INTRICON CORP
Form 10-K
March 10, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

x	ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2008
	or
o	TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ____________ to ____________.

Commission File Number 1-5005

INTRICON CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-1069060 (I.R.S. Employer Identification No.)
1260 Red Fox Road Arden Hills, Minnesota (Address of principal executive offices)	55112 (Zip Code)

Registrant s telephone number, including area code (651) 636-9770
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined by rule 12b-2 of the Act). Yes o Nox

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The aggregate market value of the voting common shares held by non-affiliates of the registrant on June 30, 2008 was $40,267,744. Common shares held by each officer and director and by each person who owns 10% or more of the outstanding common shares have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of outstanding shares of the registrant s common shares on February 27, 2009 was 5,343,079.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s definitive proxy statement for the 2009 annual meeting of shareholders are incorporated by reference into Part III of this report; provided, however, that the Audit Committee Report and any other information in such Proxy Statement that is not required to be included in this Annual Report on Form 10-K, shall not be deemed to be incorporated herein or filed for the purposes of the Securities Act of 1933 or the Securities Exchange Act of 1934.

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PART I

ITEM 1. Business

Company Overview

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

In the past, the Company operated in three segments: the precision miniature medical and electronics products segment, the heat technology segment, and the tire holders, lifts and related products segment. In 2001, the Company began focusing on its precision miniature medical and electronics products segment and developing plans to exit the businesses that comprised the heat technology segment and the tire holders, lifts and related products segment. The Company exited the tire holders, lifts and related products business in 2003 and the heat technology segment in the first quarter of 2005. For all periods presented, the Company classified its heat technology segment as discontinued operations.

Currently, the Company has two operating segments: its body worn device segment and electronics products segment. Prior to 2008, the Company s body-worn device and electronics products segments were combined in the Company s precision miniature medical and electronics products segment. The Company determined these segments no longer meet the criteria for aggregation. The nature of the products and services has been deemed separately identifiable, as the Company has further developed technologies and products included in the body-worn device segment. Furthermore, as the underlying products and technology have changed, the economic characteristics of each business segment are not expected to be similar. Our electronics products segment margin is subject to more variability due to material pricing and we believe our future revenue growth and margin will be different for each segment as a result of the proprietary technology included in our body-worn device products.

Business Highlights

Major Events in 2008

On July 20, 2008, the Company entered into a strategic alliance agreement with Australia-based Dynamic Hearing Pty Ltd (Dynamic Hearing), a designer of proprietary digital signal processing (DSP) firmware used in ultra-low power (ULP) DSP hardware platforms for the hearing health and professional audio market. Effective October 1, 2008, Dynamic Hearing granted a license to the Company to use certain of Dynamic Hearing s technology, including ULP-DSP technology. IntriCon intends to use the license from Dynamic Hearing to develop new body-worn ULP-DSP applications and expand its hearing health and professional audio product portfolio.

The initial term of the agreement is five years from the date of execution and may be extended upon agreement of the parties within two months of the expiration of the initial term; however, either party may terminate the agreement after the second year of the term upon three months notice. The Company agreed to pay Dynamic Hearing: (i) an annual fee for access to the technology licensed pursuant to the agreement and (ii) an additional second component fee to maintain exclusive rights granted to the Company with respect to hearing health products. Additionally, IntriCon agreed to make royalty payments on products that incorporate Dynamic Hearing s technology and Dynamic Hearing has also agreed to provide the Company with engineering and other services in connection with the licensed technology.

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Major Events in 2007

On May 22, 2007, the Company completed the acquisition of substantially all of the assets of Tibbetts Industries, Inc., other than real estate. Pursuant to an Asset Purchase Agreement, dated as of April 19, 2007, by and among the Company and Tibbetts and certain of the principal shareholders of Tibbetts, the Company purchased substantially all of the assets of Tibbetts, other than real estate, for cash of $4,500,000, subject to a closing adjustment, and the assumption of certain liabilities (total purchase price of $5,569,000 including acquisition costs of $228,000). The acquisition was financed with borrowings under the Company s $14.5 million in senior secured credit facilities, which the Company closed on May 22, 2007. Terms of the credit facilities included:

- a $10.0 million revolving credit facility, with a subfacility for letters of credit, to mature in five years, and
- a $4.5 million term loan facility, amortized in increasing quarterly principal installments based on a five-year repayment schedule.

The credit facilities are further described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations .

In October 2007, the Company entered into a strategic alliance with Advanced Medical Electronics Corp. (AME) to develop and manufacture new miniature, wireless, ultra-low-power bio-telemetry instruments. Through this partnership, AME and IntriCon intend to develop and manufacture wireless instruments including a:

- binaural hearing aid which will use wireless technology to enhance hearing by allowing hearing aids on both ears to coordinate their operations;
- hearing aid companion microphone that will transmit companion voice signals to the wearer of a hearing aid, allowing vast improvement in speech intelligibility in noisy environments;
- miniature wearable electroencephalograph (EEG) transmitter that will digitize EEG signals and transmit them for neuroscience research; and
- wearable electromyograph (EMG) and inertial limb tracking systems for bio-mechanical research and clinical studies.

AME receives support from the federal Small Business Innovation Research program and will develop the bio-telemetry instruments. IntriCon will manufacture these devices and supply them to third-party distributors. IntriCon also gains exclusive access to key AME technology and will be able to use this technology to develop additional bio-telemetry applications. In 2009, there was an amendment to the strategic alliance to include four additional funded projects, related to the development of advanced biotelemetry technologies.

Forward-Looking Statements

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

statements in Business, Legal Proceedings and Risk Factors , such as the Company s ability to focus on the precision miniature medical and electronics products markets, the ability to compete, statements concerning the Tibbetts acquisition, strategic alliances and their benefits, the adequacy of insurance coverage, and potential increase in demand for the Company s products; and statements in Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes to the Consolidated Financial Statements, such as the net operating loss carryforwards, the ability to meet cash requirements for operating needs, the ability to meet liquidity needs, assumptions used to calculate future level of funding of employee benefit plans, the adequacy of insurance coverage, the impact of new accounting pronouncements and litigation.

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Forward-looking statements also include, without limitation, statements as to the Company s expected future results of operations and growth, the Company s ability to meet working capital requirements, the Company s business strategy, the expected increases in operating efficiencies, anticipated trends in the Company s body-worn device and electronic products markets, estimates of goodwill impairments and amortization expense of other intangible assets, the effects of changes in accounting pronouncements, the effects of litigation and the amount of insurance coverage, and statements as to trends or the Company s or management s beliefs, expectations and opinions. Forward-looking statements are subject to risks and uncertainties and may be affected by various risks, uncertainties and other factors that can cause actual results and developments to be materially different from those expressed or implied by such forward-looking statements, including, without limitation, the risk factors discussed in Item 1A of this Annual Report on Form 10-K.

The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

Market Overview: Body-Worn Devices

IntriCon, Inc. (formerly known as Resistance Technology, Inc.), IntriCon PTE LTD (PTE), and IntriCon Tibbetts, Inc. (ITC) are wholly-owned subsidiaries of the Company, that design, develop, engineer and manufacture micro-miniature injection-molded plastics, microelectronics, micro-mechanical assemblies and complete assemblies, primarily for bio-telemetry devices, medical equipment, hearing instruments, professional audio and telecommunications devices and computers.

Products and Industries Served. IntriCon designs, develops and manufactures miniature and micro-miniature body-worn products based on its proprietary technology to meet the rising demand for smaller, portable and more advanced devices. Our expertise is focused on three main markets: medical, hearing health and professional audio. Within these chosen markets, we combine ultra-miniature mechanical and electronics capabilities with proprietary technology including ULP wireless and DSP capabilities - that enhances the performance of body-worn devices.

Medical

In the medical market, the Company is focused on sales of multiple biotelemetry devices from life-critical diagnostic monitoring devices to drug-delivery systems. Using our nanoDSP and ULP nanoLink technology, the Company manufactures microelectronics, micro-mechanical assemblies, high-precision injection-molded plastic components and complete bio-telemetry devices for emerging and leading medical device manufacturers. Targeted customers include medical product manufacturers of portable and lightweight battery powered devices, as well as a variety of sensors designed to connect a patient to an electronic device.

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

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

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Hearing Health

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

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

Using our ULP BodyNet family technology, specifically nanoDSP and our new wireless nanoLink product family, IntriCon is building a new generation of affordable, high-quality hearing aids and similar amplifier devices under contracts for OEM s. DSP devices have better clarity, attractive pricing points and an improved ability to filter out background noise. During 2008, we introduced Ethos, our new high-performance adaptive DSP hearing instrument amplifier. In our view, Ethos advanced capabilities are ideally suited for the hearing health market. We believe the introduction of Ethos solidifies our position as a leader of high-performance adaptive DSP hearing instrument amplifiers. Furthermore, we believe our strategic alliance with Dynamic Hearing will allow us to develop new body-worn applications and further expand both our hearing health and professional audio product portfolio.

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

While it harbors great potential, the hearing health market is experiencing slowness due to macroeconomic conditions. In general, the U.S. market does not provide insurance reimbursement for hearing aid purchases. People can defer their hearing aid purchase. We believe the softness in the market will continue into 2009. Reimbursement trends in Europe are more favorable, with insurers and the governments covering more devices.

Professional Audio Communications

IntriCon entered the high-quality audio communication device market in 2001, and now has a line of miniature, professional audio headset products used by customers focusing on homeland security and emergency response needs. The line includes several communication devices that are extremely portable and perform well in noisy or hazardous environments. These products are well suited for applications in the fire, law enforcement, safety, aviation and military markets. In addition, the company has a line of miniature ear- and head-worn devices used by performers and support staff in the music and stage performance markets. Our May 2007 acquisition of Tibbett s Industries provided the Company access to homeland security agencies in this market. We believe performance in difficult listening environments and wireless operations will continue to improve as these products increasingly include our proprietary nanoDSP , wireless nanoLink and ULP nanoLink technology.

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

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

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In 2008, one customer accounted for 15 percent of the Company s body-worn device net sales. During 2008, the top five customers accounted for approximately $22.6 million or 39 percent of the Company s body-worn device net sales. See note 4 to the consolidated financial statements for a discussion of net sales and long-lived assets by geographic area and segment.

Internationally, sales representatives employed by IntriCon GmbH (GmbH), a German company 90% of whose capital stock is owned by IntriCon, solicit sales from European hearing instrument manufacturers on behalf of IntriCon.

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

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

Employees. As of January 31, 2009, our body-worn device segment had a total of 523 full time equivalent employees, of whom 33 are executive and administrative personnel, 16 are sales personnel and 474 are engineering and operations personnel. The Company considers its relations with its employees to be satisfactory. None of the Company s employees are represented by a union.

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

Research and Development. IntriCon conducts research and development activities primarily to improve its existing products and proprietary technology. The Company is committed to increasing its investment in the research and development of proprietary technologies, such as the ULP nanoDSP and Bodynet technologies. The Company believes the continued development of key proprietary technologies will be the catalyst for long-term revenues and margin growth. Research and development expenditures were $3,248,000, $3,089,000, and $2,123,000 in 2008, 2007 and 2006, respectively. These amounts are net of customer reimbursed research and development. See note 1 to the consolidated financial statements for information regarding customer funded research and development projects.

IntriCon owns a number of United States patents which cover a number of product designs and processes. The Company believes that, although these patents collectively add some value to the Company, no one patent or group of patents is of material importance to its business as a whole.

Market Overview: Electronic Products

Our electronic products segment business is conducted by RTI Electronics, Inc. (RTIE), a wholly owned subsidiary of the Company. RTIE designs and manufactures thermistor, film capacitor and magnetic products to industrial, commercial and military customers.

***Products and Industries Serviced*.** RTIE manufactures and sells thermistors and thermistor assemblies, which are solid state devices that produce precise changes in electrical resistance as a function of any change in absolute body temperature. RTIE sells through its Surge-Gard product line, an inrush current limiting device used primarily in computer power supplies. The balance of sales represents various industrial, commercial and military sales for other thermistor, film capacitor and magnetic products to domestic and international markets. RTIE s principal raw materials are plastics, polymers, metals, various metal oxide powders and silver paste, for which it believes there are multiple sources of supply.

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For information concerning net sales, net income and assets, see the consolidated financial statements in Item 8.

Marketing and Competition. RTIE sells its thermistors, film capacitors and magnetic products through a combination of independent sales representatives and internal sales force. This business has many competitors, both domestic and foreign, that sell various thermistors, film capacitors and magnetics and some of these competitors are larger and have greater financial resources. In addition, RTIE holds a relatively small market share in the world-market of thermistor and film capacitor products.

In 2008, one customer accounted for 11 percent of the RTIE s electronic products net sales. During 2008, the top five customers accounted for approximately $2.4 million or 31 percent of RTIE s electronic products net sales. See note 4 to the consolidated financial statements for a discussion of net sales and long-lived assets by geographic area and segment.

Employees. As of January 31, 2009, RTIE had a total of 82 full time equivalent employees, of whom 6 are executive and administrative personnel, 3 are sales personnel and 73 are operations personnel. RTIE considers its relations with its employees to be satisfactory. None of the RTIE s employees are represented by a union.

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

Discontinued Operations Heat Technology

The Company specialized in the controlled application of heat to achieve precise process and temperature control. The Company s principal heat technology equipment and systems were smaller standard-engineered systems, burners and combustion control equipment. The Company sold this business in the first quarter of 2005 and has accounted for it as discontinued operations as further described in note 2 in the accompanying consolidated financial statements in Item 8.

Standard Engineered Systems. The Company engineered and fabricated a variety of small heat treating furnaces and heat processing equipment. This standard equipment and small-furnace business was conducted principally by its then subsidiaries, Nippon Selas (Tokyo, Japan) and Selas Waermetechnik (Ratingen, Germany).

Burners and Combustion Control Equipment. At its Dresher, Pennsylvania facility and through its then subsidiaries in Japan, Nippon Selas (Tokyo), and Germany, Selas Waermetechnik, (Ratingen), the Company designed, manufactured and sold an array of original equipment and replacement gas-fired industrial burners for many applications.

The Company was a producer of burners used in fluid processing furnaces serving the petrochemical industry. The Company also produced burners suitable for creating a high temperature furnace environment desirable in steel and glass heat treating furnaces. The Company s burners accommodated a wide variety of fuel types, environmental constraints and customer production requirements.

The Company furnished many industries with gas combustion control equipment sold both as component parts and as systems that were engineered to meet a particular customer s needs. This equipment was provided with the Company s original custom-engineered and standard heat treating equipment, as replacement or additional components for existing furnaces being refurbished or upgraded, and as original components for heat treating equipment manufactured by others.

Marketing and Competition. The Company marketed its standard-engineered systems products on a global basis through its sales and marketing personnel located in Dresher, Pennsylvania, and also sold these products through licensees and agents located in various parts of the world.

Operations. As of December 31, 2004, the heat technology segment had a total of 48 employees. At its Dresher facility, the Company had 32 employees; 6 were executive and administrative personnel, 10 were sales and engineering personnel and 16 were personnel engaged in manufacturing. The hourly personnel were represented by a union. Selas Waermetechnik had 6 employees; 1 was an administrative personnel, 3 were sales and engineering personnel and 2 were personnel engaged in manufacturing.

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In April 2001, the Company sold a minority interest of Nippon Selas to three directors of Nippon Selas. This minority interest was reacquired by the Company in the first quarter of 2005 in contemplation of the sale of this business, which was completed in the first quarter of 2005. Its Tokyo facility employed 10 people; 3 administrative and 7 sales and engineering.

Research and Development. The Company conducted limited research and development activities at its Dresher facility to support its heat processing services and products. Research and development expenditures for heat processing aggregated $4,000 in 2005.

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Available Information

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

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

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

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

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

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ITEM 1A. Risk Factors

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

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

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

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

We are dependent on a small number of customers for a large portion of our revenues. In fiscal year 2008, our largest customer accounted for 13% of our net sales and our five largest customers accounted for 35% of our net sales. A significant decrease in the sales to or loss of any of our major customers could have a material adverse effect on our business and results of operations. Our revenues are largely dependent upon the ability of customers to develop and sell products that incorporate our products. No assurance can be given that our major customers will not experience financial, technical or other difficulties that could adversely affect their operations and, in turn, our results of operations.

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

Some of our customers purchase our products on credit, which may cause a concentration of accounts receivable among some of our customers. As of December 31, 2008, we had accounts receivable, less allowance for doubtful accounts, of $9,525,000, which represented approximately 46.9 percent of our shareholders equity as of that date. As of that date, two customers accounted for approximately 11 and 10 percent of our accounts receivable, respectively. Our financial condition and profitability may be harmed if one or more of our customers are unable or unwilling to pay these accounts receivable when due.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2008, we operated in Singapore and Germany. Approximately 17 percent of our revenues were derived from our facilities in these countries in 2008. As of December 31, 2008 approximately 7 percent of our long-lived assets are located in these countries. Political or economic instability in these countries could have an adverse impact on our results of operations due to diminished revenues in these countries. Our future revenues, costs of operations and profit results could be affected by a number of factors related to our international operations, including changes in foreign currency exchange rates, changes in economic conditions from country to country, changes in a country s political condition, trade protection measures, licensing and other legal requirements and local tax issues. Unanticipated currency fluctuations in the Euro could lead to lower reported consolidated revenues due to the translation of these currencies into U.S. dollars when we consolidate our revenues.

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

We intend to explore opportunities to buy other businesses or technologies that could complement, enhance or expand our current business or product lines or that might otherwise offer us growth opportunities. We may have difficulty finding these opportunities or, if we do identify these opportunities, we may not be able to complete the transactions for various reasons, including a failure to secure financing. Any transactions that we are able to identify and complete may involve a number of risks, including: the diversion of our management s attention from our existing business to integrate the operations and personnel of the acquired or combined business or joint venture; possible adverse effects on our operating results during the integration process; unanticipated liabilities; and our possible inability to achieve the intended objectives of the transaction. In addition, we may not be able to successfully or profitably integrate, operate, maintain and manage our newly acquired operations or employees. In addition, future acquisitions may result in dilutive issuances of equity securities or the incurrence of additional debt.

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

As of December 31, 2008, we had bank indebtedness of $7,692,000 and additional indebtedness of $1,279,000, consisting of $1,020,000 payable to HIMPP and $259,000 payable to Amecon. Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by general economic conditions and by financial, competitive, political, business and other factors. Many of these factors are beyond our control. We believe that availability under our existing credit facility combined with funds expected to be generated from operations and control of capital spending will be sufficient to meet our anticipated cash requirements for operating needs for at least the next 12 months. If, however, we are unable to renew these facilities in the future or do not generate sufficient cash or complete such financings on a timely basis, we may be required to seek additional financing or sell equity on terms which may not be as favorable as we could have otherwise obtained. No assurance can be given that any refinancing, additional borrowing or sale of equity will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our access to capital is affected by prevailing conditions in the financial and equity capital markets, as well as our own financial condition.

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

We are highly dependent upon the continued services and experience of our senior management team, including Mark S. Gorder, our President, Chief Executive Officer and director. We depend on the services of Mr. Gorder and the other members of our senior management team to, among other things, continue the development and implementation of our business strategies and maintain and develop our client relationships.

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

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

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

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

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

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

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

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

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

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

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

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

We are a defendant along with a number of other parties in approximately 122 lawsuits as of December 31, 2008, (approximately 122 lawsuits as of December 31, 2007) alleging that plaintiffs have or may have contracted asbestos-related diseases as a result of exposure to asbestos products or equipment containing asbestos sold by one or more named defendants. These lawsuits relate to the discontinued Heat Technologies segment which was sold in March 2005. Due to the noninformative nature of the complaints, we do not know whether any of the complaints state valid claims against us. Certain insurance carriers have informed us that the primary policies for the period August 1, 1970-1973, have been exhausted and that the carriers will no longer provide a defense under those policies. We have requested that the carriers substantiate this situation. We believe we have additional policies available for other years which have been ignored by the carriers. Because settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, we believe when settlement payments are applied to these additional policies, we will have availability under the years deemed exhausted. If our insurance policies do not cover the costs and any awards for the asbestos-related lawsuits, we will have to use our cash or obtain additional financing to pay the asbestos-related obligations and settlement costs. There is no assurance that we will have the cash or be able to obtain additional financings on favorable terms to pay asbestos related obligations or settlements should they occur. The ultimate outcome of any legal matter cannot be predicted with certainty. In light of the significant uncertainty associated with asbestos lawsuits, there is no guarantee that these lawsuits will not materially adversely affect our financial position, results of operations or liquidity.

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

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

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

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

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

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

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

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

Beginning in fiscal 2004, we began a process to document and evaluate our internal controls over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting and a report by our independent auditors addressing these assessments. In this regard, management has been dedicating internal resources, has engaged outside consultants and has adopted a detailed work plan to (i) assess and document the adequacy of internal controls over financial reporting, (ii) take steps to improve control processes, where appropriate, (iii) validate through testing that controls are functioning as documented and (iv) implement a continuous reporting and improvement process for internal control over financial reporting. At this time, we are not aware, and our outside auditors have not advised us, of any material weaknesses or significant deficiencies in our internal controls, as defined in the relevant literature. If we fail to identify and correct any issues in the design or operating effectiveness of internal controls over financial reporting or fail to prevent fraud, current and potential shareholders and customers could lose confidence in our financial reporting, which could harm our business, the trading price of our stock and our ability to retain our current customers and obtain new customers.

The global financial crisis may have an impact on our business and financial condition in ways that we currently cannot predict.

The continued credit crisis, reduction in confidence and related turmoil in the global financial system may have an impact on our business and our financial condition. Due to the recent tightening of credit markets and concerns regarding the availability of credit, our customers may not have access to sufficient cash or short-term credit to obtain IntriCon product or other services provided by the Company.

ITEM 1B. Unresolved Staff Comments.

Not Applicable.

ITEM 2. Properties

The Company leases seven facilities, five domestically and two internationally, as follows:

- a 47,000 sq. ft. manufacturing facility in Arden Hills, Minnesota, which also serves as the Company s headquarters, from a partnership consisting of two former officers of IntriCon Inc. and Mark S. Gorder who serves as the president and CEO of the Company and IntriCon Inc. and on the Company s Board of Directors. At this facility, the Company manufactures body-worn devices, other than plastic component parts. Annual base rent expense, including real estate taxes and other charges, is approximately $477,000. The Company believes the terms of the lease agreement are comparable to those which could be obtained from unaffiliated third parties. The lease expires in October 2011.
- a 46,000 sq. ft. building in Vadnais Heights, Minnesota at which IntriCon produces plastic component parts for body-worn devices. Annual base rent expense, including real estate taxes and other charges, is approximately $382,000. The lease expires in June 2016.
- a building in Anaheim, California, which contains RTIE s electronics products manufacturing facilities and offices and consists of a total of 50,000 square feet. Annual base rent expense, including real estate taxes and other charges, is approximately $404,000. The lease expires in September 2009.
- two buildings in Camden, Maine, which contain Tibbetts manufacturing facilities and offices and consist of a total of 32,000 square feet. Annual base rent expense on the 25,000 square foot facility, including real estate taxes and other charges, is approximately $104,000. This lease expires in June 2012. Annual base rent expense on the 7,000 square foot facility, including real estate taxes and other charges, is approximately $62,000. This lease expires in June 2017.
- a 21,000 square foot building in Singapore which houses production facilities and administrative offices. Annual base rent expense, including real estate taxes and other charges, is approximately $208,000. This lease expires in May 2010.
- a 2,000 square foot facility in Germany which houses sales and administrative offices. Annual base rent expense, including real estate taxes and other charges, is approximately $48,000. This lease expires in June 2012.

All of the foregoing facilities are used in the Company s body-worn device segment, other than the Anaheim, California facility which is used in the electronic products segment. See notes 15 and 16 to the Company s consolidated financial statements in Item 8 of the Annual Report on Form 10-K.

ITEM 3. Legal Proceedings

The Company is a defendant along with a number of other parties in approximately 122 lawsuits as of December 31, 2008, (approximately 122 lawsuits as of December 31, 2007) alleging that plaintiffs have or may have contracted asbestos-related diseases as a result of exposure to asbestos products or equipment containing asbestos sold by one or more named defendants. These lawsuits relate to the discontinued Heat Technologies segment which was sold in March 2005. Due to the noninformative nature of the complaints, the Company does not know whether any of the complaints state valid claims against the Company. Certain insurance carriers have informed the Company that the primary policies for the period August 1, 1970-1973, have been exhausted and that the carriers will no longer provide a defense under those policies. The Company has requested that the carriers substantiate this situation. The Company believes it has additional policies available for other years which have been ignored by the carriers. Because settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, the Company believes when settlement payments are applied to these additional policies, the Company will have availability under the years deemed exhausted. The Company does not believe that the asserted exhaustion of the primary insurance coverage for this period will have a material adverse effect on its financial condition, liquidity, or results of operations. Management believes that the number of insurance carriers involved in the defense of the suits and the significant number of policy years and policy limits, to which these insurance carriers are insuring the Company, make the ultimate disposition of these lawsuits not material to the Company s consolidated financial position or results of operations.

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

The Company is also involved in other lawsuits arising in the normal course of business, as further described in note 15 to the consolidated financial statements in Item 8. While it is not possible to predict with certainty the outcome of these matters, management is of the opinion that the disposition of these lawsuits and claims will not materially affect the Company s consolidated financial position, liquidity, or results of operations.

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

None.

ITEM 4A. Executive Officers of the Registrant

The names, ages and offices (as of February 28, 2009) of the Company s executive officers were as follows:

Name	Age	Position
Mark S. Gorder	62	President, Chief Executive Officer and Director of the Company; President of IntriCon, Inc.
Scott Longval	32	Chief Financial Officer and Treasurer of the Company
Christopher D. Conger	48	Vice President, Research and Development
Michael P. Geraci	50	Vice President, Sales and Marketing
Dennis L. Gonsior	50	Vice President, Operations
Steve M. Binnix	59	Vice President and General Manager, RTI Electronics, Inc.
Greg Gruenhagen	55	Vice President, Corporate Quality and Regulatory Affairs

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

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

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Mr. Conger joined the Company in September 1997. Mr. Conger received a Bachelor of Science degree in Electrical Engineering from the University of Missouri and a Master of Science degree in Electrical Engineering from the University of Minnesota. He has served as the Company s Vice President of Research and Development since February 2005. Prior to that, Mr. Conger served as Director of Research and Development since 1997.

Mr. Geraci joined the Company in October 1983. Mr. Geraci received a Bachelor of Science degree from Bradley University. He has served as the Company s Vice President of Sales and Marketing since January 1995.

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

Mr. Binnix joined the Company in January 1989. Mr. Binnix is a Certified Manufacturing Engineer and received his Bachelor of Science degree from the University of LaVerne, California. He has served as the Company s Vice President of RTI Electronics, Inc. since April 2006 and as General Manager since 1993.

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

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PART II

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

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

Market and Dividend Information

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

	2008 Market Price Range		2007 Market Price Range	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 13.30	$ 5.71	$ 6.40	$ 4.80
Second	10.07	7.10	7.89	5.75
Third	9.00	3.01	11.50	6.87
Fourth	6.50	3.12	15.54	9.20

The closing sale price of the Company s common stock on February 27, 2009, was $4.10 per share.

At February 28, 2009 the Company had 336 shareholders of record of common stock. Such number of records does not reflect shareholders who beneficially own common stock in nominee or street name.

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

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

Stock Performance Graph

The following graph shows the cumulative total return for the last five years, calculated as of December 31 of each such year, for the Common Shares, the Standard & Poor s 500 Index, and the Russell 2000 Index (RUT). The graph assumes that the value of the investment in each of three was $100 at December 31, 2003 and that all dividends were reinvested.

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Source: Yahoo Finance

Note: Stock price performance shown in this Performance Graph for our common stock is historical and not necessarily indicative of future price performance. The information contained in this Performance Graph is not soliciting material and has not been filed with the Securities and Exchange Commission. This Performance Graph will not be incorporated by reference into any of our future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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ITEM 6. Selected Financial Data

Five-Year Summary of Operations*
(In thousands, except for per share and share data)

Years ended December 31,	2008	2007 (a)	2006	2005	2004(b) Restated
Sales, net	**$ 65,555**	$ 68,983	$ 51,726	$ 44,455	$ 35,183
Cost of sales	**49,509**	51,739	39,304	32,853	27,121
Operating expenses	**14,002**	13,981	10,455	10,181	11,535
Interest expense	**702**	978	499	409	465
Interest income	**(20)**	(85)	(48)	(52)	(2)
Equity in earnings of partnerships	**4**	158			
Gain on sale of asset					3,110
Other (income) expense, net	**56**	164	102	(106)	(61)
	1,302	2,048	1,415	1,171	(765)

Income (loss) from continuing operations before income taxes and discontinued ops										
Income tax expense		**264**		181		174		409		1,140
Income (loss) from continuing operations before discontinued operations		**1,038**		1,867		1,241		762		(1,905)
Income (loss) from discontinued operations, net of income taxes (Note 2)						(78)		767		1,369
Extraordinary gain from discontinued ops										684
Net income	**$**	**1,038**	$	1,867	$	1,163	$	1,529	$	148
Basic income (loss) per share:										
Continuing operations	**$**	**.20**	$	.36	$	.24	$	.15	$	(.37)
Discontinued operations						(.01)		.15		.27
Extraordinary gain discontinued operations										.13
Net income	**$**	**.20**	$	.36	$	.23	$	.30	$	.03
Diluted income (loss) per share:										
Continuing operations	**$**	**.19**	$	.34	$	.23	$	.14	$	(.37)
Discontinued operations						(.01)		.15		.27
Extraordinary gain discontinued operations										.13
Net income	**$**	**.19**	$	.34	$	.22	$	.29	$	.03
Weighted average number of Shares outstanding during year:										
Basic		**5,314,387**		5,209,567		5,159,216		5,135,348		5,129,214
Diluted		**5,539,456**		5,519,780		5,319,802		5,261,491		5,131,841

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Other Financial Highlights*
(In thousands, except for per share data)

Years ended December 31,		**2008**		**2007(a)**		**2006**		**2005**		**2004(b) Restated**
Working capital (c)	$	10,602	$	9,365	$	8,445	$	8,185	$	2,183
Total assets	$	39,462	$	39,732	$	34,143	$	29,237	$	30,939
Long-term debt	$	6,188	$	6,963	$	3,830	$	5,319	$	
Shareholders equity:										
Capital stock and additional paid-in capital	$	19,980	$	19,205	$	18,046	$	17,719	$	17,670
Retained earnings (accumulated deficit)		1,915		878		(990)		(2,152)		(3,680)
Accumulated other comprehensive loss		(318)		(220)		(185)		(213)		(597)
Treasury stock		(1,265)		(1,265)		(1,265)		(1,265)		(1,265)
Total shareholders equity	$	20,312	$	18,597	$	15,607	$	14,089	$	12,128
Depreciation and amortization	$	2,297	$	2,128	$	1,849	$	2,069	$	2,289

* See Note 1 and Note 13 to the Company s consolidated financial statements included herein for reclassifications and quarterly results of operations, respectively.

(a) Included in the 2007 results and balances at December 31, 2007, are net sales of $4.5 million, total assets of $6.4 million, long-term debt of $4.3 million, and depreciation and amortization of $100,000 from the acquisition of Tibbetts Industries. Because the 2007 results and balances at December 31, 2007 include amounts from the acquisition of Tibbetts Industries, the financial statements for 2007 may not be comparable to our prior historical results.

(b) For 2003, the Company reclassified the remaining portion of its Heat Technology business, which consisted of the burners and components portion of that business, as discontinued operations. The Company sold this portion of the business in the first quarter of 2005. For 2004 the Heat Technology business had revenues of $9.7 million, with net income of $2.1 million.

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

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

Company Overview

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

Currently, the Company has two operating segments, its body-worn device segment and electronics products segment. Our expertise in body-worn devices is focused on three main markets within this segment: medical, hearing health, and professional audio. Within these chosen markets, we combine ultra-miniature mechanical and electronics capabilities with proprietary technology that enhances the performance of body-worn devices.

Business Highlights

On July 20, 2008, the Company entered into a strategic alliance with Dynamic Hearing, a designer of proprietary DSP firmware used in ULP DSP hardware platforms for the hearing health and professional audio market. Dynamic Hearing granted a license to the Company to use certain of Dynamic Hearing s technology, including DSP and ULP technology. IntriCon intends to use the license from Dynamic Hearing to develop new body-worn ULP-DSP applications and expand its hearing health and professional audio product portfolio.

Forward Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read together with the selected consolidated financial data and our financial statements and the related notes appearing in Item 6. and Item 8. of this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward- looking statements as a result of many factors, including but not limited to those under the heading Risk Factors in Item 1A of this Annual Report on Form 10-K.

Results of Operations: 2008 Compared with 2007

Consolidated Net Sales

Consolidated net sales for 2008 and 2007 were as follows (dollars in thousands):

			Change	
	2008	**2007**	**Dollars**	**Percent**
Consolidated net sales	$ 65,555	$ 68,983	$ 3,428	(5.0%)

Our net sales are comprised of four main markets: hearing health, medical, and professional audio (collectively our body-worn device segment) and electronics (our electronics products segment).

We experienced an increase of 7 percent in net sales in the medical equipment market in 2008 as a direct result of increased sales to existing original equipment manufacturer, or OEM, customers. We believe there is an industry-wide trend toward further miniaturization and ambulatory operation enabled by wireless connectivity, referred to as bio-telemetry, which resulted in further growth in our medical business. We have experienced solid growth in our most advanced biotelemetry device, a continuous wireless glucose monitor, which we manufacture for a major medical OEM. We are also working with our strategic partner, Advanced Medical Electronics, on proprietary biotelemetry technologies that will enable us to develop new devices that connect patients and care givers, providing critical information and feedback.

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Net sales in our hearing health business declined 19 percent from 2007 primarily due to lower demand from our customers in this market and the completion of a one-time hearing health project in the 2007 third and fourth quarters, which the customer took in-house in 2008. We expect the softness in the market will continue into 2009. Despite the anticipated short-term softness, we believe our longer term prospects in our hearing health business remain strong as we continue to develop advanced technologies, such as our nanoDSP , which will enhance the performance of hearing devices. In addition, we believe the market indicators in the hearing health industry, including the aging world population, suggest long-term industry growth.

Net sales to the professional audio communications market grew 21 percent over the prior year fueled by a full year of revenue from our May 2007 acquisition of ITC and higher demand for communication devices from new and existing customers. Our professional audio communication business serves customers in need of high-performance portable communication devices. For customers focusing on homeland security needs, the line includes several communication devices that are more portable and perform well in noisy or hazardous environments. These products are also well suited for applications in the fire, law enforcement, safety, aviation and military markets.

Net sales to the electronics product sector decreased 18 percent from prior year, primarily due to lower demand from one customer. In addition, management made an effort to eliminate lower margin revenue from non-strategic customers and reduce the electronics business cost structure in attempt to maximize profit from this segment.

Gross Profit

Gross profit, both in dollars and as a percent of sales, for 2008 and 2007, were as follows (dollars in thousands):

	2008		2007		Change	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Gross profit	$ 16,046	24.5%	$ 17,245	25.0%	($1,199)	(7.0%)

In 2008, gross profit dollars decreased primarily due to lower sales volume; gross profit as a percentage of sales decreased primarily as a result of the conclusion of the one-time hearing health program in 2007, general softness in hearing health and the decline in our electronics product segment. We have various activities underway to increase our gross margins, such as transferring our microphone and receiver production from our Maine operation to our lower cost Singapore facility, increasing the percentage of IntriCon proprietary content in the devices we manufacture and significant investments to introduce Six Sigma lean manufacturing methods into key medical device product lines.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2008 and 2007 were (dollars in thousands):

	2008		2007		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Selling	$ 3,959	6.0%	$ 4,034	5.8%	($ 75)	(1.9%)
Research and development	3,248	5.0%	3,089	4.5%	$ 159	5.1%
General and administrative	6,796	10.4%	6,859	9.9%	($ 63)	(0.9%)

The decreased selling expenses for 2008 as compared to the prior year were primarily driven by decreases in royalties and commissions as a result of lower revenues. The decrease in general and administrative expenses were driven by cost control measures taken by the Company in conjunction with the revenue decreases, as well as lower professional and legal fees compared to the prior year offset, in part by a $246,000 increase in stock based compensation expense. The 2007 expenses included significant costs related to the Energy Transportation Group, Inc. litigation and our acquisition of ITC. The increased research and development expenses as compared to the prior year were due to our continued emphasis on investing in research and development projects to develop new products and technology to further enhance our product portfolio.

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Net Interest Expense

Net interest expense for 2008 was $682,000, a decrease of $211,000 from $893,000 in 2007. The decrease in net interest expense was due primarily to charges related to the refinancing of the credit facility that were incurred in 2007 in connection with the ITC acquisition and lower interest rates in effect on lower outstanding debt in 2008, offset in part by decreased interest income as a result of the lower balance of the note receivable.

Equity in Earnings of Partnerships

The equity in earnings of partnerships for 2008 was $4,000 compared to $158,000 in 2007.

The Company recorded a $145,000 decrease in the carrying amount of its investment in the Hearing Instrument Manufacturers Patent Partnership (HIMPP) for 2008, reflecting amortization of the patents and other intangibles and the Company s portion of the partnership s operating results for the year ended December 31, 2008, compared to a $333,000 decrease in the carrying amount of the investment in 2007 for the amortization of the patents and other intangibles and the Company s portion of the partnership s operating results for the year ended December 31, 2007.

The Company recorded a $141,000 and $175,000 increase in the carrying amount of ITC s investment in a joint venture, reflecting the Company s portion of the joint venture s operating results for year ended December 31, 2008 and 2007, respectively.

Other

In 2008, other expense was $56,000 compared to $164,000 in 2007. The other expense for 2008 and 2007 primarily related to the losses on foreign currency exchange as a result of the exchange rate changes in the Singapore dollar and Euro.

Income Taxes

Income taxes were as follows (dollars in thousands):

	2008	2007
Income tax expense	$ 264	$ 181
Percentage of pre-tax income	20.3%	8.8%

The expense in 2008 and 2007 was primarily due to foreign taxes on German and Singapore operations. The Company is in a net operating loss position (NOL) for federal income tax purposes and, consequently, minimal income tax expense from the current period domestic operations was recognized. Our deferred tax asset related to the NOL carryforwards has been offset by a full valuation allowance. We estimate we have approximately $13.5 million of NOL carryforwards available to offset future federal income taxes that begin to expire in 2022.

Results of Operations: 2007 Compared with 2006

Consolidated Net Sales

Consolidated net sales for 2007 and 2006 were as follows (dollars in thousands):

			Change	
	2007	2006	Dollars	Percent
Consolidated net sales	$ 68,983	$ 51,726	$ 17,257	33.4%

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Net sales in our hearing health business grew 17 percent from 2006 fueled by increased demand for the latest technology advancements in hearing devices, including our advanced line of amplifier assemblies and systems based on our proprietary nanoDSP technology.

We experienced an increase of 122 percent in net sales in the medical equipment market in 2007 as a direct result of increased sales to existing OEM customers. Exclusive of net sales resulting from the ITC acquisition, medical net sales increased 101 percent from 2006.

Net sales to the professional audio device product sector grew 44 percent over the prior year due to additional sales of microphones to a specific customer and additional sales resulting from the acquisition of ITC. Excluding the results from ITC, professional audio device sales grew 11 percent from 2006.

Net sales to the electronics product sector decreased 10 percent from prior year, primarily due to lower demand from one customer.

Gross Profit

Gross profit, both in dollars and as a percent of sales, for 2007 and 2006, were as follows (dollars in thousands):

	2007		2006		Change	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Gross profit	$ 17,245	25.0%	$ 12,422	24.0%	$ 4,823	38.8%

In 2007, gross margin dollars increased due to the higher overall sales volume. Additionally, gross profit margin as a percentage of sales increased to 25 percent. Gross margin increase from 2006 was primarily due to increased IntriCon product content, proprietary technology and leverage gained on increased volume.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2007 and 2006 were (dollars in thousands):

	2007		2006		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Yr-over-yr Incr.
Selling	$ 4,034	5.8%	$ 3,410	6.6%	$ 624	18.3%
Research and development	3,089	4.5%	2,123	4.1%	$ 966	45.5%
General and administrative	6,859	9.9%	4,922	9.5%	$ 1,937	39.4%

The increased selling, research and development and general and administrative expenses in 2007 as compared to the prior year were primarily driven by the expenses incurred to adequately support our growth and the May 22, 2007 acquisition of ITC. ITC operating expenses for the year were $1.0M. The Company made continued efforts to invest in strategic research and development opportunities in 2007.

Net Interest Expense

Net interest expense for 2007 was $893,000, an increase of $442,000 from $451,000 in 2006. The increase from the prior year s expense was primarily due to the higher outstanding debt balance, a prepayment penalty of $110,000 related to debt which was paid off early as a result of refinancing our debt at the time we acquired ITC, partly offset by a decrease in the average interest rate compared to the prior year. The higher outstanding debt balance was primarily driven by the debt related to the purchase of ITC.

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Equity in Earnings of Partnerships

Equity in earnings of partnerships for 2007 resulted in a net loss of $158,000. This represents the Company s portion of the operating results of equity method investments, as well as amortization of of the excess of the HIMPP investment over the underlying partnership assets.

Other

In 2007, other expense was $164,000 compared to $102,000 in 2006. The other expense for 2007 and 2006 primarily related to the loss on foreign currency exchange.

Income Taxes

Income taxes were as follows (dollars in thousands):

	2007	2006
Income tax expense	$ 181	$ 174
Percentage of pre-tax income	8.8%	12.3%

The expense in 2007 and 2006 was primarily due to foreign taxes on German and Singapore operations. On February 22, 2006, the Company received approval from the Singapore Ministry of Trade and Industry to lower the effective tax rate in Singapore from 20% to 13%. This change was retroactive to September 2003. As such a $106,000 benefit was recognized in the first quarter of 2006.

Discontinued Operations

We recorded a loss from discontinued operations as follows (dollars in thousands):

	2007	2006
Loss from discontinued Heat Technology Business	$	$ (78)

Heat Technology Segment

The 2006 net loss of $(78,000), or $(0.01) per diluted share, was primarily due to a write-off of a portion of the note receivable recorded upon sale of the assets.

Liquidity and Capital Resources

Our primary sources of cash have been cash flows from operations, bank borrowings, and other financing transactions such as sale-leaseback transactions and capital leases. For the last three years, cash has been used for repayments of bank borrowings, the ITC acquisition, purchases of equipment, and working capital to support research and development.

As of December 31, 2008, we had approximately $0.2 million of cash on hand. Sources of our cash for the year ended December 31, 2008 have been from our operations, as described below.

Consolidated net working capital increased to $10.6 million at December 31, 2008 from $9.4 million at December 31, 2007. Our cash flows from operating, investing and financing activities, as reflected in the statement of cash flows at December 31, are summarized as follows (dollars in thousands):

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	2008	2007	2006
Cash provided (used) by:			
Continuing operations	$ 2,452	$ 3,534	$ 1,656
Discontinued operations			(78)
Investing activities			