

INTRICON CORP
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 1-5005

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Large accelerated filer

Accelerated filer

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

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

Yes No

The number of outstanding shares of the registrant's common stock, \$1.00 par value, on July 31, 2018 was 7,189,580.

INTRICON CORPORATION

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PART I: FINANCIAL INFORMATION**ITEM 1. Financial Statements****INTRICON CORPORATION****Consolidated Condensed Balance Sheets****(In Thousands, Except Per Share Amounts)**

| | June 30, 2018 | December 31, 2017 |
|--|--------------------------|----------------------------------|
| | (Unaudited) | (as adjusted) |
| Current assets: | | |
| Cash | \$ 539 | \$ 373 |
| Restricted cash | 646 | 644 |
| Accounts receivable, less allowance for doubtful accounts of \$577 at June 30, 2018 and \$332 at December 31, 2017 | 10,067 | 9,052 |
| Inventories | 15,644 | 13,708 |
| Contract assets | 6,032 | 2,979 |
| Other current assets | 1,760 | 1,544 |
| Total current assets | 34,688 | 28,300 |
| | | |
| Machinery and equipment | 36,684 | 40,124 |
| Less: Accumulated depreciation | 27,531 | 32,949 |
| Net machinery and equipment | 9,153 | 7,175 |
| | | |
| Goodwill | 10,808 | 10,808 |
| Intangible assets, net | 2,662 | 2,740 |
| Investment in partnerships | 1,865 | 1,616 |
| Other assets, net | 3,799 | 3,835 |
| Total assets | \$ 62,975 | \$ 54,474 |
| | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 2,072 | \$ 2,040 |
| Accounts payable | 13,173 | 10,423 |
| Accrued salaries, wages and commissions | 3,497 | 3,113 |
| Other accrued liabilities | 3,552 | 3,739 |
| Total current liabilities | 22,294 | 19,315 |
| | | |
| Long-term debt, less current maturities | 11,205 | 9,321 |
| Other postretirement benefit obligations | 433 | 455 |
| Accrued pension liabilities | 776 | 772 |

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| | | |
|--|-----------|-----------|
| Other long-term liabilities | 3,200 | 3,172 |
| Total liabilities | 37,908 | 33,035 |
| Commitments and contingencies (note 14) | | |
| Shareholders' equity: | | |
| Common stock, \$1.00 par value per share; 20,000 shares authorized; 7,037 and 6,900 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively | 7,037 | 6,900 |
| Additional paid-in capital | 22,489 | 21,581 |
| Accumulated deficit | (3,281) | (6,056) |
| Accumulated other comprehensive loss | (899) | (733) |
| Total shareholders' equity | 25,346 | 21,692 |
| Non-controlling interest | (279) | (253) |
| Total equity | 25,067 | 21,439 |
| Total liabilities and equity | \$ 62,975 | \$ 54,474 |

(See accompanying notes to the consolidated condensed financial statements)

INTRICON CORPORATION**Consolidated Condensed Statements of Operations****(In Thousands, Except Per Share Amounts)**

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|------------------------------------|-------------------------|------------------------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| | (Unaudited) | (Unaudited and as adjusted) | (Unaudited) | (Unaudited and as adjusted) |
| Sales, net | \$30,160 | \$ 22,524 | \$55,523 | \$ 43,739 |
| Cost of sales | 20,171 | 15,885 | 37,122 | 31,266 |
| Gross profit | 9,989 | 6,639 | 18,401 | 12,473 |
| Operating expenses: | | | | |
| Sales and marketing | 2,881 | 2,204 | 5,721 | 4,515 |
| General and administrative | 3,108 | 2,705 | 6,169 | 5,263 |
| Research and development | 1,316 | 1,112 | 2,475 | 2,265 |
| Total operating expenses | 7,305 | 6,021 | 14,365 | 12,043 |
| Operating income | 2,684 | 618 | 4,036 | 430 |
| Interest expense | (211) | (189) | (405) | (371) |
| Other income (expense) | (196) | (47) | (401) | 9 |
| Income from continuing operations before income taxes and discontinued operations | 2,277 | 382 | 3,230 | 68 |
| Income tax expense | 269 | 54 | 455 | 118 |
| Income (loss) from continuing operations before discontinued operations | 2,008 | 328 | 2,775 | (50) |
| Loss on sale of discontinued operations (Note 3) | — | — | — | (164) |
| Loss from discontinued operations (Note 3) | — | (15) | — | (128) |
| Net income (loss) | 2,008 | 313 | 2,775 | (342) |
| Less: Loss allocated to non-controlling interest | — | (355) | — | (740) |
| Net income attributable to IntriCon shareholders | \$2,008 | \$ 668 | \$2,775 | \$ 398 |
| Basic income (loss) per share attributable to IntriCon shareholders: | | | | |
| Continuing operations | \$0.29 | \$ 0.10 | \$0.40 | \$ 0.10 |
| Discontinued operations | — | — | — | (0.04) |
| Net income (loss) per share: | \$0.29 | \$ 0.10 | \$0.40 | \$ 0.06 |
| Diluted income (loss) per share attributable to IntriCon shareholders: | | | | |
| Continuing operations | \$0.25 | \$ 0.10 | \$0.35 | \$ 0.10 |
| Discontinued operations | — | — | — | (0.04) |
| Net income (loss) per share: | \$0.25 | \$ 0.09 | \$0.35 | \$ 0.06 |

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Average shares outstanding:

| | | | | |
|---------|-------|-------|-------|-------|
| Basic | 6,991 | 6,845 | 6,930 | 6,828 |
| Diluted | 8,118 | 7,187 | 8,021 | 6,828 |

(See accompanying notes to the consolidated condensed financial statements)

INTRICON CORPORATION**Consolidated Condensed Statements of Comprehensive Income****(In Thousands)**

| | Three Months Ended | | Six Months Ended | |
|--|--|--|--|--|
| | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited and as adjusted) | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited and as adjusted) |
| Net income (loss) | \$2,008 | \$ 313 | \$2,775 | \$ (342) |
| Interest rate swap, net of taxes of \$0 | (1) | 3 | 3 | 15 |
| Pension and postretirement obligations, net of taxes of \$0 | 5 | 5 | 10 | 10 |
| Foreign currency translation adjustment, net of taxes of \$0 | (257) | 80 | (179) | 125 |
| Comprehensive income (loss) | \$1,755 | \$ 401 | \$2,609 | \$ (192) |

(See accompanying notes to the consolidated condensed financial statements)

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

| | Six Months Ended | |
|--|--|--|
| | June 30, 2018 (Unaudited) | June 30, 2017 (Unaudited and as adjusted) |
| Cash flows from operating activities: | | |
| Net income (loss) | \$2,775 | \$ (342) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,432 | 1,105 |
| Stock-based compensation | 667 | 425 |
| Loss on sale of discontinued operations | — | 164 |
| Change in allowance for doubtful accounts | 245 | 20 |
| Equity in loss of partnerships | 222 | 24 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,255) | (1,043) |
| Inventories | (1,918) | (1,196) |
| Contract assets | (3,053) | (682) |
| Other assets | (377) | (458) |
| Accounts payable | 1,480 | 2,113 |
| Accrued expenses | (389) | 432 |
| Other liabilities | 428 | (37) |
| Net cash provided by operating activities | 257 | 525 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (1,608) | (618) |
| Investment in partnerships | (539) | (100) |
| Net cash used in investing activities | (2,147) | (718) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 10,833 | 7,481 |
| Repayments of long-term debt | (9,055) | (7,843) |
| Proceeds from employee stock purchases and exercise of stock options | 378 | 129 |
| Change in restricted cash | (11) | (56) |
| Net cash provided by (used in) financing activities | 2,145 | (289) |
| Effect of exchange rate changes on cash | (89) | 178 |
| Net increase (decrease) in cash | 166 | (304) |

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| | | |
|--|-------|--------|
| Cash, beginning of period | 373 | 667 |
| Cash, end of period | \$539 | \$ 363 |
| Noncash investing and financing: | | |
| Investment in partnerships through liability incurred | \$187 | \$ — |
| Acquisition of property, plant and equipment in accounts payable | 1,265 | — |

(See accompanying notes to the consolidated condensed financial statements)

INTRICON CORPORATION

Notes to Consolidated Condensed Financial Statements (Unaudited) (In Thousands, Except Per Share Data)

1. General

In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly IntriCon Corporation's ("IntriCon" or the "Company") consolidated financial position as of June 30, 2018 and December 31, 2017, the consolidated results of its operations for the three and six months ended June 30, 2018 and 2017 and cash flows for the six months ended June 30, 2018 and 2017. Results of operations for the interim periods are not necessarily indicative of the results of operations expected for the full year or any other interim period.

In December 2016, the Company's board of directors approved plans to discontinue its cardiac diagnostic monitoring business. The Company sold the cardiac diagnostic monitoring business on February 17, 2017 to Datrix, LLC. For all periods presented, the Company classified this business as discontinued operations, and, accordingly, has reclassified historical financial data presented herein.

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. The Company evaluates its voting and variable interests in entities on a qualitative and quantitative basis. The Company consolidates entities in which it concludes it has the power to direct the activities that most significantly impact an entity's economic success and has the obligation to absorb losses or the right to receive benefits that could be significant to the entity.

In December 2017, the Company acquired the remaining 80-percent stake in Hearing Help Express, Inc. (referred to as "Hearing Help Express" or "HHE"), a direct-to-consumer mail order hearing aid provider, for \$650 in cash, repayment of \$1,833 in debt to HHE's 80% holder and an earn-out. The results of HHE have been consolidated into the Company's financial statements since October 31, 2016. Prior to the acquisition of 100% ownership in December 2017, the Company allocated income and losses to the noncontrolling interest based on ownership percentage.

In February 2018, the Company closed on an additional 33% ownership interest in Soundperience, bringing its total ownership to 49% and its total investment to 1,500 Euros consisting of an equity investment and license agreement. Soundperience has designed self-fitting hearing aid technology. The Company does not anticipate the Soundperience business will have a notable financial impact on operating results, but rather will provide the Company with exclusive access in the United States to critical software technology. Soundperience's self-fitting hearing aid technology is being used in the German market today, most notably through Signison, the Company's joint venture with the majority

owner of Soundperience. Soundperience and Signison are accounted for in the Company's financial statements using the equity method.

The Company has evaluated subsequent events occurring after the date of the consolidated financial statements for events requiring recording or disclosure in the consolidated financial statements.

2. New Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-07, Retirement Benefits – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This guidance requires entities to present the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the income statement line items where they report compensation cost. Entities will present all other components of net benefit cost outside operating income, if this subtotal is presented. The rules related to the timing of when costs are recognized or how they are measured have not changed. This amendment only impacts where those costs are reflected within the income statement. In addition, only the service cost component will be eligible for capitalization in inventory and other assets. This guidance became effective January 1, 2018. The adoption of this new standard did not have a material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB's Emerging Issues Task Force (the "Task Force"). The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. This update is effective for years beginning after December 31, 2018. The Company has restricted cash balances and anticipates that the adoption of this new standard will change the cash amounts and financing activities on its statement of cash flows on its consolidated financial statements.

In February 2016, the FASB issued its final standard on accounting for leases. This standard, issued as ASU 2016-02, requires that an entity that is a lessee to recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements. This update is effective for financial statement periods beginning after December 15, 2018, with earlier application permitted. The Company has not yet determined the impact of this pronouncement on its consolidated financial statements and related disclosures, but anticipates it will be required to record additional lease liabilities and corresponding rights to use assets.

3. Discontinued Operations

The following table shows the results of the cardiac diagnostic monitoring discontinued operations:

| | Three Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---------------------------------------|---|---|
| Sales, net | \$— | \$—\$ 140 |
| Operating costs and expenses | — (15) | — (268) |
| Net loss from discontinued operations | — (15) | — (128) |

The Company sold the cardiac diagnostic monitoring business on February 17, 2017 to Datrix, LLC for a future revenue earn-out that was valued by the Company at \$0. The Company has not earned any earn-out revenue through June 30, 2018. The Company recorded a loss on the sale of \$164. The net loss was computed as follows:

| | |
|--------------------------------------|-------|
| Accounts receivable, net | \$179 |
| Accrued liabilities | (15) |
| Net assets sold | \$164 |
| Fair value of consideration received | — |

Loss on sale of discontinued operations, net of income taxes \$164

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4. Changes in Accounting Policies

The Company's significant accounting policies are detailed in "Note 1: Summary of Significant Accounting Policies" of the Company's Annual Report on Form 10-K for the year ended December 31, 2017. In May 2014, the FASB issued ASU 2014-09 "Topic 606. Revenue from Contracts with Customers" (Topic 606). Topic 606 supersedes the revenue recognition requirements previously set forth in the Accounting Standards Codification (ASC) Topic 605 "Revenue Recognition," and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 with a date of initial application of January 1, 2018.

The Company applied Topic 606 retrospectively using the practical expedient in ASC 606-10-65-1(f)(3). The Company notes that all previously reported historical amounts are adjusted for the impact of ASC 606.

Changes to the Company's significant accounting policies as a result of adopting Topic 606 are discussed below:

Revenue recognition - Revenue is measured based on consideration specified in the contract with a customer, adjusted for any applicable estimates of variable consideration and other factors affecting the transaction price, including noncash consideration, consideration paid or payable to customers and significant financing components. Revenue from all customers is recognized when a performance obligation is satisfied by transferring control of a distinct good or service to a customer, as further described below under "Performance obligations".

Individual promised goods and services in a contract are considered a performance obligation and accounted for separately if the individual good or service is distinct, i.e., the customer can benefit from the good or service on its own or with other resources that are readily available to the customer and the good or service is separately identifiable from other promises in the arrangement. When an arrangement includes multiple performance obligations, the consideration is allocated between the performance obligations in proportion to their estimated stand-alone selling price. Costs related to products delivered are recognized in the period incurred, unless criteria for capitalization of costs under ASC 340-40 or other applicable guidance are met. Cost of revenues consist primarily of direct labor, manufacturing overhead, materials and components.

The Company excludes from revenue taxes collected from a customer that are assessed by a governmental authority and imposed on and concurrent with a specific revenue-producing transaction.

The Company includes shipping and handling fees in sales. Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales.

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the Consolidated Balance Sheet as further described below under “Receivables, net”, “Contract assets” and “Contract liabilities”.

When more than one party is involved in providing goods or services to a customer, an entity determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. An entity is a principal and therefore records revenue on a gross basis if it controls a promised good or service before transferring that good or service to the customer. An entity is an agent and records as revenue the net amount it retains for its agency services if its role is to arrange for another entity to provide the goods or services.

Performance obligations - A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account under ASC Topic 606. A contract's transaction price is allocated to each distinct performance obligation in proportion to the standalone selling price for each and recognized as revenue when, or as, the performance obligation is satisfied. The Company's various performance obligations and the timing or method of revenue recognition in each of the Company's markets are discussed below:

Medical market - Customer orders from the medical market consist of a specified number of assembled and customized parts that the customer further integrates into their production process to produce market ready products. Customer orders do not include additional follow-on goods or services.

With the exception of prompt payment discounts, the transaction price for medical market products is the invoiced amount, as variable consideration in the form of refunds, credits, rebates, price concessions, pricing incentives or other items impacting transaction price are not present.

All of the Company's products manufactured for the medical market are designed to each customer's specifications, do not have an alternative use and cannot be sold or redirected by the Company to others. The Company has an enforceable right to payment for any finished or in-process units, including a reasonable margin, if the customer terminates the contract for reasons other than the Company's failure to perform as promised. Control of these units is deemed to transfer to the customer over time during the manufacturing process, using the same measure of progress toward satisfying the promise to deliver the units to the customer. Each order is for a series of distinct units that comprise a single performance obligation. Consequently, the transaction price is recognized as revenue over time based on actual costs incurred in the manufacturing process to date relative to total expected costs to produce all ordered units.

Medical market products are invoiced when shipped and paid within normal commercial terms. The Company records a contract asset for revenue recognized over time in the production process for customized products that have not been shipped or invoiced to the customer.

Hearing health market - Customer orders from the hearing health market consist of hearing aid devices and related accessories. Each unit of product delivered under a customer order represents a distinct and separate performance obligation as the customer can benefit from each unit on its own or with other resources that are readily available to the customer and each unit of product is separately identifiable from other products in the arrangement.

With the exception of prompt payment discounts, the transaction price for the hearing health markets products is the invoiced amount, as variable consideration in the form of refunds, credits, rebates, price concessions, pricing incentives or other items impacting transaction price are not present.

Nearly all of the Company's products manufactured for the hearing health market could be reworked without significant cost and sold to another customer in the event of the customer's termination of an order before delivery, and therefore have an alternative use to the Company. Generally, revenue is recognized upon the transfer of control of the products which is based on shipment terms; however, in certain cases the amount of shipment is adjusted for expected future returns and related consideration received.

Professional audio market - The Company sells body-worn audio devices with application in the aviation, fire, law enforcement, safety and military markets as well as for performers and production staff in the music and stage performance markets. Each unit on a customer's purchase order represents a distinct and separate performance obligation as the customer can benefit from each unit on its own or with other resources that are readily available to the customer and each unit is separately identifiable from the others because one does not significantly affect, modify or customize another.

Variable consideration in the form of refunds, credits, rebates, price concessions, pricing incentives or other items impacting the transaction price are not present. Invoiced amounts are deemed to approximate standalone selling price, such that a relative standalone selling price allocation between performance obligations is not required.

The products manufactured for the professional audio market could be reworked without significant cost and sold to another customer in the event of the customer's termination of an order before delivery and therefore have an alternative use to the Company. Transfer of control of the goods, and revenue recognition, occurs at the point in time of shipment or delivery of the products to the customer depending on the applicable shipping terms. Professional audio market products are billed when shipped and paid within normal commercial terms.

Hearing health direct-to-consumer (DTC) market - The hearing health DTC business distributes hearing aids and related accessories to the end consumer and is the Company's only business market that generates revenue from sales to the end consumer. The Company also sells a limited number of service plans for the hearing aids. Each product or service is a distinct performance obligation as each is independently useful either on its own or together with other products procured from the Company or other vendors and each product or service is separately identifiable from the others because one does not significantly affect, modify or customize another. Invoiced amounts are deemed to approximate standalone selling price, therefore a relative standalone selling price allocation between performance obligations is not required.

The hearing health DTC business offers a 60-day trial period to the end consumer for hearing aids, during which customers can return the hearing aids for a full refund or exchange for a different hearing aid. The Company invoices for the hearing aids and recognizes revenue only after completion of the 60-day trial period, when the customer's commitment to the arrangement is deemed to exist and an enforceable right to payment is established.

The transaction price for hearing aid accessories and service plans is the invoiced amount, as variable consideration in the form of refunds, credits, rebates, price concessions, pricing incentives or other items impacting transaction price are not present. Hearing aid accessories are billed and revenue is recognized upon shipment to the customer. Invoices are paid within normal commercial terms. Annual service plans are billed along with the hearing aid at the end of the 60-day trial period or upon renewal of the service plan, and paid within normal commercial terms. As the customer consumes the benefits of the service plan relatively evenly over the plan term, revenue for service plans is recognized on a straight-line basis commencing at the end of the trial period.

Receivables, net – Excluding the hearing health direct-to-consumer market, amounts recorded in receivables, net, on the consolidated balance sheet include amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. An allowance for doubtful accounts is maintained to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience and the age of outstanding receivables. For the hearing health direct-to-consumer market, receivables, net, include amounts billed and currently due from customers and amounts to become due from customers on trial programs. The amounts due are stated at their net estimated realizable value. An allowance for doubtful accounts is maintained to provide for the estimated amount of receivables that will not be collected.

Contract Assets - Contract assets primarily include unbilled amounts recognized as revenue for customized products manufactured for the medical market. The customized goods have no alternative use to the Company and the Company has an enforceable right to payment for performance completed to date. The Company begins revenue recognition when these goods enter the manufacturing process and continues based on a measure of progress toward completion using a cost-to-cost input method that considers labor and overhead costs incurred and materials used to date in the manufacturing process relative to total expected production costs. Given the relatively short duration of the production process, contract assets are classified as current. Contract assets are reclassified to accounts receivable upon shipment of and invoicing for the products, at which point the right to consideration becomes unconditional.

Sales Commissions - Sales commissions paid to sales representatives are eligible for capitalization as they are incremental costs that would not have been incurred without entering into a specific sales arrangement and are recoverable through the expected margin on the transaction. The Company has elected to apply the practical expedient provided by ASC 340-40-25-4 and recognize the incremental costs of obtaining contracts as an expense when incurred, as the amortization period of the assets that would have otherwise been recognized is one year or less. These costs are included in sales and marketing expenses on the consolidated statements of operations.

Product Warranty - The Company offers warranties on various products and services. These warranties are assurance type warranties not sold on a standalone basis, and therefore are not considered distinct performance obligations. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time the product is sold.

5. Significant Changes Due to Topic 606

Sales of Customized Medical Products - The primary factor impacting the timing of the Company's reported net income (loss) in the financial statements as a result of the adoption of Topic 606 is the acceleration of revenue and associated cost of sales recognized from the sale of customized medical products. For sales of these products, the Company previously recognized revenue at a point in time when the products were completed and shipped to the customer. Under Topic 606, if control of the products is transferred to the customer over the manufacturing process and the criteria for over time revenue recognition are otherwise met, revenue is recognized as products are manufactured utilizing an appropriate measure of progress toward satisfaction of the performance obligation. The Company's contracts with customers for the production of customized medical products meet the criteria for over time revenue recognition; therefore, the Company utilizes an input method based on actual costs incurred in the manufacturing process to date relative to total expected production costs as a measure of progress toward transfer of control of the products to the customer and recognizes revenue on that basis. Amounts recognized as revenue but not yet shipped or billed to the customer are recorded as contract assets. See Note 4 for further discussion.

Principal vs. Agent Role in Sales under Supply Arrangement -The Company has determined that the nature of its promise to a third-party supplier is a performance obligation to provide the integrated hearing aid products to its customers and that the associated sales contracts meet the control criteria necessary to qualify the Company as the principal in the transactions. As a result, gross reporting of revenues for sales under the supply arrangement is appropriate under Topic 606 and the profit sharing amount due to the third party is reported as cost of sales.

Impacts on financial statements

Previously reported amounts for sales, cost of sales, contract assets and contract liabilities have been retrospectively adjusted to provide amounts comparable to the reporting under Topic 606. The following tables summarize the effects of adopting this accounting standard on the Company's unaudited Consolidated Financial Statements.

Consolidated Statement of Operations:

| | Three Months Ended June 30, 2017, as reported | Effect of Adoption of ASC 606 | Three Months Ended June 30, 2017, as adjusted | Six Months Ended June 30, 2017, as reported | Effect of Adoption of ASC 606 | Six Months Ended June 30, 2017, as adjusted |
|---|--|--|--|---|--|--|
| Sales, net | \$ 21,961 | \$ 563 | \$ 22,524 | \$ 42,049 | \$ 1,690 | \$ 43,739 |
| Cost of sales | 15,380 | 505 | 15,885 | 29,792 | 1,474 | 31,266 |
| Gross profit | 6,581 | 58 | 6,639 | 12,257 | 216 | 12,473 |
| Operating expenses: | | | | | | |
| Sales and marketing | 2,204 | — | 2,204 | 4,515 | — | 4,515 |
| General and administrative | 2,705 | — | 2,705 | 5,263 | — | 5,263 |
| Research and development | 1,112 | — | 1,112 | 2,265 | — | 2,265 |
| Total operating expenses | 6,021 | — | 6,021 | 12,043 | — | 12,043 |
| Operating income (loss) | 560 | 58 | 618 | 214 | 216 | 430 |
| Interest expense | (189) | — | (189) | (371) | — | (371) |
| Other income | (47) | — | (47) | 9 | — | 9 |
| Income (loss) from continuing operations before income taxes and discontinued operations | 324 | 58 | 382 | (148) | 216 | 68 |
| Income tax expense | 54 | — | 54 | 118 | — | 118 |
| Income (loss) from continuing operations before discontinued operations | 270 | 58 | 328 | (266) | 216 | (50) |
| Loss on sale of discontinued operations (Note 3) | — | — | — | (164) | — | (164) |

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| | | | | | | |
|--|---------|---------|---------|---------|---------|---------|
| Loss from discontinued operations (Note 3) | (15) | — | (15) | (128) | — | (128) |
| Net income (loss) | 255 | 58 | 313 | (558) | 216 | (342) |
| Less: Loss allocated to non-controlling interest | (355) | — | (355) | (740) | — | (740) |
| Net income (loss) attributable to IntriCon shareholders | \$ 610 | \$ 58 | \$ 668 | \$ 182 | \$ 216 | \$ 398 |
| Basic income (loss) per share attributable to IntriCon shareholders: | | | | | | |
| Continuing operations | \$ 0.09 | \$ 0.01 | \$ 0.10 | \$ 0.07 | \$ 0.03 | \$ 0.10 |
| Discontinued operations | — | — | \$ — | (0.04) | — | (0.04) |
| Net income (loss) per share: | \$ 0.09 | \$ 0.01 | \$ 0.10 | \$ 0.03 | \$ 0.03 | \$ 0.06 |
| Diluted income (loss) per share attributable to IntriCon shareholders: | | | | | | |
| Continuing operations | \$ 0.09 | \$ 0.01 | \$ 0.10 | \$ 0.07 | \$ 0.03 | \$ 0.10 |
| Discontinued operations | — | — | — | (0.04) | — | (0.04) |
| Net income (loss) per share: | \$ 0.08 | \$ 0.01 | \$ 0.09 | \$ 0.03 | \$ 0.03 | \$ 0.06 |
| Average shares outstanding: | | | | | | |
| Basic | 6,845 | 6,845 | 6,845 | 6,828 | 6,828 | 6,828 |
| Diluted | 7,187 | 7,187 | 7,187 | 6,828 | 6,828 | 6,828 |

Consolidated Statement of Comprehensive Income (Loss):

| | Three Months Ended June 30, 2017, as reported | Effect of Adoption of ASC 606 | Three Months Ended June 30, 2017, as adjusted |
|-------------------|--|--|--|
| Net income | \$ 255 | \$ 58 | \$ 313 |
| | Six Months Ended June 30, 2017, as reported | Effect of Adoption of ASC 606 | Six Months Ended June 30, 2017, as adjusted |
| Net income (loss) | \$ (558) | \$ 216 | \$ (342) |

Consolidated Statement of Cash Flows:

| | Six Months Ended June 30, 2017, as reported | Effect of Adoption of ASC 606 | Six Months Ended June 30, 2017, as adjusted |
|-------------------|--|--|--|
| Net income (loss) | \$ (558) | \$ 216 | \$ (342) |
| Inventories | (1,662) | 466 | (1,196) |
| Contract assets | — | (682) | (682) |

Prior Year Consolidated Balance Sheet:

| December 31, 2017, | Effect of Adoption | December 31, 2017, |
|-------------------------------|-------------------------------|-------------------------------|
|-------------------------------|-------------------------------|-------------------------------|

| | as reported | of ASC 606 | as adjusted |
|---------------------------|------------------------|-----------------------|------------------------|
| Inventories | \$ 15,397 | \$ (1,689) | \$ 13,708 |
| Contract assets | — | 2,979 | 2,979 |
| Other accrued liabilities | 3,224 | 515 | 3,739 |
| Accumulated deficit | (6,831) | 775 | (6,056) |

In addition, the cumulative impact to the Company's retained earnings at January 1, 2017 was a decrease to the accumulated deficit of \$518.

Transaction price allocated to remaining performance obligations - The Company's remaining performance obligations as of June 30, 2018 primarily include uncompleted production of customized products for which control transfers to the customer over time, certain uncompleted product sales for orders received and future obligations under service plan arrangements recognized over time. The Company has elected to apply the practical expedient provided in ASC 606-10-50-14 and not disclose information about the amount of transaction price allocated to these remaining performance obligations as they all have original expected durations of one year or less.

The following table provides information about receivables, contracts assets, and contract liabilities from contracts with customers.

| | June 30, 2018 | December 31, 2017, as adjusted |
|---|------------------------------|---|
| Receivables, included in accounts receivable, less allowance for doubtful account | \$ 10,067 | \$ 9,052 |
| Contract assets | 6,032 | 2,979 |
| Contract liabilities, included in other current liabilities | 402 | 312 |

Significant changes in contract assets and contract liabilities during the period are as follows:

| | For the six months ended June 30, 2018 | |
|--|--|---|
| | Contract assets increase (decrease) | Contract liabilities increase (decrease) |
| Reclassification of beginning contract liabilities to revenue, as a result of performance obligations satisfied | \$— | \$ 312 |
| Cash received in advance and not recognized as revenue | — | (402) |
| Reclassification of beginning contract assets to accounts receivable, as a result of right to consideration becoming unconditional | — | — |
| Contract assets recognized, net of reclassification to accounts receivable | 3,053 | |
| Cumulative catch-up from a change in the timeframe for recognition of revenue arising from a contract liability | — | — |
| Increase as a result of cumulative catch-up adjustment arising from changes in the estimate of costs incurred relative to total amounts projected, excluding amounts transferred to receivables during the period. | — | |
| Net Change | \$3,053 | \$ (90) |

6. Segment Reporting

The Company currently operates in two reportable segments: body-worn devices and hearing health direct-to-consumer. The nature of distribution and services has been deemed separately identifiable. Therefore, segment reporting has been applied.

Income (loss) from operations is total revenues less cost of sales and operating expenses. Identifiable assets by industry segment include assets directly identifiable with those operations. The accounting policies applied to

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determine segment information are the same as those described in the summary of significant accounting policies described in and incorporated by reference from “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Note 1 to the financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The Company evaluates the performance of each segment based on income and loss from continuing operations before income taxes. The following table summarizes data by industry segment:

| At and for the Three Months Ended June 30, 2018 | Body Worn Devices | Hearing Health Direct-to-End-Consumer | Total |
|---|-------------------------|--|----------|
| Revenue, net | \$28,108 | \$ 2,052 | \$30,160 |
| Income (loss) from continuing operations | 2,509 | (501 |) 2,008 |
| Identifiable assets (excluding goodwill) | 46,173 | 5,994 | 52,167 |
| Goodwill | 9,551 | 1,257 | 10,808 |
| Depreciation and amortization | 727 | 51 | 778 |
| Capital expenditures | 1,067 | 56 | 1,123 |

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| At and for the Six Months Ended June 30, 2018 | Body Worn Devices | Hearing Health Direct-to-End-Consumer | Total |
|---|-------------------------|--|----------|
| Revenue, net | \$51,680 | \$ 3,843 | \$55,523 |
| Income (loss) from continuing operations | 3,729 | (954 |) 2,775 |
| Identifiable assets (excluding goodwill) | 46,173 | 5,994 | 52,167 |
| Goodwill | 9,551 | 1,257 | 10,808 |
| Depreciation and amortization | 1,332 | 100 | 1,432 |
| Capital expenditures | 1,542 | 66 | 1,608 |

| At and for the Three Months Ended June 30, 2017 (as adjusted) | Body Worn Devices | Hearing Health Direct-to-End-Consumer | Total |
|---|-------------------------|--|----------|
| Revenue, net | \$21,115 | \$ 1,409 | \$22,524 |
| Income (loss) from continuing operations | 753 | (425 |) 328 |
| Identifiable assets (excluding goodwill) | 31,613 | 4,467 | 36,080 |
| Goodwill | 9,551 | 1,004 | 10,555 |
| Depreciation and amortization | 499 | 44 | 543 |
| Capital expenditures | 273 | 72 | 345 |

| At and for the Six Months Ended June 30, 2017 (as adjusted) | Body Worn Devices | Hearing Health Direct-to-End-Consumer | Total |
|---|-------------------------|--|----------|
| Revenue, net | \$40,914 | \$ 2,825 | \$43,739 |
| Income (loss) from continuing operations | 828 | (878 |) (50) |
| Identifiable assets (excluding goodwill) | 31,613 | 4,467 | 36,080 |
| Goodwill | 9,551 | 1,004 | 10,555 |
| Depreciation and amortization | 994 | 111 | 1,105 |
| Capital expenditures | 486 | 132 | 618 |

7. Geographic Information

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

| | June 30, 2018 | December 31, 2017 |
|--|---------------------|-------------------------|
| United States | \$7,513 | \$ 5,407 |
| Singapore | 1,143 | 1,254 |
| Other – primarily United Kingdom and Indonesia | 497 | 514 |
| Consolidated | \$9,153 | \$ 7,175 |

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

The geographical distribution of net sales to geographical areas for the three and six months ended June 30, 2018 and 2017 were as follows:

| | Three Months Ended | | Six Months Ended | |
|---------------------|---------------------------|------------------------------------|-------------------------|------------------------------------|
| | June 30, 2018 | June 30, 2017 (as adjusted) | June 30, 2018 | June 30, 2017 (as adjusted) |
| United States | \$25,255 | \$ 18,239 | \$45,714 | \$ 34,889 |
| Europe | 1,884 | 2,307 | 4,162 | 4,785 |
| Asia | 2,699 | 1,891 | 5,167 | 3,801 |
| All other countries | 322 | 87 | 480 | 264 |
| Consolidated | \$30,160 | \$ 22,524 | \$55,523 | \$ 43,739 |

Geographic net sales are allocated based on the location of the customer.

For the three and six months ended June 30, 2018, one customer accounted for 57% and 56%, respectively, of the Company's consolidated net sales. For the three and six months ended June 30, 2017, one customer accounted for 49% and 47%, respectively, of the Company's consolidated net sales.

At June 30, 2018, two customers combined accounted for 35% of the Company's consolidated accounts receivable. At December 31, 2017, two customers combined accounted for 32% of the Company's consolidated accounts receivable.

At June 30, 2018, one customer accounted for 77% of the Company's consolidated contract assets. At December 31, 2017, one customer accounted for 62% of the Company's consolidated contract assets.

8. Investment in Partnerships

Investment in partnerships consisted of the following:

| | June 30, 2018 | December 31, 2017 |
|-----------------------------|----------------------|--------------------------|
| Investment in Soundperience | \$1,091 | \$ 842 |

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| | | |
|------------------------|---------|----------|
| Investment in Signison | 539 | 498 |
| Other | 235 | 276 |
| Total | \$1,865 | \$ 1,616 |

As of March 31, 2018, the Company held a 49% ownership interest in Soundperience. In February 2018, the Company acquired an additional 33% stake in Soundperience. Soundperience is accounted for in the Company's financial statements using the equity method as of June 30, 2018.

The Company's investment in Soundperience exceeded the underlying interest in net equity of the Company. As a result, the Company assigned the excess investment to related intangible assets and includes the amortization of those intangibles within the equity in the income (losses) of Soundperience, which are included in other income (expenses) in the consolidated statements of operations. Soundperience's income (loss) in earnings is immaterial for the periods presented.

The Company has a 50% stake in Signison as of June 30, 2018. Signison is accounted for in the Company's financial statements using the equity method.

9. Inventories

Inventories consisted of the following at:

| | Raw materials | Work-in process | Finished products and components | Total |
|---------------------------------|------------------|--------------------|---|-----------|
| June 30, 2018 | | | | |
| Domestic | \$ 8,148 | \$ 2,080 | \$ 1,216 | \$ 11,444 |
| Foreign | 2,231 | 1,039 | 930 | 4,200 |
| Total | \$ 10,379 | \$ 3,119 | \$ 2,146 | \$ 15,644 |
| December 31, 2017 (as adjusted) | | | | |
| Domestic | \$ 6,924 | \$ 1,791 | \$ 1,366 | \$ 10,081 |
| Foreign | 2,258 | 514 | 855 | 3,627 |
| Total | \$ 9,182 | \$ 2,305 | \$ 2,221 | \$ 13,708 |

10. Short and Long-Term Debt

Short and long-term debt is summarized as follows:

| | June 30, 2018 | December 31, 2017 |
|---|------------------|-------------------------|
| Domestic Asset-Based Revolving Credit Facility | \$6,394 | \$ 4,000 |
| Capital expenditure loan facility | — | — |
| Foreign Overdraft and Letter of Credit Facility | 1,241 | 1,250 |
| Domestic Term-Loan | 5,750 | 6,250 |
| Unamortized Finance Costs | (108) | (139) |
| Total Debt | 13,277 | 11,361 |
| Less: Current maturities | (2,072) | (2,040) |
| Total Long-Term Debt | \$11,205 | \$ 9,321 |

Domestic Credit Facilities

The Company and its domestic subsidiaries are parties to a credit facility with CIBC Bank USA (formerly known as The PrivateBank and Trust Company). The credit facility, as amended through June 30, 2018, provides for:

a \$9,000 revolving credit facility, with a \$200 sub facility for letters of credit. Under the revolving credit facility, the availability of funds depends on a borrowing base composed of stated percentages of the Company's eligible trade receivables and eligible inventory, and eligible equipment less a reserve;

a \$2,500 capital expenditure loan facility under which the Company at its election, can draw up to \$2,500 for qualifying capital expenditures over the period ending December 15, 2018, with monthly amortization commencing after such time; and

a term loan in the original amount of \$6,500.

The credit facility matures on December 15, 2022.

All of the borrowings under this agreement have been characterized as either a current or long-term liability on our balance sheet in accordance with the repayment terms described more fully below.

Weighted average interest on the revolving credit facility was 5.25% for the six months ended June 30, 2018 and 5.11% for the year ended December 31, 2017.

The outstanding principal balance of the term loan, as amended, is payable in quarterly installments of \$250. Any remaining principal and accrued interest is payable on December 15, 2022. IntriCon is also required to use 100% of the net cash proceeds of certain asset sales (excluding inventory and certain other dispositions), sale of capital securities or issuance of debt to pay down the term loan.

The Company was in compliance with the financial covenants under the facility as of June 30, 2018.

The credit facility was amended on July 23, 2018. See Note 17.

Foreign Credit Facility

In addition to its domestic credit facilities, the Company's wholly-owned subsidiary, IntriCon, PTE LTD., entered into an international senior secured credit agreement with Oversea-Chinese Banking Corporation Ltd. that provides for an asset-based line of credit. Borrowings bear interest at a rate of .75% to 2.5% over the lender's prevailing prime lending rate. Weighted average interest on the international credit facilities was 4.30% and 3.87% for the six months ended June 30, 2018 and the year ended December 31, 2017.

11. Income Taxes

Income tax expense for the three and six months ended June 30, 2018 was \$269 and \$455, respectively, compared to \$54 and \$118, respectively, for the same periods in 2017. The expense was primarily due to domestic state income tax along with some foreign taxes for those periods in 2018 and 2017. The Company has net operating loss carryforwards for U.S. federal income tax purposes and, consequently, minimal federal benefit or expense from the domestic operations was recognized as the deferred tax asset has a full valuation allowance.

The following was the income (loss) before income taxes for each jurisdiction in which the Company has operations for the three and six months ended June 30, 2018 and 2017.

| | Three Months Ended | | Six Months Ended | |
|---------------|-----------------------|---------------------|---------------------|---------------------|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| United States | \$2,450 | \$486 | \$3,299 | \$257 |
| Singapore | 98 | 16 | 346 | (77) |

| | | | | |
|-----------------------------------|---------|-------|---------|-------|
| Indonesia | 21 | 18 | 42 | 34 |
| United Kingdom | (334) | (286) | (570) | (411) |
| Germany | 42 | 148 | 113 | 265 |
| Income (loss) before income taxes | \$2,277 | \$382 | \$3,230 | \$68 |

12. Shareholders' Equity and Stock-based Compensation

The Company has a 2006 Equity Incentive Plan and a 2015 Equity Incentive Plan. The 2015 Equity Incentive Plan replaced the 2006 Equity Incentive Plan and new grants may not be made under the 2006 Plan.

Under the 2015 Equity Incentive Plan, the Company may grant stock options, stock awards, stock appreciation rights, restricted stock units ("RSUs") and other equity-based awards. Under all awards, the terms are fixed on the grant date.

The Company granted 11 and 98 RSUs for the three and six months ended June 30, 2018. The closing price of the Company's common stock on the date of grant was \$23.50 and \$20.61, respectively, for the RSUs granted in the first quarter and second quarter of 2018. The RSUs vest in equal, annual installments over a three year period beginning on the first anniversary of the date of grant at which time common stock is issued with respect to vested units.

The Company also has granted stock options under the plans. Options granted under the plans generally vest over three years and have a maximum term of 10 years.

Stock option activity during the six months ended June 30, 2018 was as follows:

| | Outstanding Awards | | Total | Weighted-average Exercise Price (a) | Aggregate Intrinsic Value |
|---|--------------------|------|--------|-------------------------------------|---------------------------|
| | Stock Options | RSUs | | | |
| Outstanding at December 31, 2017 | 1,453 | — | 1,453 | \$ 5.95 | |
| Forfeited, cancelled or expired | (18) | — | (18) | 7.93 | |
| Granted | — | 98 | 98 | — | |
| Exercised | (186) | — | (186) | 6.23 | |
| Outstanding at June 30, 2018 | 1,249 | 98 | 1,347 | \$ 5.52 | \$ 46,832 |
| Exercisable at June 30, 2018 | 964 | — | 964 | \$ 5.58 | \$ 33,479 |
| Available for future grant at December 31, 2017 | | | 251 | | |
| Available for future grant at June 30, 2018 | | | 215 | | |

(a) The weighted average exercise price calculation does not include outstanding RSUs.

The number of shares available for future grants at June 30, 2018 does not include a total of up to 763 shares subject to options outstanding under the 2006 Equity Incentive Plan which will become available for grant under the 2015 Equity Incentive Plan in the event of the expiration, cancellation or surrender of such options.

The Company recorded \$333 and \$667 of non-cash stock compensation expense for the three and six months ended June 30, 2018, respectively. The Company recorded \$207 and \$425 of non-cash stock compensation expense for the three and six months ended June 30, 2017, respectively. As of June 30, 2018, there was \$2,639 of total unrecognized compensation costs related to non-vested stock option and RSU awards that are expected to be recognized over a weighted-average period of 2.28 years.

The Company also has an Employee Stock Purchase Plan (the "Purchase Plan"). The Purchase Plan, as amended, through June 30, 2018, provides that a maximum of 300 shares may be sold under the Purchase Plan. There were 1 and 4 shares purchased under the plan for the three and six months ended June 30, 2018, respectively, and a total of 3 and 7 shares purchased for the three and six months ended June 30, 2017, respectively.

13. Income (Loss) Per Share

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

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| | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------------------------|------------------|-----------------------------|
| | June 30, 2018 | June 30, 2017 (as adjusted) | June 30, 2018 | June 30, 2017 (as adjusted) |
| Numerator: | | | | |
| Income (loss) from continuing operations before discontinued operations | \$2,008 | \$ 328 | \$2,775 | \$ (50) |
| Loss on sale of discontinued operations | — | — | — | (164) |
| Loss from discontinued operations, net of income taxes | — | (15) | — | (128) |
| Net income (loss) | 2,008 | 313 | 2,775 | (342) |
| Less: loss allocated to non-controlling interest | — | (355) | — | (740) |
| Net income (loss) attributable to shareholders | \$2,008 | \$ 668 | \$2,775 | \$ 398 |
| Denominator: | | | | |
| Basic – weighted shares outstanding | 6,991 | 6,845 | 6,930 | 6,828 |
| Weighted shares assumed upon exercise of stock options | 1,127 | 342 | 1,091 | — |
| Diluted – weighted shares outstanding | 8,118 | 7,187 | 8,021 | 6,828 |
| Basic income (loss) per share attributable to IntriCon shareholders: | | | | |
| Continuing operations | \$0.29 | \$ 0.10 | \$0.40 | \$ 0.10 |
| Discontinued operations | — | — | — | (0.04) |
| Net income (loss) per share: | \$0.29 | \$ 0.10 | \$0.40 | \$ 0.06 |
| Diluted income (loss) per share attributable to IntriCon shareholders: | | | | |
| Continuing operations | \$0.25 | \$ 0.10 | \$0.35 | 0.10 |
| Discontinued operations | — | — | — | (0.04) |
| Net income (loss) per share: | \$0.25 | \$ 0.09 | \$0.35 | \$ 0.06 |

The dilutive impact summarized above relates to the periods when the average market price of Company stock exceeded the exercise price of the potentially dilutive option securities granted. Earnings per common share was based on the weighted average number of common shares outstanding during the periods when computing the basic earnings per share. When dilutive, stock options are included as equivalents using the treasury stock method when computing the diluted earnings per share. Individual components of basic and diluted income (loss) per share may not sum to the total income (loss) per share due to rounding.

Excluded from the computation of diluted earnings per share for the six months ended June 30, 2017 were outstanding in the money options to purchase approximately 314 common shares, respectively, because the effect would have been anti-dilutive due to the Company's net loss in the period. No options were excluded from the dilutive calculation for the three and six months ended June 30, 2018.

14. Legal Proceedings

The Company is a defendant along with a number of other parties in lawsuits alleging that plaintiffs have or may have contracted asbestos-related diseases as a result of exposure to asbestos products or equipment containing asbestos sold by one or more named defendants. These lawsuits relate to the discontinued heat technologies segment which was sold in March 2005. Due to the non-informative nature of the complaints, the Company does not know whether any of the complaints state valid claims against the Company. Certain insurance carriers have informed the Company that the primary policies for the period August 1, 1970-1978 have been exhausted and that the carriers will no longer provide defense and insurance coverage under those policies. However, the Company has other primary and excess insurance policies that the Company believes afford coverage for later years. Some of these other primary insurers have accepted defense and insurance coverage for these suits, and some of them have either ignored the Company's tender of defense of these cases, or have denied coverage, or have accepted the tenders but asserted a reservation of rights and/or advised the Company that they need to investigate further. Because settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, the Company believes that it will have funds available for defense and insurance coverage under the non-exhausted primary and excess insurance policies. However, unlike the older policies, the more recent policies have deductible amounts for defense and settlements costs that the Company will be required to pay; accordingly, the Company expects that its litigation costs will increase in the future. Further, many of the policies covering later years (approximately 1984 and thereafter) have exclusions for any asbestos products or operations, and thus do not provide insurance coverage for asbestos-related lawsuits. The Company does not believe that the asserted exhaustion of some of the primary insurance coverage for the 1970-1978 period will have a material adverse effect on its financial condition, liquidity, or results of operations. Management believes that the number of insurance carriers involved in the defense of the suits, and the significant number of policy years and policy limits under which these insurance carriers are insuring the Company, make the ultimate disposition of these lawsuits not material to the Company's consolidated financial position or results of operations.

The Company's former French subsidiary, Selas SAS, filed for insolvency in France. The Company may be subject to additional litigation or liabilities as a result of the French insolvency proceeding, including liabilities under guarantees aggregating approximately \$456.

The Company is also involved in other lawsuits arising in the normal course of business. While it is not possible to predict with certainty the outcome of these matters, management is of the opinion that the disposition of these lawsuits and claims will not materially affect our consolidated financial position, liquidity or results of operations.

15. Related-Party Transactions

The Company uses the law firm of Blank Rome LLP for legal services. A partner of that firm is the son-in-law of the Chairman of the Company's Board of Directors. For the three and six months ended June 30, 2018, the Company paid that firm approximately \$72 and \$175, respectively, for legal services and costs. For the three and six months ended June 30, 2017, the Company paid that firm approximately \$27 and \$66, respectively, for legal services and costs. The Chairman of our Board of Directors is considered independent under applicable Nasdaq and Securities and Exchange Commission rules because (i) no payments were made to the Chairman or the partner directly in exchange for the services provided by the law firm and (ii) the amounts paid to the law firm did not exceed the thresholds contained in the Nasdaq standards. Furthermore, the aforementioned partner does not provide any legal services to the Company and is not involved in billing matters.

16. Revenue by Market

The following tables set forth, for the periods indicated, net revenue by market:

Timing of revenue recognition for the three months ended June 30, 2018:

| | Products and services transferred at point in time | Products and services transferred over time | Total |
|-----------------------------------|---|---|----------|
| Body Worn Devices Segment: | | | |
| Medical | \$ — | \$ 20,198 | \$20,198 |
| Hearing Health | 6,390 | — | 6,390 |
| Professional Audio Communications | 1,520 | — | 1,520 |
| Hearing Health DTEC Segment: | | | |
| Hearing Health DTEC | 2,052 | — | 2,052 |
| Total Revenue | \$ 9,962 | \$ 20,198 | \$30,160 |

Timing of revenue recognition for the six months ended June 30, 2018:

| | Products and services transferred at point in time | Products and services transferred over time | Total |
|-----------------------------------|---|--|--------------|
| Body Worn Devices Segment: | | | |
| Medical | \$ — | \$ 36,131 | \$36,131 |
| Hearing Health | 12,200 | — | 12,200 |
| Professional Audio Communications | 3,349 | — | 3,349 |
| Hearing Health DTEC Segment: | | | |
| Hearing Health DTEC | 3,843 | — | 3,843 |
| Total Revenue | \$ 19,392 | \$ 36,131 | \$55,523 |

Timing of revenue recognition for the three months ended June 30, 2017 (as adjusted):

| | Products and services transferred at point in time | Products and services transferred over time | Total |
|-----------------------------------|--|---|--------------|
| Body Worn Devices Segment: | | | |
| Medical | \$ — | \$ 13,572 | \$13,572 |
| Hearing Health | 6,035 | — | 6,035 |
| Professional Audio Communications | 1,508 | — | 1,508 |
| Hearing Health DTEC Segment: | | | |
| Hearing Health DTEC | 1,409 | — | 1,409 |
| Total Revenue | \$ 8,952 | \$ 13,572 | \$22,524 |

Timing of revenue recognition for the six months ended June 30, 2017 (as adjusted):

| | Products and services transferred at point in time | Products and services transferred over time | Total |
|-----------------------------------|---|--|--------------|
| Body Worn Devices Segment: | | | |
| Medical | \$ — | \$ 25,752 | \$25,752 |
| Hearing Health | 12,272 | — | 12,272 |
| Professional Audio Communications | 2,890 | — | 2,890 |
| Hearing Health DTEC Segment: | | | |
| Hearing Health DTEC | 2,825 | — | 2,825 |
| Total Revenue | \$ 17,987 | \$ 25,752 | \$43,739 |

17. Subsequent Events

On July 23, 2018, the Company and its domestic subsidiaries entered into the Twelfth Amendment to the Loan and Security Agreement with CIBC Bank USA. The amendment, among other things:

Increased IntriCon's capex loan facility capacity to \$10 million from its then current capacity of \$2.5 million. The Company at its election, can draw up to \$10 million on the loan for qualifying capital expenditures through June 30, 2019, with monthly amortization commencing after such time;

Increased IntriCon's revolving credit facility capacity to \$11.0 million from its then current capacity of \$9.0 million;

Raised the inventory cap on the borrowing base from \$4.5 million to \$5.0 million. Under the revolving credit facility as amended, the availability of funds depends on a borrowing base composed of stated percentages of the Company's eligible trade receivables and inventory, less a reserve;

Increased the annual capital expenditures allowed under the facilities from its current limit of \$5.5 million to \$12.0 million for the fiscal year ending December 31, 2018 and \$5.5 million in the aggregate in the fiscal year ending December 31, 2019 or in any fiscal year thereafter; and

Lowered applicable interest rates by 0.25%.

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

Business Overview

Headquartered in Arden Hills, Minnesota, IntriCon Corporation (together with its subsidiaries referred to as the "Company", "IntriCon," "we", "us" or "our") is an international company engaged in designing, developing, engineering, manufacturing and distributing body-worn devices. In addition to its operations in Minnesota, the Company has facilities in Illinois, Singapore, Indonesia, Germany and the United Kingdom.

In December 2016, the Company's Board of Directors approved plans to discontinue its cardiac diagnostic monitoring business. The Company sold the cardiac diagnostic monitoring business on February 17, 2017 to Datrix, LLC. For all periods presented, the Company classified this business as discontinued operations, and, accordingly, has reclassified historical financial data presented herein.

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. The Company evaluates its voting and variable interests in entities on a qualitative and quantitative basis. The Company consolidates entities in which it concludes it has the power to direct the activities that most significantly impact an entity's economic success and has the obligation to absorb losses or the right to receive benefits that could be significant to the entity.

In December 2017, the Company acquired the remaining 80-percent stake in Hearing Help Express, Inc. (referred to as "Hearing Help Express" or "HHE"), a direct-to-consumer mail order hearing aid provider, for \$650 in cash, repayment of \$1,833 in debt to HHE's 80% holder and an earn-out. The results of HHE have been consolidated into the Company's financial statements since October 31, 2016. Prior to the acquisition of 100% ownership in December 2017, the Company allocated income and losses to the noncontrolling interest based on ownership percentage.

In February 2018, the Company closed on an additional 33% ownership interest in Soundperience, bringing its total ownership to 49% and its total investment to 1,500 Euros consisting of an equity investment and license agreement. Soundperience has designed self-fitting hearing aid technology. The Company does not anticipate the Soundperience business will have a notable financial impact on operating results, but rather will provide the Company with exclusive access in the United States to critical software technology. Soundperience's self-fitting hearing aid technology is being used in the German market today, most notably through Signison, the Company's joint venture with the majority owner of Soundperience. Soundperience is accounted for in the Company's financial statements using the equity method in 2018, however, it was accounted for using the cost method in 2017.

The Company's significant accounting policies are detailed in "Note 1: Summary of Significant Accounting Policies" of the Company's Annual Report on Form 10-K for the year ended December 31, 2017. In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 "Topic 606. Revenue from Contracts with Customers" (Topic 606). Topic 606 supersedes the revenue recognition requirements previously set forth in the Accounting Standards Codification (ASC) Topic 605 "Revenue Recognition," and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 with a date of initial application of January 1, 2018. The Company applied Topic 606 retrospectively using the practical expedient in ASC 606-10-65-1(f)(3). The Company notes that all previously reported historical amounts are adjusted for the impact of ASC 606

Information contained in this section of this Quarterly Report on Form 10-Q and expressed in U.S. dollars is presented in thousands (000s), except for per share data and as otherwise noted.

Market Overview

IntriCon serves the body-worn device market by designing, developing, engineering, manufacturing and distributing micro-miniature products, microelectronics, micro-mechanical assemblies, complete assemblies and software solutions, primarily for the medical bio-telemetry market, the emerging value based hearing healthcare market, the hearing health direct to consumer market and the professional audio communication market. Revenue from markets is reported on the respective medical, hearing health, hearing health direct to consumer and professional audio lines in the discussion of our results of operations in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 16 "Revenue by Market" to the Company's consolidated condensed financial statements included herein.

Hearing Healthcare Market

In the United States alone, there are approximately 40 million adults that report some degree of hearing loss. In adults, the most common cause of hearing loss is aging and noise. In fact, by the age of 65, one out of three people have hearing loss. The hearing-impaired population is expected to grow significantly over the next decade due to an aging population and more frequent exposure to loud sounds that can cause noise-induced hearing loss. It is estimated that hearing aids can help more than 90 percent of people with hearing loss, however the current market penetration into the U.S. hearing impaired population is approximately 20 percent, a percentage that has remained essentially unchanged for the last four decades. The primary deterrents to greater penetration are cost and access. Along with this, the legacy channel is an oligopoly of five large hearing aid manufacturers who utilize bricks and mortar and licensed audiologists to sell devices while controlling the channel dynamics.

The average cost of a hearing aid sold in the US market today is over \$2,400 per device, more than double the cost from twelve years ago. Approximately 70 percent of the hearing impaired have hearing loss in both ears (referred to as a binaural loss), driving the total cost to almost \$5,000 on average for a set of hearing aids.

We believe a perfect vortex of factors has come together over the last few years to enable the emergence of a market disruptive, high-quality, low cost distribution model, including continued consolidation of retail (causing escalating hearing aid prices), consumer outcry, consumer education, advancements in technology (such as behind-the-ear devices, advanced digital signal processing, low-power wireless, and self-fitting software) as well as regulatory actions and pronouncements by the U.S. Food and Drug Administration, the President's Council of Advisors on Science and Technology and the National Academies of Science, Engineering and Medicine.

Today in the US market, the legacy channel pushes all hearing impaired through the same inefficient, costly channel. However, a very large portion of the hearing-impaired market – mostly notably those with mild to moderate losses – could be properly served with the proper combination of high quality, outcome-based devices, advanced fitting software and consumer services/care best practices – all at much lower cost. We believe fundamental change is needed and are excited about the opportunity that we created through thoughtful hard work and planning: a chance to deliver superior outcomes-based affordable hearing healthcare, by combining state-of-the-art devices and software technology, along with best practices customer service and at a much lower cost directly to consumers across the country, many of whom have not been able to afford care previously.

In early January 2016, the U.S. Food and Drug Administration (FDA) weighed in on low hearing aid penetration rates with an announcement that highlighted statistics from the National Institute on Deafness and Other Communication Disorders. They found that 37.5 million U.S. adults aged 18 and older report some form of hearing loss. However, only 30 percent of adults over 70, and 16 percent of those aged 20 to 69, who could benefit from wearing hearing aids, have ever used them. Based on these statistics, the FDA reopened the public comment period on draft guidance related to the agency's premarket requirements for hearing aids and personal sound amplifiers (PSAPs). In April 2016, the FDA hosted a public workshop to, among other things, gather stakeholder and public input on draft guidance related

to the agency's premarket requirements for hearing aids and PSAPs. The FDA's intent is to consider ways in which it can most effectively regulate hearing aids to promote accessibility and affordability while encouraging innovation. In December 2016, the FDA announced important steps to better support consumer access to hearing aids. The agency issued a guidance document explaining that it does not intend to enforce the requirement that individuals age 18 and older receive a medical evaluation or sign a waiver prior to purchasing most hearing aids, effective immediately. It also announced its commitment to consider creating a category of over-the-counter (OTC) hearing aids.

Furthermore, there have been significant public policy developments during 2017. On August 18, 2017, President Donald Trump signed into law H.R. 2430, the FDA Reauthorization Act of 2017, which includes a section concerning the regulation of over-the-counter ("OTC") hearing aids. The law is designed to enable adults with mild to moderate hearing loss to access OTC hearing aids without being seen by a hearing care professional. The law requires the FDA to create and regulate a category of OTC hearing aids to ensure they meet the same high standards for safety, consumer labeling, and manufacturing protection that all other medical devices must meet. Additionally, the law mandates that the FDA establish an OTC hearing aid category for adults with "perceived" mild to moderate hearing loss within three years of passage of the legislation. The FDA also must finalize a rule within 180 days after the close of the comment period, detailing what level of safety, labeling and consumer protections will be included. We believe this law has the potential to remove the significant barriers existing today that prevent innovative hearing health solutions. We believe that this law will invigorate competition, spur innovation and facilitate the development of an ecosystem of hearing health care that provides affordable and accessible solutions to millions of unserved or underserved Americans. Today, IntriCon serves both the value-based hearing healthcare channel and the legacy hearing health channel.

Value-Based Hearing Healthcare

The Company believes the value-based hearing healthcare (VBHH) market offers significant growth opportunities. In contrast to the legacy channel dynamics, the VBHH market channel is flexible and able to serve the end consumer through a variety of modalities which may include remoting fittings, customer support call centers, bricks and mortar, etc. The average price of a hearing aid sold through this channel is less than twenty-five percent of the average \$2,400 device cost typically sold through the legacy channel. The Company recently commissioned an ethnographic research study, which identified a \$3+ billion annual value-based hearing healthcare market opportunity. In addition, this study assisted us in identifying our customer, various customer segmentations and personas. To best approach this market opportunity, we have focused our efforts to serve both the value-based Direct-to-End-Consumer (DTEC) and value-based Indirect-to-End-Consumer (ITEC) channels. Over the past decade we have invested in the manufacturing footprint, product technology and fitting software to provide individuals access to affordable, quality outcomes-based hearing healthcare.

Our DTEC represents a channel that sells products and services directly to the end consumer, which today consists of our HHE business. In December of 2017, we purchased the remaining 80% of HHE, a direct-to-consumer mail order hearing aid provider. However, the Company has been preparing to address this market long before the acquisition of HHE and in fact has spent the last decade, investing in the technology and low-cost manufacturing to design and build superior devices and fitting solutions. With this acquisition, we believe we now have the channel infrastructure to directly reach consumers and—importantly for millions—the ability to offer high-quality hearing healthcare at a fraction of the cost. The Company's devices and technologies coupled with HHE's high-touch care, outcomes based, and hassle free telemedicine model has created a complete eco-system of hearing healthcare in which the Company intends to serve the \$3+ billion market. Through our other VBHH initiatives and tests, we have formed alliances with other key partners, which have given us experience and vital insight as we move aggressively into a more consumer-facing role. HHE provides an efficient, direct-to-consumer channel to reach consumers who likely do not have insurance that will cover hearing devices. This is a channel that we can build on and expand via technology—and one that is complementary with many of our existing relationships.

The Company is also focused on serving its value-based ITEC customers, those companies selling products and services directly to the end consumer. We have established ourselves as a leader in supplying this portion of the market with advanced, outcome-based products and accessories. The Company has formed strong relationships with various customers in the channel, including insurance providers, and geriatric product retailers and other DTC hearing aid providers.

In February 2018, we acquired an additional 33% ownership interest in Soundperience for 1,100 Euros, bringing our total ownership to 49% and our total investment to 1,500 Euros. Soundperience has designed self-fitting hearing aid technology. Soundperience's self-fitting hearing aid technology is being used in the German market today, most notably through our Signison joint venture with the majority owner of Soundperience.

We believe strongly that incorporating self-fitting technology is a critical step in creating our high-quality, low-cost hearing healthcare ecosystem. Soundperience's technology has the potential to drastically reduce the price of hearing aids, drive greater access and increase customer satisfaction.

Legacy Hearing Health Channel

We also believe there are niches in the legacy hearing health channel that will embrace our outcomes-based products and technologies in the United States and Europe. High costs of legacy devices and retail consolidation have constrained the growth potential of the independent audiologist and dispenser. We believe our software and product offering can provide independent audiologists and dispensers the ability to compete with larger retailers, such as Costco, and manufacturer owned retail distributors.

Medical Bio-Telemetry

In the medical bio-telemetry market, the Company is focused on sales of bio-telemetry devices for life-critical diagnostic monitoring. The Company manufactures microelectronics, micro-mechanical assemblies, high-precision injection-molded plastic components and complete bio-telemetry devices for emerging and leading medical device manufacturers. The medical industry is faced with pressures to reduce the cost of healthcare. Driven by its core technologies, IntriCon helps shift the point of care from expensive traditional settings, such as hospitals, to less expensive non-traditional settings like the home. IntriCon currently serves this market by offering medical manufacturers the capabilities to design, develop, manufacture and distribute medical devices that are easier to use, are more miniature, use less power, and are lighter. Increasingly, the medical industry is looking for wireless, low-power capabilities in their devices.

IntriCon currently has a presence in the diabetes and cardiac-catheter positioning markets. For diabetes, IntriCon works with Medtronic to manufacture their wireless continuous glucose monitors (CGM), sensors assemblies, and accessories associated with Medtronic's insulin pump and CGM system. In August 2016, the FDA approved the MiniMed 630G system which is intended to replace Medtronic's MiniMed 530G system. In September 2016, the FDA approved the next generation MiniMed 670G insulin pump system, which IntriCon components are also designed into. The MiniMed 670G is the world's first hybrid closed loop insulin delivery system and we are excited that our components are designed into and support such a revolutionary diabetes management system. In June 2017, the 670G was launched in the U.S. Medtronic began fulfilling orders from patients enrolled in their Priority Access Program. In parallel, Medtronic began taking new orders from interested customers who want to be next in line to receive the system after the Priority Access orders are filled. In March 2018, the FDA approved the Guardian Connect, Medtronic's standalone CGM system that allows patients to stay ahead of high and low glucose events. Looking ahead, we believe there are opportunities to expand our diabetes product offering with Medtronic, as well as move into new markets outside of the diabetes market.

IntriCon has a suite of medical coils and micro coils that it offers to various original equipment manufacturing (OEM) customers. These products are currently used in pacemaker programming and interventional catheter positioning applications.

IntriCon manufactures bubble sensors and flow restrictors that monitor and control the flow of fluid in an intravenous infusion system as well as a family of safety needle products for an OEM customer that utilizes IntriCon's insert and straight molding capabilities. These products are assembled using full automation, including built-in quality checks within the production lines.

During the quarter, IntriCon began operations in its newly leased 37,000 square foot manufacturing and clean room facility located in Arden Hills, Minnesota to support medical volume increases. In conjunction with the volume increases, over the last several quarters, key medical customers have invested, or made commitments to invest, in several million dollars in capital equipment. The additional manufacturing floor space is designed to accommodate robotic assembly of medical components and systems. Along with the added space, IntriCon also is increasing its molding capacity. In the first half of the 2018, the company added six presses and has another 11 presses on order for delivery by the end of 2018.

Lastly, in 2018 IntriCon intends to invest in the resources required to expand its medical business. IntriCon intends to target new customers that serve the emerging biotelemetry and home care markets that could benefit from IntriCon's capabilities to develop devices that are more technologically advanced, smaller and lightweight. To do so, IntriCon is leveraging its resources in sales and marketing and research and development to expand its reach to other large medical device and health care companies.

To provide greater financial and operational focus, IntriCon made the strategic decision to divest its non-core cardiac diagnostic monitoring business in 2016. The Company sold this business on February 17, 2017 to Datrix, LLC.

Professional Audio Communications

IntriCon entered the high-quality audio communication device market in 2001, and now has a line of miniature, professional audio headset products used by customers focusing on emergency response needs. The line includes several communication devices that are extremely portable and perform well in noisy or hazardous environments. These products are well suited for applications in the fire, law enforcement, safety, aviation and military markets. In addition, the Company has a line of miniature ear- and head-worn devices used by performers and support staff in the music and stage performance markets. We believe performance in difficult listening environments and wireless operations will continue to improve as these products increasingly include our proprietary nanoDSP, wireless nanoLink and PhysioLink technologies.

Core Technologies Overview

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

ULP DSP

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

ULP Wireless

Wireless connectivity is fast becoming a required technology, and wireless capabilities are especially critical in new body-worn devices. IntriCon's BodyNet™ ULP technology, including the nanoLink™ and PhysioLink™ wireless systems, offers solutions for transmitting the body's activities to caregivers and wireless audio links for professional communications and surveillance products, including diabetes monitoring and audio streaming for hearing devices.

IntriCon is in the final stages of commercializing its Physiolink3 wireless technology, which will be incorporated into product platforms serving the medical, hearing health and professional audio communication markets. This system is based on 2.4GHz proprietary digital radio protocol in the industrial-scientific-medical (ISM) frequency band and enables audio and data streaming and command and control to ear-worn and body-worn applications over distances of up to ten meters. The Physiolink3 technology can be used to increase productivity in the emerging VBHH channels through in office wireless programming, remote cloud based fitting and consumer directed self-fitting of hearing aids. This will provide both greater access and lower costs for patients. In addition, remote control functions will improve the patient experience while using the device especially for those with diminished dexterity. The Physiolink3 technology builds on the Physiolink2 capabilities by adding wireless streaming at, what we believe, are much lower power levels than any technology currently on the market. This will allow for accessories to enhance the user experience in noisy environments by allowing audio streaming directly to the hearing aid.

Fitting Software

The ability to efficiently and effectively fit hearing aids is critical to building a value based eco-system of hearing healthcare. By developing more advanced fitting software systems, individuals can benefit from fittings that conform to their specific loss, while eliminating the need for an in-person appointment. In addition to the traditional fitting software, IntriFit, used in the conventional channel, IntriCon has made significant investments in various advanced fitting software solutions, including its investment in Soundperience, that can enable remote and self-fitting solutions. IntriCon believes these advanced fitting solutions, along with the other components of the eco-system, will drive access, affordability and superior customer satisfaction to the millions of individuals that cannot receive care today, primarily due to high cost and low access. IntriCon expects to introduce our advanced fitting solutions through our various VBHH channels later in 2018.

In February 2018, we acquired an additional 33% ownership interest in Soundperience bringing out total ownership to 49%. Soundperience has developed the Sentibo Smart Brain System, the first psycho-acoustic way of analyzing peripheral hearing and central hearing processing. It was developed by an international research team based on the latest scientific findings from the fields of audiology and brain research. The software is a sophisticated self-fitting hearing aid and brain training software technology that is being used in the German market today, most notably through our Signison joint venture. We view this software technology as a critical component to our domestic value-based hearing healthcare model. Sentibo, as well as our other proprietary fitting systems, are designed to improve both channel productivity and the quality of first-time fittings, resulting in lower prices, greater access and increased customer satisfaction. IntriCon expects to introduce our advanced fitting solutions through our various VBHH channels later in 2018.

Microminiaturization

IntriCon excels at miniaturizing body-worn devices. We began honing our microminiaturization skills over 30 years ago, supplying components to the hearing health industry. Our core miniaturization technology allows us to make devices for our markets that are one cubic inch and smaller. We also are specialists in devices that run on very low power, as evidenced by our ULP wireless and DSP. Less power means a smaller battery, which enables us to reduce size even further, and develop devices that fit into the palm of one's hand.

Miniature Transducers

IntriCon's advanced transducer technology has been pushing the limits of size and performance for over a decade. Included in our transducer line are our miniature medical coils and micro coils used in pacemaker programming and interventional catheter positioning applications. We believe that with the increase of greater interventional care, our coil technology harbors significant value.

Forward-Looking and Cautionary Statements

Certain statements included in this Quarterly Report on Form 10-Q or documents the Company files with the Securities and Exchange Commission, which are not historical facts, or that include forward-looking terminology such as "may", "will", "believe", "anticipate", "expect", "should", "optimistic", "continue", "estimate", "intend", "plan", "would", "potential", "opportunity", "project", "forecast", "confident", "projections", "schedule", "designed", "future", "discussion", "if", "negative thereof or other variations thereof, are forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, and the regulations thereunder), which are intended to be covered by the safe harbors created thereby. These statements may include, but are not limited to statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to the Company's Condensed Consolidated Financial Statements" such as net operating loss carryforwards, the ability to meet cash requirements for operating needs, the ability to meet liquidity needs, assumptions used to calculate future level of funding of employee benefit plans, the adequacy of insurance coverage and the impact of new accounting pronouncements and litigation. Forward-looking statements also include, without limitation, statements as to the Company's expected future results of operations and growth, strategic alliances and their benefits, government regulation, potential increases in demand for the Company's products, the Company's ability to meet working capital requirements, the Company's business strategy, the expected increases in operating efficiencies, anticipated trends in the Company's markets, estimates of goodwill impairments and amortization expense of other intangible assets, the effects of changes in accounting pronouncements, the effects of litigation and the amount of insurance coverage and statements as to trends or the Company's or management's beliefs, expectations and opinions.

Forward-looking statements are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially from those in the forward-looking statements. In addition to the factors discussed in this Quarterly Report on Form 10-Q, certain risks, uncertainties and other factors can cause actual results and developments to be materially different from those expressed or implied by such forward-looking statements, including, without limitation, the following:

our ability to successfully implement our business and growth strategy;

risks arising in connection with the insolvency of our former subsidiary, Selas SAS, and potential liabilities and actions arising in connection with the insolvency;

the volume and timing of orders received by the Company, particularly from Medtronic and hi Health;

changes in estimated future cash flows;

our ability to collect our accounts receivable;

foreign currency movements in markets that we
serve;

changes in the global economy and financial markets;

weakening demand for our products due to general economic conditions;

changes in the mix of products sold;

our ability to meet demand;

changes in customer requirements;

timing and extent of research and development expenses;

FDA approval, timely release and acceptance of our products and the products of our customers;

competitive pricing pressures;

pending and potential future litigation;

cost and availability of electronic components and commodities for our products;

our ability to create and market products in a timely manner and develop products that are inexpensive to manufacture;

our ability to comply with covenants in our debt agreements or to obtain waivers if we do not comply;

our ability to repay debt when it comes due;

our ability to obtain extensions of our current credit facility or a new credit facility;

the loss of one or more of our major customers;

our ability to identify, complete and integrate acquisitions;

effects of legislation;

effects of foreign operations;

our ability to develop new products;

our ability to recruit and retain engineering and technical personnel;

the costs and risks associated with research and development investments;

the recent recessions in Europe and the debt crisis in certain countries in the European Union;

our ability and the ability of our customers to protect intellectual property;

cybersecurity threats;

loss of members of our senior management team; and

other risk factors set forth in our most recent Annual Report on Form 10-K or any prior Quarterly Report on Form 10-Q, which are incorporated by reference into this Report.

For a description of these and other risks, see Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, and other risks described elsewhere in this Quarterly Report on Form 10-Q, or in other filings the Company makes from time to time with the Securities and Exchange Commission. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

Critical Accounting Policies

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

Certain accounting estimates and assumptions are particularly sensitive because their significance to the consolidated condensed financial statements and the possibility that future events affecting them may differ markedly. The accounting policies of the Company with significant estimates and assumptions include the Company's revenue recognition, accounts receivable reserves, inventory valuation, goodwill, long-lived assets, deferred taxes policies and employee benefit obligations. These and other significant accounting policies are described in and incorporated by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 1 to the financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Please refer to Note 4 for an update to our accounting policies due to Topic 606.

Results of Operations

Sales, net

Our net sales are comprised of two segments: our body-worn device segment (consisting of three main markets: medical, hearing health and professional audio) and our hearing health direct-to-consumer segment. Below is a summary of our sales by main markets for the three and six months ended June 30, 2018 and 2017:

| Three Months Ended June 30 | 2018 | 2017 | Change | | |
|-----------------------------------|-------------|-------------|----------------|----------------|---|
| | | | Dollars | Percent | |
| Medical | \$20,198 | \$13,572 | \$6,626 | 48.8 | % |
| Hearing Health | 6,390 | 6,035 | 355 | 5.9 | % |
| Hearing Health Direct-to-Consumer | 2,052 | 1,409 | 643 | 45.6 | % |
| Professional Audio Communications | 1,520 | 1,508 | 12 | 0.8 | % |
| Consolidated Net Sales | \$30,160 | \$22,524 | \$7,636 | 33.9 | % |
| Six Months Ended June 30 | | | | | |
| Medical | \$36,131 | \$25,752 | \$10,379 | 40.3 | % |
| Hearing Health | 12,200 | 12,272 | (72) | -0.6 | % |
| Hearing Health Direct-to-Consumer | 3,843 | 2,825 | 1,018 | 36.0 | % |
| Professional Audio Communications | 3,349 | 2,890 | 459 | 15.9 | % |
| Consolidated Net Sales | \$55,523 | \$43,739 | \$11,784 | 26.9 | % |

For the three and six months ended June 30, 2018, we experienced increases of 48.8% and 40.3% in net sales in the medical market compared to the same periods in 2017. Medtronic revenues were up significantly for the three and six months ended June 30, 2018 while the rest of the medical segment remained stable. IntriCon currently serves this market by offering medical manufacturers the capabilities to design, develop and manufacture medical devices that are easier to use, are more miniature, use less power, and are lighter. IntriCon has a strong presence in the diabetes market with its Medtronic partnership. The Company believes there are growth opportunities in this market as well other emerging biotelemetry and home care markets that could benefit from its capabilities to develop devices that are more technologically advanced, smaller and lightweight.

Net sales in our hearing health business for the three and six months ended June 30, 2018 increased 5.9% and decreased 0.6%, respectively, compared to the same periods in 2017. The increase for the three months ended June 30, 2017 was primarily due to an increase in the value based hearing healthcare market. The decrease for the six months ended June 30, 2017 was primarily due to decreases in or traditional hearing health market partially offset by an increase in the value based hearing healthcare market. The Company is very optimistic about the progress that has been made and the long-term prospects of the value based hearing healthcare market. Market dynamics, such as low penetration rates, an aging population, regulatory scrutiny, and the need for reduced cost and convenience, have resulted in the emergence of alternative care models, such the insurance channel and PSAP channel. IntriCon believes it is very well positioned to serve these value based hearing healthcare market channels. The Company will be aggressively pursuing larger customers who can benefit from our value proposition. Over the past several years, the Company has invested heavily in core technologies, product platforms and its global manufacturing capabilities geared to provide high-tech, lower-cost hearing devices.

Net sales in our hearing health direct-to-consumer business for the three and six months ended June 30, 2018 increased 45.6% and 36.0% compared to the same periods in 2017. The increase was primarily due to an increase in advertising, which drove a larger customer base.

Net sales to the professional audio device sector increased 0.8% and 15.9% for the three and six months ended June 30, 2018, respectively, compared to the same periods in 2017. IntriCon will continue to leverage its core technology in professional audio to support existing customers, as well as pursue related hearing health and medical product opportunities.

Gross profit

Gross profit, both in dollars and as a percent of sales, for the three and six months ended June 30, 2018 and 2017, was as follows:

| | 2018 | | 2017 | | Change | |
|---------------------------------|----------|------------------|----------|------------------|---------|---------|
| | Dollars | Percent of Sales | Dollars | Percent of Sales | Dollars | Percent |
| Three Months Ended June 30 | | | | | | |
| Gross Profit | \$9,989 | 33.1 % | \$6,639 | 29.5 % | \$3,350 | 50.5 % |
| Six Months Ended June 30 | | | | | | |
| Gross Profit | \$18,401 | 33.1 % | \$12,473 | 28.5 % | \$5,928 | 47.5 % |

The 2018 gross profit increase over the comparable prior year periods was primarily due to higher overall sales volumes and a higher margin sales mix.

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

Sales and marketing, general and administrative and research and development expenses for the three and six months ended June 30, 2018 and 2017 were as follows:

| | 2018 | | 2017 | | Change | |
|----------------------------|---------|------------------|---------|------------------|---------|---------|
| | Dollars | Percent of Sales | Dollars | Percent of Sales | Dollars | Percent |
| Three Months Ended June 30 | | | | | | |
| Sales and Marketing | \$2,881 | 9.6 % | \$2,204 | 9.8 % | \$677 | 30.7 % |

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|----------------------------|---------|------|---|---------|------|---|---------|------|---|
| General and Administrative | 3,108 | 10.3 | % | 2,705 | 12.0 | % | 403 | 14.9 | % |
| Research and Development | 1,316 | 4.4 | % | 1,112 | 4.9 | % | 204 | 18.3 | % |
| Six Months Ended June 30 | | | | | | | | | |
| Sales and Marketing | \$5,721 | 10.3 | % | \$4,515 | 10.3 | % | \$1,206 | 26.7 | % |
| General and Administrative | 6,169 | 11.1 | % | 5,263 | 12.0 | % | 906 | 17.2 | % |
| Research and Development | 2,475 | 4.5 | % | 2,265 | 5.2 | % | 210 | 9.3 | % |

Sales and marketing expenses increased over the prior year periods due to increased hearing health direct-to-end-consumer advertising spending, other outsider services and support costs. General and administrative and research and development expenses were greater than the prior year periods primarily due to increased other external services and support costs to drive business growth.

Interest expense

Net interest expense for the three and six months ended June 30, 2018 was \$211 and \$405 compared to \$189 and \$371 for the comparable three and six month periods in 2017. The increases were primarily due to changes in average outstanding debt balances.

Other income (expense)

Other income (expense) for the three and six months ended June 30, 2018 was \$(196) and \$(401) compared to other income (expense) of \$(47) and \$9 for the same periods in 2017. The change in other income (expense) primarily related to losses incurred in our partnerships accounted for under the equity method during the current periods.

Income tax expense

Income tax expense for the three and six months ended June 30, 2018 was \$269 and \$455 compared to \$54 and \$118 for the same periods in 2017. The expense for the three and six months ended June 30, 2018 was primarily due to domestic state income tax along with taxes paid by our foreign operations.

Liquidity and Capital Resources

As of June 30, 2018, we had \$539 of cash on hand. Sources of our cash for the six months ended June 30, 2018 were from our operating and financing activities, as described below. The Company's cash flows from operating, investing and financing activities, as reflected in the statement of cash flows, are summarized as follows:

| | Six Months Ended | |
|---|---------------------|---------------------|
| | June 30, 2018 | June 30, 2017 |
| Cash provided by (used in): | | |
| Operating activities | \$257 | \$525 |
| Investing activities | (2,147) | (718) |
| Financing activities | 2,145 | (289) |
| Effect of exchange rate changes on cash | (89) | 178 |
| Net increase (decrease) in cash | \$166 | \$(304) |

Net cash provided by operations of \$257 was primarily driven by net income of \$2,775, add backs for non-cash depreciation and stock compensation along with increases in accounts payable and other liabilities partially offset by increases in contract assets, accounts receivable and inventory.

Net cash used in investing activities of \$2,147 consisted primarily of \$1,608 of purchases of property, plant and equipment and investment in partnerships.

Net cash provided in financing activities of \$2,145 was comprised primarily of proceeds from long-term borrowings partially offset by repayments of borrowings.

The Company had the following bank arrangements:

| | June 30, 2018 | December 31, 2017 |
|--|------------------|----------------------|
| Total borrowing capacity under existing facilities | \$ 19,057 | \$ 19,545 |
| Facility borrowings: | | |
| Domestic revolving credit facility | 6,394 | 4,000 |
| Capital expenditure loan facility | — | — |
| Domestic term loan | 5,750 | 6,250 |
| Foreign overdraft and letter of credit facility | 1,241 | 1,250 |
| Total borrowings and commitments | 13,385 | 11,500 |
| Remaining availability under existing facilities | \$ 5,672 | \$ 8,045 |

Domestic Credit Facilities

The Company and its domestic subsidiaries are parties to a credit facility with CIBC Bank USA (formerly known as The PrivateBank and Trust Company). The credit facility, as amended through June 30, 2018, provides for:

a \$9,000 revolving credit facility, with a \$200 sub facility for letters of credit. Under the revolving credit facility, the availability of funds depends on a borrowing base composed of stated percentages of the Company's eligible trade receivables and eligible inventory, and eligible equipment less a reserve;

a \$2,500 capital expenditure loan facility under which the Company at its election, can draw up to \$2,500 for qualifying capital expenditures over the period ending December 15, 2018, with monthly amortization commencing after such time; and

a term loan in the original amount of \$6,500.

On July 23, 2018, the Company and its domestic subsidiaries entered into the Twelfth Amendment to the Loan and Security Agreement with CIBC Bank USA. The amendment, among other things:

Increased IntriCon's capex loan facility capacity to \$10 million from its then current capacity of \$2.5 million. The Company at its election, can draw up to \$10 million on the loan for qualifying capital expenditures over the next 12 months, with monthly amortization commencing after such time;

Increased IntriCon's revolving credit facility capacity to \$11.0 million from its then current capacity of \$9.0 million;

Raised the inventory cap on the borrowing base from \$4.5 million to \$5.0 million. Under the revolving credit facility as amended, the availability of funds depends on a borrowing base composed of stated percentages of the Company's eligible trade receivables and inventory, less a reserve;

Increased the annual capital expenditures allowed under the facilities from its current limit of \$5.5 million to \$12.0 million for the fiscal year ending December 31, 2018 and \$5.5 million in the aggregate in the fiscal year ending December 31, 2019 or in any fiscal year thereafter; and

Lowered applicable interest rates by 0.25%.

The credit facility matures on December 15, 2022.

All of the borrowings under this agreement have been characterized as either a current or long-term liability on our balance sheet in accordance with the repayment terms described more fully below.

Weighted average interest on the revolving credit facility was 5.25% for the six months ended June 30, 2018 and 5.11% for the year ended December 31, 2017.

The outstanding principal balance of the term loan, as amended, is payable in quarterly installments of \$250. Any remaining principal and accrued interest is payable on December 15, 2022. IntriCon is also required to use 100% of the net cash proceeds of certain asset sales (excluding inventory and certain other dispositions), sale of capital securities or issuance of debt to pay down the term loan.

The Company was in compliance with the financial covenants under the facility as of June 30, 2018.

Foreign Credit Facility

In addition to its domestic credit facilities, the Company's wholly-owned subsidiary, IntriCon, PTE LTD., entered into an international senior secured credit agreement with Oversea-Chinese Banking Corporation Ltd. that provides for an asset based line of credit. Borrowings bear interest at a rate of .75% to 2.5% over the lender's prevailing prime lending rate. Weighted average interest on the international credit facilities was 4.30% and 3.87% for the six months ended June 30, 2018 and the year ended December 31, 2017.

Capital Adequacy

We believe that funds expected to be generated from operations, the available borrowing capacity under our revolving credit and capital expenditures loan facilities will be sufficient to meet our anticipated cash requirements for operating needs and for repayment of maturing debt for at least the next 12 months. If, however, we do not generate sufficient cash from operations, or if we incur additional unanticipated liabilities, we may be required to seek additional financing or sell equity or debt on terms which may not be as favorable as we could have otherwise obtained. No assurance can be given that any refinancing, additional borrowing or sale of equity or debt will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our access to capital is affected by prevailing conditions in the financial and equity capital markets, as well as our own financial condition. Furthermore, if we fail to meet our financial and other covenants under our loan agreements, absent waiver, we will be in default of the loan agreements and our lenders could take action that would adversely affect our business. There can be no assurance that our lenders will provide a waiver of any default in our loan covenants. While management believes that we will be able to meet our liquidity needs for at least the next 14 months, no assurance can be given that we will be able to do so.

Revenue Recognition

For its body-worn device segment, 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. For its direct to consumer segment, the Company recognizes revenue after the customer trial period has ended (generally 60 days from shipment). For changes to the Company's revenue recognition policies required by ASC 606, see Note 4 to the consolidated financial statements.

Body-worn device segment 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. The Company defers recognition of revenue on discounts to customers if discounts are considered significant.

In general, the Company warrants its products to be free from defects in material and workmanship and will fully conform to and perform to specifications for a period of one year. The Company develops a warranty reserve based on historical experience. 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.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

ITEM 4. Controls and Procedures

The Company's management, with the participation of its chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of June 30, 2018 (the "Disclosure Controls Evaluation"). Based on the Disclosure Controls Evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective to provide a reasonable level of assurance that: (i) information required to be disclosed by the Company in the reports the Company files or submits under the Securities Exchange Act of 1934, as amended ("Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed in the reports the

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

There were no changes in the Company's internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the quarter ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

The information contained in note 14 to the Consolidated Condensed Financial Statements in Part I of this quarterly report is incorporated by reference herein.

ITEM 1A. Risk Factors

In addition to the foregoing and the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, which could materially affect the Company’s business, financial condition or future results. The risk factors in the Company’s Annual Report on Form 10-K have not materially changed. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information

None.

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ITEM 6. Exhibits

(a) Exhibits

Twelfth Amendment to Loan and Security Agreement among the Company, IntriCon, Inc., Hearing Help Express, Inc. and CIBC Bank USA (formerly known as The PrivateBank and Trust Company), dated as of July, 23, 2018.

10.2* Amended and Restated Revolving Note from the Company, IntriCon, Inc. and Hearing Help Express, Inc. to CIBC Bank USA (formerly known as The PrivateBank and Trust Company), dated July, 23, 2018.

10.3* Amended and Restated CapEx Note from the Company, IntriCon, Inc. and Hearing Help Express, Inc. to CIBC Bank USA (formerly known as The PrivateBank and Trust Company), dated July, 23, 2018.

31.1* Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2* Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

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

The following materials from IntriCon Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Condensed Balance Sheets as of June 30, 2018, (Unaudited) and December 31, 2017; (ii) Consolidated Condensed Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2018, and 2017; (iii) Consolidated Condensed Statements of Comprehensive Income (Loss) (Unaudited) for the Three and Six Months Ended June 30, 2018, and 2017; (iv) Consolidated Condensed Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2018, and 2017; and (v) Notes to Consolidated Condensed Financial Statements (Unaudited)*

*Filed herewith.

SIGNATURES

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

INTRICON
CORPORATION
(Registrant)

Date: August 9, 2018 By: /s/ Mark S. Gorder
Mark S. Gorder
President and Chief
Executive Officer
(principal executive
officer)

Date: August 9, 2018
By: /s/ Scott Longval
Scott Longval
Chief Financial Officer
and Treasurer
(principal financial
officer)