35			
Income (loss) from discontinued operations, net of income taxes		(329)	(2,119)	(276)	154
Net income (loss)	**$ (1,425)**	$ 361	$ (3,921)	$ 1,038	$ 1,867
Basic income (loss) per share:					
Continuing operations	**$ (.25)**	$ .12	$ (.34)	$ .25	$ .33
Discontinued operations		(.05)	(.39)	(.05)	.03
Net income (loss)	**$ (.25)**	$ .07	$ (.73)	$ .20	$ .36
Diluted income (loss) per share:					
Continuing operations	**$ (.25)**	$ .12	$ (.34)	$ .24	$ .31
Discontinued operations		(.05)	(.39)	(.05)	.03
Net income (loss)	**$ (.25)**	$ .07	$ (.73)	$ .19	$ .34
Weighted average number of shares outstanding during year:					
Basic	**5,599**	5,484	5,394	5,314	5,210
Diluted	**5,599**	5,535	5,394	5,539	5,520

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Other Financial Highlights

Years ended December 31,	2011	2010	2009(c)	2008	2007(a)
Working capital (b)	**$ 8,207**	$ 8,615	$ 8,504	$ 10,602	$ 9,365
Total assets	**$ 40,730**	$ 36,267	$ 37,363	$ 39,462	$ 39,732
Long-term debt	**$ 8,217**	$ 6,465	$ 7,730	$ 6,188	$ 6,963
Shareholders equity	**$ 17,446**	$ 18,571	$ 17,489	$ 20,312	$ 18,597
Depreciation and amortization	**$ 2,258**	$ 2,601	$ 2,470	$ 2,426	$ 1,785

(a) Included in the 2007 results and balances at December 31, 2007, are net sales of $4,500, total assets of $6,400, long-term debt of $4,300, and depreciation and amortization of $100 from the acquisition of Tibbetts Industries. Because the 2007 results include only a portion of a year and balances at December 31, 2007 include amounts from the acquisition of Tibbetts Industries, the financial statements for 2007 may not be comparable to other years presented.

(b) Working capital is equal to current assets less current liabilities.

(c) In 2009, the Company exited the Electronic Products business, which consisted of the thermistor, film capacitor and magnetic products, and reclassified it as discontinued operations, including all previously reported amounts. Subsequently, in 2010 the Company completed the sale of the assets of the Electronic Products business.

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ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Company Overview

IntriCon Corporation, (the Company or IntriCon , we , us or our) is an international firm engaged in the designing, developing, engineering manufacturing of body-worn devices. The Company serves the body-worn device market by designing, developing, engineering and manufacturing micro-miniature products, microelectronics, micro-mechanical assemblies and complete assemblies, primarily for bio-telemetry devices, hearing instruments and professional audio communication devices.

As discussed below, the Company has one operating segment - its body-worn device segment. Our expertise in this segment is focused on three main markets: medical, hearing health and professional audio communications. Within these chosen markets, we combine ultra-miniature mechanical and electronics capabilities with proprietary technology including ultra low power (ULP) wireless and digital signal processing (DSP) capabilities that enhances the performance of body-worn devices.

Business Highlights

In October 2011, the Company announced it entered into a manufacturing agreement to become a supplier of hearing aids to hi HealthInnovations, a UnitedHealth Group company. hi HealthInnovations launched a suite of high-tech, lower-cost hearing devices for the estimated 36 million Americans with hearing loss. An estimated 75 percent of people in the United States who can benefit from hearing devices do not use them, largely due to the high cost. hi HealthInnovations is offering consumers technically advanced hearing aids, including those based on IntriCon s new APT Open in-the-canal (ITC) hearing aid platform. The Company devoted a considerable amount of time, resources and capital during 2011 to securing the agreement and preparing for the program s launch.

During the second quarter of 2011, IntriCon established a subsidiary in Indonesia. During the third quarter of 2011, the Company signed a lease agreement for a manufacturing facility in Batam, Indonesia. The purpose of the expansion is to increase the Company s low cost manufacturing presence in Asia. The Company is transferring labor intensive product assembly to the facility. The Company commenced manufacturing at the facility in October 2011.

In August 2011, the Company amended its credit facilities with The PrivateBank and Trust Company. Terms of the amendment included, among other things, extending the term of the $8,000 revolving credit facility, with a subfacility for letters of credit, to mature in August 2014 and increasing the Company s term loan facility to $4,000, amortized in quarterly principal installments of $250, and an extension of the maturity to August 2014. The $12,000 in credit facilities includes London Interbank Offered Rate (LIBOR) interest rate options at varying rates based on funded debt to EBITDA levels. In addition, the amendment reset certain financial covenants. The Company is using the facilities to fund current growth opportunities, expand low-cost manufacturing footprint and meet anticipated working capital requirements.

Forward Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and the related notes appearing in Item 8. of this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward- looking statements as a result of many factors, including but not limited to those under the heading Risk Factors in Item 1A of this Annual Report on Form 10-K. See also Item 1. Business Forward-Looking Statements for more information.

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Results of Operations: 2011 Compared with 2010

Consolidated Net Sales

Our net sales are comprised of three main markets: medical, hearing health, and professional audio - collectively our body-worn device segment. Below is a recap of our sales by main markets for the years ended December 31, 2011 and 2010:

	2011	2010	Change Dollars	Change Percent
Medical	$ 22,923	$ 24,594	$ (1,671)	(6.8%)
Hearing Health	21,032	21,007	25	0.1%
Professional Audio Communications	12,103	13,096	(993)	(7.6%)
Consolidated net sales	$ 56,058	$ 58,697	$ (2,639)	(4.5%)

In 2011, we experienced a 7 percent decrease medical sales primarily due to extended regulatory lead times and anticipated fluctuations in demand. The persisting economic softness and regulatory delays has caused many patients to defer discretionary medical procedures, and hospitals and doctors to cut back on purchases of legacy med-tech products. As a result, during the course of 2011, a few large medical customers experienced fluctuations in demand. As the year progressed, we were encouraged by the reengagement of Medtronic and other key medical customers, driving four quarters of sequential growth.

Management believes there is an industry-wide trend toward further miniaturization and ambulatory monitoring enabled by wireless connectivity, referred to as bio-telemetry, which in the past resulted in further growth in our medical business. Additionally, we are actively involved with Medtronic for future development of next-generation products. We are also working with our strategic partner, AME, on proprietary bio-telemetry technologies that will enable us to develop new devices that connect patients and care givers, providing critical information and feedback.

Net sales in our hearing health business for the year ended December 31, 2011 remained flat compared to the same period in 2010 driven by growth in our DSP circuits and sales to hi HealthInnovations, offset by temporary declines in legacy products. We believe long term prospects in our hearing health business remain strong as we continue to develop and launch advanced technologies, such as our nanoDSP, Overtus, APT and Lumen products, which will enhance the performance of hearing devices. In addition, we believe that the hi HealthInnovations agreement holds tremendous potential. Further, we believe the market indicators in the hearing health industry, including the aging world population, suggest long-term industry growth.

Net sales to the professional audio device sector decreased 8 percent in 2011 compared to the same period in 2010. We believe that the primary driver of the decrease was due to the possible U.S. government shutdown and budgetary approval process which delayed our contract product launches with certain government organizations. We believe our extensive portfolio of communication devices that are portable, smaller and perform well in noisy or hazardous environments will provide for future long-term growth in this market.

Gross Profit

Gross profit, both in dollars and as a percent of sales, for 2011 and 2010, were as follows:

	2011		2010		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Gross profit	$ 12,666	22.6%	$ 15,013	25.6%	$ (2,347)	(15.6%)

In 2011, gross profit decreased primarily due to lower sales volumes, costs related to establishing the Company s Indonesian facility and ramp up costs associated with the hi HealthInnovations agreement. The decrease in gross profits was partially offset by the impact of various profit enhancement programs. We have various activities underway to increase our gross profit, such as transferring our microphone and receiver production from our Maine facility to our lower cost Singapore facility, increasing the percentage of IntriCon proprietary content in the devices we manufacture and working to introduce Six Sigma lean manufacturing methods into key medical device product lines.

In an effort to drive for further gross profit improvements, the Company evaluated low cost manufacturing options in Asia. In July 2011, the Company signed a five year lease agreement for a manufacturing facility in Batam, Indonesia. The Company commenced manufacturing at the facility in October 2011.

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

Sales and marketing, general and administrative and research and development expenses for the years ended December 31, 2011 and 2010 were:

	2011		2010		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Sales and marketing	$ 3,185	5.7%	$ 3,133	5.3%	$ 52	1.7%
General and administrative	5,797	10.3%	5,801	9.9%	(4)	(0.0%)
Research and development	4,876	8.7%	4,485	7.6%	391	8.7%

Sales and marketing and general and administrative expenses were relatively flat as compared to the prior year periods. Research and development increased over the prior year period primarily due to continued development of core technologies and research and development to support product offerings under the hi HealthInnovations manufacturing agreement.

Interest Expense

Interest expense for 2011 was $609, a decrease of $46 from $655 in 2010. The decrease in interest expense was primarily due to lower average debt balances and interest rates as compared to the prior year.

Equity in Income (Loss) of Partnerships

The equity in income (loss) of partnerships for 2011 was $174 compared to ($135) in 2010.

The Company recorded a $34 decrease in the carrying amount of its investment in the Hearing Instrument Manufacturers Patent Partnership (HIMPP) for 2011, reflecting amortization of the patents and other intangibles and the Company s portion of the partnership s operating results for the year ended December 31, 2011, compared to a $191 decrease in the carrying amount of the investment in 2010 for the amortization of the patents and other intangibles and the Company s portion of the partnership s operating results for the year ended December 31, 2010.

The Company recorded a $208 and $56 increase in the carrying amount of IntriCon s investment in a joint venture, reflecting the Company s portion of the joint venture s operating results for year ended December 31, 2011 and 2010, respectively.

Other Income (Expenses)

In 2011, other income (expense) was $42 compared to $(4) in 2010.

Income Taxes

Income taxes were as follows:

	2011	2010
Income tax (expense) benefit	$ 160	$ (145)
Percentage of pre-tax income (loss)	(10.1%)	18.1%

The (expense) benefit in 2011 and 2010 was primarily due to foreign taxes on German and Singapore operations. The Company is in a net operating loss position (NOL) for US federal income tax purposes and, consequently, minimal income tax expense from the current period domestic operations was recognized. Our deferred tax asset related to the NOL carryforwards has been offset by a full valuation allowance. We estimate we have approximately $19,800 of NOL carryforwards available to offset future federal income taxes that begin to expire in 2022.

Discontinued Operations

We had no discontinued operations in 2011. We recorded a loss from discontinued operations (electronics business) in 2010 as follows:

	2010
Loss from discontinued Electronics Products Business	$ (294)

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The 2010 net loss of $(294), or $(0.05) per diluted share, was primarily due to loss in operations, net of a $35 gain on sale of the electronics business.

Results of Operations: 2010 Compared with 2009

Consolidated Net Sales

Our net sales are comprised of three main markets: medical, hearing health, and professional audio - collectively our body-worn device segment. Below is a recap of our sales by main markets for the years ended December 31, 2010 and 2009:

			Change	
	2010	2009	Dollars	Percent
Medical	$ 24,594	$ 23,005	$ 1,589	6.9%
Hearing Health	21,007	18,432	2,575	14.0%
Professional Audio Communications	13,096	10,239	2,857	27.9%
Consolidated net sales	$ 58,697	$ 51,676	$ 7,021	13.6%

We experienced an increase of 7 percent in net sales in the medical equipment market in 2010 as a direct result of continued sales to existing OEM customers and the addition of sales from our proprietary Cardiac Monitoring Devices, or CDMs, which we acquired in the Datrix acquisition in the third quarter of 2009. The increase was partially offset by fourth quarter sluggishness discussed below.

Persisting economic sluggishness has caused many patients to delay discretionary medical procedures, and hospitals and doctors to cut back on purchases of legacy med-tech products. During the course of the year, several large medical customers experienced temporary fluctuations in demand. As some customers had inventory levels above their immediate needs, the Company experienced certain medical orders slowing in the fourth quarter of 2010.

Net sales in our hearing health business for the year ended December 31, 2010 increased 14 percent, respectively, from the same period in 2009. The hearing health growth was primarily driven by a rebound in the hearing aid industry during the second half of 2010 coupled with pent-up demand.

Net sales to the professional audio communications market increased 28 percent over the prior year, primarily through organic growth, resulting from increased sales of headset devices to the installed sound market and communication devices to government agencies.

Gross Profit

Gross profit, both in dollars and as a percent of sales, for 2010 and 2009, were as follows:

	2010		2009		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Gross profit	$ 15,013	25.6%	$ 11,051	21.4%	$ 3,962	35.9%

In 2010, gross profit increased primarily due to higher sales volumes and the impact of various profit enhancement programs.

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

Sales and marketing, general and administrative and research and development expenses for the years ended December 31, 2010 and 2009 were:

	2010		2009		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Sales and marketing	$ 3,133	5.3%	$ 2,962	5.7%	$ 171	5.8%

General and administrative	5,801	9.9%	5,374	10.4%	427	7.9%
Research and development	4,485	7.6%	3,345	6.5%	1,140	34.1%

The increased sales and marketing expenses for 2010 as compared to the prior year period were driven by increases in royalties and commissions as a result of higher revenues and additional sales expense from the August 2009 acquisition of Datrix. The increase in general and administrative expenses was primarily driven by additional operating expenses from the acquisition of Datrix. The increased research and development expenses as compared to the prior year were due to our continued emphasis on investing in research and development projects to develop new products and proprietary technology to further enhance our product portfolio.

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Interest Expense

Interest expense for 2010 was $655, a decrease of $181 from $836 in 2009. The reduction in interest expense was primarily due to charges incurred in the August 2009 debt refinancing with PrivateBank and Trust Company. Additional 2009 interest charges included $84 of deferred financing costs, $121 to terminate and settle the Bank of America interest rate swap and $62 in charges and interest incurred to repurchase equipment under our Bank of America capital lease facility. These changes were partially offset by higher 2010 interest rates in effect, as discussed below in Liquidity and Capital Resources.

Equity in Income (Loss) of Partnerships

The equity in income (loss) of partnerships for 2010 was $(135) compared to $(150) in 2009.

The Company recorded a $191 decrease in the carrying amount of its investment in the Hearing Instrument Manufacturers Patent Partnership (HIMPP) for 2010, reflecting amortization of the patents and other intangibles and the Company s portion of the partnership s operating results for the year ended December 31, 2010, compared to a $202 decrease in the carrying amount of the investment in 2009 for the amortization of the patents and other intangibles and the Company s portion of the partnership s operating results for the year ended December 31, 2009.

The Company recorded a $56 and $53 increase in the carrying amount of IntriCon s investment in a joint venture, reflecting the Company s portion of the joint venture s operating results for year ended December 31, 2010 and 2009, respectively.

Other Income (Expenses)

In 2010, other income (expense) was $(4) compared to $(220) in 2009. The other income (expense) for 2009 primarily related to the costs associated with the acquisition of Datrix. The 2010 other income (expense) primarily related to the losses on foreign currency exchange as a result of the exchange rate changes in the Singapore dollar and Euro.

Income Taxes

Income taxes were as follows:

	2010	2009
Income tax (expense) benefit	$ (145)	$ 34
Percentage of pre-tax income (loss)	18.1%	(1.9%)

The expense (benefit) in 2010 and 2009 was primarily due to foreign taxes on German and Singapore operations. The Company is in a net operating loss position (NOL) for US federal income tax purposes and, consequently, minimal income tax expense from the current period domestic operations was recognized. Our deferred tax asset related to the NOL carryforwards has been offset by a full valuation allowance.

Discontinued Operations

We recorded a loss from discontinued operations (electronics business) as follows:

	2010	2009
Loss from discontinued Electronics Products Business	$ (294)	$ (2,119)

The 2010 net loss of $(294), or $(0.05) per diluted share, was primarily due to loss in operations, net of the $35 gain on sale of the electronics business. The 2009 net loss of $(2,119), or $(0.39) per diluted share, was primarily due to an impairment charge associated with challenges in the economic environment and industry conditions resulting in the decision to not commit to future investments, including research and development, in the Electronics Products segment, and ultimately divest the segment.

Liquidity and Capital Resources

Our primary sources of cash have been cash flows from operations, bank borrowings, and other financing transactions. For the last three years, cash has been used for repayments of bank borrowings, the Datrix and Tibbetts acquisitions, purchases of equipment, establishment of an

additional Asian manufacturing facility and working capital to support research and development, including product offerings under our hi HealthInnovations agreement.

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As of December 31, 2011, we had approximately $119 of cash on hand. Sources and uses of our cash for the year ended December 31, 2011 have been from our operations, as described below.

Consolidated net working capital decreased to $8,200 at December 31, 2011 from $8,600 at December 31, 2010. Our cash flows from operating, investing and financing activities, as reflected in the statement of cash flows for the years ended December 31, are summarized as follows:

	2011	2010	2009
Cash provided (used) by:			
Continuing operations	$ (3)	$ 1,616	$ 2,105
Investing activities	(2,582)	(1,043)	(2,484)
Financing activities	2,420	(668)	523
Effect of exchange rate changes on cash	3	(9)	(8)
Increase (decrease) in cash	$ (162)	$ (104)	$ 136

***Operating Activities*.** The most significant items that contributed to the $3 of cash used by continuing operations were increases in inventory and receivables offset by non-cash depreciation and amortization of $2,258 and increases in accounts payable. Days sales in inventory increased from 68 at December 31, 2010 to 95 at December 31, 2011 due to inventory ramp up associated with the hi Health Innovations agreement. Days payables outstanding increased from 35 days at December 31, 2010 to 64 days at December 31, 2011.

Investing Activities. Net cash used by investing activities consisted of purchases of property, plant and equipment of $2,582. A significant portion of the purchases of the property, plant and equipment related to the cash invested to fund the Indonesia facility build and capital to support the ramp up associated with the hi Health Innovations agreement.

Financing Activities. Net cash provided by financing activities of $2,420 was comprised primarily of net borrowings of bank debt of $2,540 to support the costs related to establishing the Company s Indonesian facility and ramp up associated with the hi HealthInnovations agreement.

Cash generated from operations may be affected by a number of factors. See Forward Looking Statements and Item 1A: Risk Factors contained in this Form 10-K for a discussion of some of the factors that can negatively impact the amount of cash we generate from our operations.

We had the following bank arrangements at December 31,:

	2011	2010
Total availability under existing facilities	$ 13,517	$ 10,532
Borrowings and commitments:		
Domestic credit facility	5,369	3,920
Domestic term loans	3,500	2,563
Foreign overdraft and letter of credit facility	1,881	1,377
Total borrowings and commitments	10,750	7,860
Remaining availability under existing facilities	$ 2,767	$ 2,672

Domestic Credit Facilities

To finance a portion of the Company s acquisition of Jon Barron, Inc. doing business as Datrix (Datrix) and replace the Company s existing credit facilities with Bank of America, including capital leases, the Company and its domestic subsidiaries entered into a credit facility with The PrivateBank and Trust Company on August 13, 2009. The credit facility, as amended, provides for:

§ an $8,000 revolving credit facility, with a $200 subfacility 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 $3,500.

In August 2011, the Company amended the credit facility with The PrivateBank. Per the terms of the amended agreement, the maturity of both the term loan and the revolving credit facility was extended to expire on August 13, 2014. Further, the term loan was increased from its then current balance of $2,225 to $4,000. In addition, the amendment reset certain financial covenants.

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Loans under the credit facility are secured by a security interest in substantially all of the assets of the Company and its domestic subsidiaries including a pledge of the stock of its domestic subsidiaries. Loans under the credit facility bear interest at varying rates based on the Company s leverage ratio of funded debt / EBITDA, at the option of the Company, at:

- § the London InterBank Offered Rate (LIBOR) plus 3.00% - 4.00%, 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%, plus 0.25% - 1.25% depending on the Company s leverage ratio.

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. IntriCon is also required to pay 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.

Weighted average interest on our domestic credit facilities (including prior facilities) was 3.93%, 5.06% and 4.07% for 2011, 2010 and 2009, respectively.

The outstanding balance of the revolving credit facility was $5,369 and $3,920 at December 31, 2011 and 2010, respectively. The total remaining availability on the revolving credit facility was approximately $1,935 and $2,072 at December 31, 2011 and 2010, respectively. The credit facility expires on August 13, 2014 and all outstanding borrowings will become due and payable.

The outstanding principal balance of the term loan, as amended, is payable in quarterly installments of $250, commencing with the calendar quarter ended September 30, 2011. Any remaining principal and accrued interest is payable on August 13, 2014. 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.

During 2011, the Company entered into interest rate swaps with The PrivateBank which are accounted for as effective cash flow hedges. The interest rate swaps had a combined initial notional amount of $5,500, with a portion of the swap amortizing on a basis consistent with the $250 quarterly installments required under the term loan. The interest rate swaps fix the Company s one month LIBOR interest rate on the notional amounts at rates ranging from 4.33% - 4.62%. The interest rate swaps expire on August 13, 2014. Interest rate swaps, which are considered derivative instruments, of $93 are reported in the balance sheets at fair value in other current liabilities at December 31, 2011. The impact of the interest rate swaps and related additional disclosure is not considered material to the financial statements for 2011.

The borrowers are subject to various covenants under the credit facility, including financial covenants relating to minimum EBITDA, funded debt to EBITDA, fixed charge coverage ratio and capital expenditure financial covenants. 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 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 to equity; 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; make payment on or changes to any subordinated debt; 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. In March 2012, the Company entered into an amendment with The PrivateBank to waive certain covenant violations at December 31, 2011 and reset certain covenant thresholds defined in the agreement. After giving effect to the waiver, the Company was in compliance with all applicable covenants under the credit facility as of December 31, 2011.

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 performance of obligations under certain subordinated debt, which includes the Company s note payable to

the former shareholder of Datrix (including actual or attempted termination of a subordination agreement with the former shareholder of Datrix); default in the payment of other indebtedness or other obligation with an outstanding principal balance of more than $50, 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; a breach by a borrower under certain material agreements, the result of which breach is the suspension of the counterparty s performance thereunder, delivery of a notice of acceleration or termination of such agreement; the insolvency or bankruptcy of any borrower; the entrance of any judgment against any borrower in excess of $50, which is not fully covered by insurance; any divestiture of assets or stock of a subsidiary constituting a substantial portion of borrowers assets; the occurrence of a change in control (as defined in the credit facility); certain collateral impairments; a contribution failure with respect to any employee benefit plan that gives rise to a lien under ERISA; and the occurrence of any event which lender determines could be reasonably expected to have a material adverse effect (as defined in the credit facility).

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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 a $1,977 line of credit. The international credit agreement was modified in August 2010 and again in August 2011 to allow for an additional total of $736 in borrowing under the existing base to fund the Singapore facility relocation, Batam facility construction and various other capital needs. 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 4.28% and 4.14% for the years ended December 31, 2011 and 2010. The outstanding balance was $1,881 and $1,377 at December 31, 2011 and 2010, respectively. The total remaining availability on the international senior secured credit agreement was approximately $832 and $600 at December 31, 2011 and 2010, respectively.

Datrix Promissory Note

A portion of the purchase price of the Datrix acquisition was paid by the issuance of a promissory note to the seller in the amount of $1,050 bearing annual interest at 6%. The remaining principal amount of the promissory note is payable in one installment of $350 on August 13, 2012. The note bears annual interest at 6% and is payable with each installment of principal as set forth above. The Company made the first two installment payments, including interest, of $413 and $395 on August 13, 2010 and August 13, 2011, respectively.

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 be able to meet our liquidity needs for at least the next 12 months, no assurance can be given that we will be able to do so.

Contractual Obligations

The following table represents our contractual obligations and commercial commitments, excluding interest expense, as of December 31, 2011.

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**More than 5 Years**
Domestic credit facility	$ 5,369	$	$ 5,369	$	$
Domestic term loan	3,500	1,000	2,500		
Domestic note payable	350	350			
Foreign overdraft and letter of credit facility	1,881	1,533	348		
Partnership payable	240	240			
Pension and other post retirement benefit obligations	1,378	213	379	288	498
Operating leases	4,861	1,499	2,200	1,162	
Total contractual cash obligations	$ 17,579	$ 4,835	$ 10,796	$ 1,450	$ 498

There are certain provisions in the underlying contracts that could accelerate our contractual obligations as noted above.

Foreign Currency Fluctuation

Generally, the effect of changes in foreign currencies on our results of operations is partially or wholly offset by our ability to make corresponding price changes in the local currency. From time to time, the impact of fluctuations in foreign currencies may have a material effect on the financial results of the Company. Foreign currency transaction amounts included in the statements of operation include losses of $17, $134 and $13 in 2011, 2010 and 2009, respectively. See Note 11 to the Company s consolidated financial statements included herein.

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Off-Balance Sheet Obligations

We had no material off-balance sheet obligations as of December 31, 2011 other than the operating leases disclosed above.

Related Party Transactions

For a discussion of related party transactions, see Note 15 to the Company s consolidated financial statements included herein.

Litigation

For a discussion of litigation, see Item 3. Legal Proceedings and Note 14 to the Company s consolidated financial statements included herein.

New Accounting Pronouncements

See New Accounting Pronouncements set forth in Note 1 of the Notes to the Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K, for information pertaining to recently adopted accounting standards or accounting standards to be adopted in the future.

Critical Accounting Policies and Estimates

The significant accounting policies of the Company are described in Note 1 to the consolidated financial statements and have been reviewed with the audit committee of our Board of Directors. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and 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 of their importance to the consolidated financial statements and possibility that future events affecting them may differ markedly. The accounting policies of the Company with significant estimates and assumptions are described below.

Revenue Recognition

The Company recognizes revenue when the customer takes ownership, primarily upon product shipment, and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

Customers have 30 days to notify the Company if the product is damaged or defective. Beyond that, there are no significant obligations that remain after shipment other than warranty obligations. Contracts with customers do not include product return rights, however, the Company may elect in certain circumstances to accept returns of products. The Company records revenue for product sales net of returns. Sales and use tax are reported on a net basis, excluding them from sales and cost of sales.

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. While the Company s warranty costs have historically been within its expectations, the Company cannot guarantee that it will continue to experience the same warranty return rates or repair costs that it has experienced in the past.

Accounts Receivable Reserves

This reserve is an estimate of the amount of accounts receivable that are uncollectible. The reserve is based on a combination of specific customer knowledge, general economic conditions and historical trends. Management believes the results could be materially different if economic conditions change for our customers.

Inventory Valuation

Inventory is recorded at the lower of our cost or market value. Market value is an estimate of the future net realizable value of our inventory. It is based on historical trends, product life cycles, forecasts of future inventory needs and on-hand inventory levels. Management believes reserve

levels could be materially affected by changes in technology, our customer base, customer needs, general economic conditions and the success of certain Company sales programs.

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Goodwill and Intangible Assets

Considerable management judgment is necessary in estimating future cash flows and other factors affecting the valuation of goodwill and intangible assets, including the operating and macroeconomic factors that may affect them. The Company uses historical financial information, internal plans and projections and industry information in making such estimates. The Company did not recognize any impairment charges for goodwill or intangible assets during fiscal 2011, 2010 or 2009, other than that related to discontinued operations described in Note 2 to the Company s financial statements. While the Company currently believes the expected cash flows from these assets exceeds the carrying amount, materially different assumptions regarding future performance and discount rates could result in future impairment losses. In particular, if the Company no longer believes it will achieve its long-term projected sales or operating expenses, the Company may conclude in connection with any future impairment tests that the estimated fair value of its goodwill, including intangible assets, are less than the book value and recognize an impairment charge. Such impairment would adversely affect the Company s earnings.

Long-lived Assets

The carrying value of long-lived assets is periodically assessed to insure their carrying value does not exceed the undiscounted cash flows expected to be generated from their expected use and eventual disposition. This assessment includes certain assumptions related to future needs for the asset to help generate future cash flow. Changes in those assessments, future economic conditions or technological changes could have a material adverse impact on the carrying value of these assets.

Deferred Taxes

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Actual future operating results, as well as changes in our future performance, could have a material impact on the valuation allowance.

Employee Benefit Obligations

We provide retirement and health care insurance for certain domestic and retirees and former Selas employees. We measure the costs of our obligation based on our best estimate. The net periodic costs are recognized as employees render the services necessary to earn the post-retirement benefit. Several assumptions and statistical variables are used in the models to calculate the expense and liability related to the plans. We determine assumptions about the discount rate, the expected rate of return on plan assets and the future rate of compensation increases. The actuarial models also use assumptions on demographic factors such as retirement, mortality and turnover. Changes in actuarial assumptions could vary materially from actual results due to economic events and different rates of retirement, mortality and withdrawal.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Our consolidated cash flows and earnings are subject to fluctuations due to changes in foreign currency exchange rates and interest rates.

Foreign Currency Risk

We attempt to limit our exposure to changing foreign currency exchange rates through operational and financial market actions. We do not hold derivatives for trading purposes.

We manufacture and sell our products in a number of locations around the world, resulting in a diversified revenue and cost base that is exposed to fluctuations in European and Asian currencies. This diverse base of foreign currency revenues and costs serves to create a hedge that limits our net exposure to fluctuations in these foreign currencies.

Short-term exposures to changing foreign currency exchange rates are occasionally managed by financial market transactions, principally through the purchase of forward foreign exchange contracts (with maturities of six months or less) to offset the earnings and cash flow impact of the nonfunctional currency denominated receivables and payables relating to select contracts. The decision by management to hedge any such transaction is made on a case-by-case basis. Foreign exchange forward contracts are denominated in the same currency as the receivable or payable being covered, and the term and amount of the forward foreign exchange contract substantially mirrors the term and amount of the underlying receivable or payable. The receivables and payables being covered arise from bank debt, trade and intercompany transactions of and

among our foreign subsidiaries. We cannot assure you that foreign currency fluctuations will not have a material adverse impact on our financial condition and results of operations.

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All assets and liabilities of foreign operations with foreign functional currency are translated into U.S. dollars at prevailing rates of exchange in effect at the balance sheet date. Revenues and expenses are translated using average rates of exchange for the year. The functional currency of the Company s German operations is the European Euro. As of January 1, 2006, the functional currency of the Company s Singapore operations changed from the Singapore dollar to the U.S. dollar. The functional currency of the Company s Indonesian operations is the U.S. dollar. Adjustments resulting from the process of translating the financial statements of foreign subsidiaries into U.S. dollars are reported as a separate component of shareholders equity, net of tax, where appropriate. Foreign currency transaction amounts included in the statements of operation include losses of $17, $134 and $13 in 2011, 2010 and 2009, respectively.

For more information regarding foreign currency risks, see Foreign Currency Fluctuation above.

Interest Rate Risk

From time to time, the Company uses derivative financial instruments in the form of interest rate swaps in managing its interest rate 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. Interest rate swaps, which are considered derivative instruments, of $93 are reported in the balance sheets at fair value in other current liabilities at December 31, 2011. For more information on the interest rate swaps outstanding see Note 7 in the notes to the Company s financial statements.

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ITEM 8. Financial Statements and Supplementary Data

Management s Report on Internal Control over Financial Reporting

Management of IntriCon Corporation and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) of the Securities Exchange Act of 1934. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that (1) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2011, using criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company s management believes that, as of December 31, 2011, the Company s internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to a provision of the Dodd Frank Act, which eliminated such requirement for smaller reporting companies, as defined in SEC regulations, such as IntriCon.

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter covered by this report that would have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors
IntriCon Corporation and Subsidiaries
Arden Hills, MN

We have audited the accompanying consolidated balance sheets of IntriCon Corporation and Subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders equity and comprehensive income (loss), and cash flows for the years ended December 31, 2011, 2010 and 2009. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IntriCon Corporation and Subsidiaries as of December 31, 2011 and 2010 and the results of their operations and cash flows for the years ended December 31, 2011, 2010 and 2009, in conformity with U.S. generally accepted accounting principles.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
March 14, 2012

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IntriCon Corporation
Consolidated Statements of Operations
(In Thousands, Except Per Share Amounts)

Years ended December 31	**2011**	**2010**	**2009**
Sales, net	**$ 56,058**	$ 58,697	$ 51,676
Costs of sales	**43,392**	43,684	40,625
Gross profit	**12,666**	15,013	11,051
Operating expenses:			
Sales and marketing	**3,185**	3,133	2,962
General and administrative	**5,797**	5,801	5,374
Research and development	**4,876**	4,485	3,345
Total operating expenses	**13,858**	13,419	11,681
Operating income (loss)	**(1,192)**	1,594	(630)
Interest expense	**(609)**	(655)	(836)
Equity in income (loss) of partnerships	**174**	(135)	(150)
Other income (expense), net	**42**	(4)	(220)
Income (loss) from continuing operations before income taxes and discontinued operations	**(1,585)**	800	(1,836)
Income tax (expense) benefit	**160**	(145)	34
Income (loss) before discontinued operations	**(1,425)**	655	(1,802)
Loss from discontinued operations, net of income taxes		(329)	(2,119)
Gain on sale of discontinued operations, net of income taxes		35	
Net income (loss)	**$ (1,425)**	$ 361	$ (3,921)
Basic income (loss) per share:			
Continuing operations	**$ (.25)**	$ .12	$ (.34)
Discontinued operations		(.05)	(.39)
Net income (loss)	**$ (.25)**	$ .07	$ (.73)
Diluted income (loss) per share:			
Continuing operations	**$ (.25)**	$ .12	$ (.34)
Discontinued operations		(.05)	(.39)
Net income (loss)	**$ (.25)**	$ .07	$ (.73)

See accompanying notes to the consolidated financial statements.

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IntriCon Corporation
Consolidated Balance Sheets (In Thousands, Except Per Share Amounts)

At December 31,	2011	2010
Current assets:		
Cash	**$ 119**	$ 281
Restricted cash	**540**	478
Accounts receivable, less allowance for doubtful accounts of $223 and $219 at December 31, 2011 and 2010, respectively	**8,545**	8,228
Inventories	**11,720**	8,331
Refundable income taxes	**82**	
Other current assets	**652**	446
Total current assets	**21,658**	17,764
Machinery and equipment	**39,170**	36,610
Less: Accumulated depreciation	**32,164**	30,184
Net machinery and equipment	**7,006**	6,426
Goodwill	**9,709**	9,709
Investment in partnerships	**1,283**	1,109
Other assets, net	**1,074**	1,259
Total assets	**$ 40,730**	$ 36,267
Current liabilities:		
Checks written in excess of cash	**$ 396**	$ 409
Current maturities of long-term debt	**2,883**	2,095
Accounts payable	**6,298**	3,161
Accrued salaries, wages and commissions	**1,617**	1,593
Deferred gain	**110**	110
Partnership payable	**240**	260
Income taxes payable		24
Other accrued liabilities	**1,907**	1,497
Total current liabilities	**13,451**	9,149
Long-term debt, less current maturities	**8,217**	6,465
Other postretirement benefit obligations	**685**	710
Long-term partnership payable		240
Deferred income taxes		169
Accrued pension liabilities	**431**	464
Deferred gain	**385**	495
Other long-term liabilities	**115**	4
Total liabilities	**23,284**	17,696
Commitments and contingencies (note 14)		
Shareholders equity:		
Common stock, $1.00 par value per share; 20,000 shares authorized; 5,646 and 6,073 shares issued; 5,646 and 5,557 shares outstanding at December 31, 2011 and 2010, respectively	**5,646**	6,073
Additional paid-in capital	**15,259**	15,644
Accumulated deficit	**(3,069)**	(1,644)
Accumulated other comprehensive loss	**(390)**	(237)
Less: 516 common shares held in treasury, at cost		(1,265)
Total shareholders equity	**17,446**	18,571
Total liabilities and shareholders equity	**$ 40,730**	$ 36,267

See accompanying notes to the consolidated financial statements.

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IntriCon Corporation

Consolidated Statements of Cash Flows (In Thousands)

Years ended December 31,	**2011**	**2010**	**2009**
Cash flows from operating activities:			
Net income (loss)	**$ (1,425)**	$ 361	$ (3,921)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on sale of discontinued operations		(35)	
Loss on impairment of long lived assets and goodwill			910
Depreciation and amortization	**2,258**	2,601	2,470
Stock-based compensation	**214**	474	561
Loss (gains) on sale of property and equipment	**8**	28	(51)
Deferred taxes	**(169)**	40	(27)
Change in deferred gain	**(110)**	(110)	(166)
Allowance for doubtful accounts	**4**	(7)	9
Equity in (income) loss of partnerships	**(174)**	135	150
Changes in operating assets and liabilities:			
Accounts receivable	**(354)**	(1,192)	1,763
Inventories	**(3,391)**	(164)	729
Other assets	**(303)**	159	201
Accounts payable	**3,155**	(468)	743
Accrued expenses	**376**	(223)	(1,249)
Other liabilities	**(92)**	17	(17)
Net cash (used) provided by continuing operations	**(3)**	1,616	2,105
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(2,582)**	(1,811)	(1,467)
Cash paid for acquisitions, net of cash received			(1,342)
Proceeds from sales of property, plant and equipment			100
Proceeds from sale of discontinued operations, net		775	
Proceeds from note receivable			225
Other		(7)	
Net cash used by investing activities	**(2,582)**	(1,043)	(2,484)
Cash flows from financing activities:			
Proceeds from stock purchases and exercise of stock options	**230**	261	152
Proceeds from long-term borrowings	**16,685**	12,194	17,813
Repayments of long-term debt	**(14,145)**	(13,074)	(17,180)
Payments of partnership payable	**(260)**	(260)	(260)
Change in restricted cash	**(77)**	(96)	(8)
Change in checks written in excess of cash	**(13)**	307	6
Net cash provided (used) by financing activities	**2,420**	(668)	523
Effect of exchange rate changes on cash	**3**	(9)	(8)
Increase (decrease) in cash	**(162)**	(104)	136
Cash beginning of year	**281**	385	249
Cash end of year	**$ 119**	$ 281	$ 385

See accompanying notes to the consolidated financial statements.

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IntriCon Corporation
Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss)
(In Thousands)

	Common Stock Number of Shares	Common Stock $ Amount	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Comprehensive Income (loss)	Treasury Stock	Total Shareholders Equity
Balance December 31, 2008	5,858	$ 5,858	$ 14,122	$ 1,916	$ (318)		$ (1,265)	$ 20,313
Shares issued for the purchase of Datrix	75	75	195					270
Shares issued under the Employee Stock Purchase Plan	30	30	60					90
Shares issued in lieu of cash for services	3	3	7					10
Shares issued under the Non-employee Director and Exec. Officer Stock Purchase Program	20	20	42					62
Stock option expense			561					561
Net loss				(3,921)		$ (3,921)		(3,921)
Change in fair value of interest rate swap, net of income taxes of $0					102	102		102
Translation gain, net of income taxes of $0					2	2		2
Comprehensive loss						$ (3,817)		
Balance December 31, 2009	5,986	$ 5,986	$ 14,987	$ (2,005)	$ (214)		$ (1,265)	$ 17,489
Exercise of stock options	69	69	126					195
Shares issued under the Employee Stock Purchase Plan	15	15	50					65
Shares issued in lieu of cash for services	3	3	7					10
Stock option expense			474					474
Net income				361		$ 361		361
Change in fair value of interest rate swap, net of income taxes of $0					35	35		35
Translation loss, net of income taxes of $0					(58)	(58)		(58)
Comprehensive income						$ 338		
Balance December 31, 2010	6,073	$ 6,073	$ 15,644	$ (1,644)	$ (237)		$ (1,265)	$ 18,571
Exercise of stock options	69	69	91					160
Shares issued under the Employee Stock Purchase Plan	17	17	53					70
Shares issued in lieu of cash for services	3	3	6					9
Stock option expense			214					214
Retirement of Treasury Shares	(516)	(516)	(749)				1,265	
Net loss				(1,425)		$ (1,425)		(1,425)
Change in fair value of interest rate swap, net of income taxes of $0					(93)	(93)		(93)
Translation loss, net of income taxes of $0					(60)	(60)		