INTRICON CORP
Form 10-K
March 13, 2013
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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, 2012

or

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

For the transition period from _____ to _____.

Commission File Number 1-5005

INTRICON CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	23-1069060
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1260 Red Fox Road Arden Hills, Minnesota (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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

Large accelerated filer o Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company x
Indicate by check mark whether the registrant is a shell company (as defined by rule 12b-2 of the Act). Yes o No x

The aggregate market value of the voting common shares held by non-affiliates of the registrant on June 30, 2012 was $32,658,582. 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, 2013 was 5,687,539.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s definitive proxy statement for the 2013 annual meeting of shareholders are incorporated by reference into Part III of this report; provided, however, that the Audit Committee Report and any other information in such Proxy Statement that is not required to be included in this Annual Report on Form 10-K, shall not be deemed to be incorporated herein or filed for the purposes of the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended.

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PART I

ITEM 1. Business

Company Overview

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

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

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

Business Highlights

Major Events in 2012

In August 2012, the Company sold its 50% interest in its Global Coils joint venture, to joint venture partner Audemars SA. Global Coils is in the business of marketing, designing, manufacturing, and selling audio coils to the hearing health industry. Audemars paid $426 in cash at closing and will make future payments, both one time and recurring, as specified in the purchase agreement. Audemars also transferred certain hearing health inventory to IntriCon. The Company recorded a gain on the sale of $822, or $.14 per diluted share, in the gain on sale of investment in partnership line of the accompanying statement of operations.

In December 2012, the Company amended its credit facilities with The PrivateBank and Trust Company. Terms of the amendment included, among other things, permitting the Company to borrow an additional $1,250 by increasing the Company s term loan facility to $4,000, while keeping the existing amortization schedule in place. In addition, the amendment eliminated the minimum EBITDA covenant, reset certain other financial covenants and changed the dates of covenant compliance from monthly to quarterly. Lastly, the amendment increased the inventory cap on the borrowing base from $3,000 to $3,500 and removed eligible equipment from the base. The Company is using the facilities to fund current growth opportunities, expand the Company s overseas low-cost manufacturing infrastructure and meet anticipated working capital requirements. The credit facilities are further described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Major Events in 2011

In October 2011, the Company announced it entered into a manufacturing agreement to become a supplier of hearing aids to hi HealthInnovations, a UnitedHealth Group company. hi HealthInnovations launched a suite of high-tech, lower-cost hearing devices for the estimated 36 million Americans with hearing loss. An estimated 75 to 80 percent of people in the United States who can benefit from hearing devices do not use them, largely due to the high cost. hi HealthInnovations is offering consumers technically advanced hearing aids, including those based on IntriCon s new APT Open in-the-canal (ITC) hearing aid platform. The Company devoted a considerable amount of time, resources and capital during 2011 to securing the agreement and preparing for the program s launch.

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

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Major Events in 2010

On May 28, 2010 the Company completed the sale of substantially all of the assets of its electronics business to an affiliate of Shackleton, pursuant to an Asset Purchase Agreement dated May 28, 2010. Shackleton paid $850 cash at closing for the assets and assumed certain operating liabilities of IntriCon s electronics business, subject to an accounts receivable adjustment. As part of the sale, the Company recognized a gain, net of taxes, of $35.

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

Core Technologies Overview:

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

Ultra-Low-Power Digital Signal Processing
DSP converts real-world analog signals into a digital format. Through 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.

During 2012 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, newly developed DSP technologies are utilized in the Sirona cardiac diagnostic monitoring (CDM) platform.

Ultra-Low-Power Wireless
Wireless connectivity is fast becoming a required technology, and wireless capabilities are especially critical in new body-worn devices. IntriCon s BodyNet ULP technology, including the nanoLink and PhysioLink wireless systems, offers solutions for transmitting the body s activities to caregivers, and wireless audio links for professional communications and surveillance products. Potential BodyNet applications include electrocardiogram (ECG) diagnostics and monitoring, diabetes monitoring, sleep apnea studies and audio streaming for hearing devices.

IntriCon is in the final stages of commercializing its PhysioLink wireless technology, which will be incorporated into product platforms serving the medical, hearing health and professional audio communication markets. This system is based on 2.4GHz proprietary digital radio protocol in the industrial-scientific-medical (ISM) frequency band and enables audio and data streaming to ear-worn and body-worn applications over distances of up to five meters.

Microminiaturization
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 microphone and receiver technology has been pushing the limits of size and performance for over a decade. Our miniature transducers, which have been incorporated into various product platforms, enhance the reliability, sensitivity, supply voltage, and output level in body-worn devices. These enhancements allow us to make devices that are extremely portable and perform well in noisy or hazardous environments. These small devices are well-suited for applications in the aviation, fire, law enforcement, safety and military markets. Our technology also is used for technical surveillance by law enforcement and security agencies, and by performers and production staff in the music and stage performance markets. Also included in our transducer line are medical coils and micro coils used in pacemaker programming and interventional catheter positioning applications.

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Market Overview:

Our core technologies expertise is focused on three main markets: medical bio-telemetry, value hearing health and professional audio communications. Revenue from the medical bio-telemetry and value hearing health markets is reported on the respective medical and hearing health lines in the discussion of our results of operation in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 17 "Revenue by Market" to the Company's consolidated financial statements included herein.

Medical Bio-Telemetry

In the medical bio-telemetry market, the Company is focused on sales of bio-telemetry devices for life-critical diagnostic monitoring. Using our nanoDSP and BodyNet technology platforms, the Company manufactures microelectronics, micro-mechanical assemblies, high-precision injection-molded plastic components and complete bio-telemetry devices for emerging and leading medical device manufacturers. The medical industry is faced with pressures to reduce the cost of healthcare. Driven by core technologies, such as the IntriCon Physiolink that wirelessly connects patients and care givers in non-traditional ways, IntriCon helps shift the point of care from expensive traditional settings, such as hospitals, to less expensive non-traditional settings like the home. IntriCon currently serves this market by offering medical manufacturers the capabilities to design, develop and manufacture 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. We have a strategic partnership with Advanced Medical Electronics Corp. (AME) that allows us to develop new bio-telemetry devices that better connect patients and care givers, providing critical information and feedback. Through the further development of our ULP BodyNet family, we believe the bio-telemetry markets offers significant opportunity.

IntriCon currently has a strong presence in both the diabetes and cardiac diagnostic monitoring bio-telemetry markets. For diabetes, IntriCon has partnered with Medtronic to manufacture their wireless continuous glucose monitors that measure glucose levels and deliver real-time blood glucose trend information. Along with the wireless glucose monitor, IntriCon also manufactures a variety of related accessories. Further, we believe there are opportunities to expand our diabetes product offering with Medtronic as well as move into new markets.

In the cardiac diagnostic monitoring market, we provide solutions for ambulatory cardiac monitoring. We entered this market through an acquisition of Jon Barron, Inc. doing business as Datrix (Datrix) in 2009. Our first two product platforms, Sirona and Centauri, received Food and Drug Administration (FDA) 510(k) approval in late 2011. The Sirona platform, which incorporates the PhysioLink technology, is essentially two products in one design because it can be used as an event recorder, a holter monitor or both. This platform is very small, rechargeable, and water spray proof. The features of the Centauri platform are event recording combined with wireless transmission of the patient data to a remote service center, which then forwards the information to the doctor.

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

IntriCon is targeting other emerging biotelemetry and home care markets, such as sleep apnea, that could benefit from its capabilities to develop devices that are more technologically advanced, smaller and lightweight. To do so, IntriCon is focusing more capital and resources in sales and marketing to expand its reach to other large medical device and health care companies.

Value Hearing Health Market

The Company believes the value hearing health market offers significant growth opportunities. In the United States alone, there are approximately 36 million hearing impaired individuals. This population is expected to grow significantly over the next ten years as 65-year-old-plus age demographic is one of the fastest growing segments the in the U.S., Europe and Japan. The current U.S. market penetration into the hearing impaired population is approximately 20 percent. We believe the U.S. market penetration is low primarily due to high costs to purchase a hearing device and inconveniences in the conventional hearing health distribution channel. This has created the opportunity for alternative care models, such the insurance channel and personal sound amplifier (PSAP) channel.

In the insurance channel, the Company entered into a manufacturing agreement with hi HealthInnovations, a UnitedHealth Group company, to become their supplier of hearing aids. At the beginning of 2012 hi HealthInnovations launched a suite of high-tech, lower-cost hearing devices for their Medicare and Part D participants and later in the year announced they were increasing this offering to the over 26 million people enrolled in their employer-sponsored and individual health benefit plans. This insurance model has been successfully demonstrated internationally, as several countries providing a full insurance program are serving 40 to 70 percent of hearing impaired population. Further, research in the US has shown a fully insured model will drive an individual to seek treatment at an earlier stage of hearing loss, greatly increasing the market size and penetration.

In personal sound amplifier products, the FDA has created a PSAP category; it is analogous to “reader glasses” in the optical market and provides a cost effective sound amplification device. These devices are not hearing aids and make no claims of compensating for hearing loss. They can be purchased “off-the-shelf” and are not fit or prescribed to meet a specific individual’s needs. Rather, these devices amplify sound and tend to be used in noisy or challenging environments. They have a significantly lower retail price to the consumer than traditional hearing aids.

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We also believe there are niches in the conventional hearing health channel that will embrace our value hearing health proposition, as high costs constrain their growth potential. Additionally, we believe there is a large international market, most notably in the so-called BRIC countries (Brazil, Russia, India and China), for this type of product offering.

We believe IntriCon is very well positioned to serve these value hearing health market channels. 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. Our DSP devices provide better clarity and an improved ability to filter out background noise at attractive pricing points. We believe product platform introductions such as the APT and Lumen devices will drive market share gains into all channels of the emerging value hearing health market.

Professional Audio Communications

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

The Company sees great opportunity to market its situational listening devices (SLD's). Much like the PSAP devices, these devices are intended to help people hear in noisy environments like restaurants and automobiles, and listen to television, music, and direct broadcast by wireless connection. Such devices are intended to be supplements to conventional hearing aids, which do not handle those situations well. The SLD's will be based on our PhysioLink technology, which were recently demonstrated at the annual convention of the American Academy of Audiology. The product line consists of an earpiece, TV transmitter, companion microphone, iPod/iPhone transmitter, and USB transmitter. With the emergence of advanced parallel technologies in both the SLD and PSAP markets, the Company will likely shift recognition of many professional audio communications product sales into the value hearing health market in future years.

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 intends to focus more capital and resources in marketing and sales to expand its reach into large medical device and healthcare companies in the medical bio-telemetry and value hearing health markets outlined above. The Company believes this will allow us to further advance our technology portfolio, new product platforms, strengthen customer relations and expand our market knowledge.

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

In 2012, one customer accounted for approximately 21 percent of the Company s net sales. During 2012, the top five customers accounted for approximately $29,000, or 46 percent, of the Company s net sales. See note 3 to the consolidated financial statements for a discussion of net sales and long-lived assets by geographic area.

Internationally, sales representatives employed by IntriCon GmbH (GmbH), a wholly owned German subsidiary, solicit sales from European hearing instrument, medical device and professional audio communications manufacturers and suppliers.

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

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

Employees. As of December 31, 2012, the Company had a total of 569 full time equivalent employees, of whom 33 are executive and administrative personnel, 18 are sales personnel, 30 are engineering personnel and 488 are operations personnel. The Company considers its relations with its employees to be satisfactory. None of the Company's employees are represented by a union.

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

Research and Development. IntriCon conducts research and development activities primarily to improve its existing products and proprietary technology. The Company is committed to increasing its investment in the research and development of proprietary technologies, such as the ULP nanoDSP and ULP wireless technologies. The Company believes the continued development of key proprietary technologies will be the catalyst for long-term revenues and margin growth. Research and development expenditures were $4,694, $4,876, and $4,485 in 2012, 2011 and 2010, respectively. These amounts are net of customer and grant reimbursed research and development.

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

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

United States Food and Drug Administration

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

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

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

International Regulation

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

The registration system for our medical devices in the EU requires that our quality system conform to international quality standards and that our medical devices conform to essential requirements set forth by the Medical Device Directive (MDD). Manufacturing facilities and processes under which our ECG recorder devices are produced are inspected and audited by our International Organization for Standardization (ISO)

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

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Third Party Reimbursement

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

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

Forward-Looking Statements

Certain statements included or incorporated by reference in this Annual Report on Form 10-K or the Company s other public filings and releases, which are not historical facts, or that include forward-looking terminology such as may , will , believe , anticipate , expect , should , opti continue or the negative thereof or other variations thereof, are forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, and the regulations thereunder), which are intended to be covered by the safe harbors created thereby. These statements may include, but are not limited to statements in Business, Legal Proceedings, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes to the Consolidated Financial Statements, such as the Company s ability to compete, statements concerning the hi HealthInnovations program, the divestiture of its electronic products segment and its Global Coils joint venture interest, strategic alliances and their benefits, the adequacy of insurance coverage, government regulation, potential increases in demand for the Company s products, net operating loss carryforwards, the ability to meet cash requirements for operating needs, the ability to meet liquidity needs, assumptions used to calculate future levels of funding of employee benefit plans, the adequacy of insurance coverage, the impact of new accounting pronouncements and litigation.

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

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

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, on official business days during the hours of 10:00 a.m. to 3:00 p.m. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The Company s reports, proxy and information statements and other SEC filings are also available on the SEC s Internet site as part of the EDGAR database (http://www.sec.gov).

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

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

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

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

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ITEM 1A. Risk Factors

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

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

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

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

We are dependent on a small number of customers for a large portion of our revenues. In fiscal year 2012, our largest customer accounted for approximately 21 percent of our net sales and our five largest customers accounted for approximately 46 percent of our net sales. A significant decrease in the sales to or loss of any of our major customers could have a material adverse effect on our business and results of operations. Our revenues are largely dependent upon the ability of customers to develop and sell products that incorporate our products. No assurance can be given that our major customers will not experience financial, technical or other difficulties that could adversely affect their operations and, in turn, our results of operations.

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

Some of our customers purchase our products on credit, which may cause a concentration of accounts receivable among some of our customers. As of December 31, 2012, we had accounts receivable, less allowance for doubtful accounts, of $7,171, which represented approximately 38 percent of our shareholders equity as of that date. As of that date, two customers accounted for a combined total of 24 percent of our accounts receivable. Our financial condition and profitability may be harmed if one or more of our customers are unable or unwilling to pay these accounts receivable when due.

There are risks under our manufacturing agreement with hi HealthInnovations.

In 2011, we entered into a manufacturing agreement with hi HealthInnovations, a UnitedHealth Group company, to supply hearing aids. Under the agreement, we are required to establish and maintain a certain level of manufacturing, supply chain and delivery capacity. We devoted considerable time, resources and capital during 2012 and 2011 securing the agreement and preparing for the program s launch. hi HealthInnovations is not required to purchase any minimum amount under the manufacturing agreement and may cease purchases at any time. We also agreed that during the term of the agreement, we would not sell hearing aids or accessories to another health insurer or directly to consumers. For more information, see our Current Report on Form 8-K filed with the SEC on November 14, 2011.

Royalties under the sale of our interest in the Global Coils joint venture may be less than estimated.

In August 2012, the Company sold its 50% interest in its Global Coils joint venture, to its joint venture partner Audemars SA. The consideration for the sale included cash, inventory and royalty payments. Included in the gain on sale are the estimated royalty payments which the Company measured at fair value based on level 3 inputs which are considered unobservable inputs that are not corroborated by market data. The Company used future estimated cash flows discounted to their present value to calculate fair value. Actual royalty payments may differ from the Company s estimate which could adversely affect the Company s results of operations in future periods.

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

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

Liquidity:

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

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

Demand:

Any deterioration in the economy or a return to recession could result in lower sales to our customers. Additionally, our customers may not have access to sufficient cash or short-term credit to obtain our products or services.

Prices:

Certain markets could experience deflation, which would negatively impact our average prices and reduce our margins.

Our operations could be adversely affected by changes in the federal budget.

The federal government is under increasing pressure to reduce the budget deficit. This could result in a general reduction in U.S. healthcare and defense spending and could cause our customers to delay, reduce or cancel their purchases of our products. Future actions or inactions of the United States government, including a failure to increase the government debt limit, reductions in the size of the U.S budget, including automatic across-the-board budget cuts, or sequestrations, reductions in the Medicare and Medicaid programs, potential tax increases or a temporary shutdown of the federal government, could affect purchases by our customers, disrupt financial markets and adversely affect economic conditions generally, all of which could have a material adverse effect on our results of operation and financial condition.

Health care policy changes, including U.S. health care reform legislation signed in 2010, may have a material adverse effect on us.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010. The legislation imposes significant new taxes on medical device makers in the form of a 2.3% excise tax on all U.S. medical device sales beginning in January 2013. Under the legislation, the total cost to the medical device industry is expected to be approximately $20 billion over ten years. This significant increase in the tax burden on our industry could have a material, negative impact on our results of operations and our cash flows either directly, through taxes on us, or indirectly through others in our value chain being subject to the tax. We currently estimate the direct impact of the excise tax on us to be minimal; however, if facts or circumstances change in our business relationships, we could be subject to customer pricing pressures or required to pay additional taxes under the rules. Other elements of this legislation, such as comparative effectiveness research, an independent payment advisory board, payment system reforms, including shared savings pilots, and other provisions, could meaningfully change the way health care is developed and delivered, and may materially impact numerous aspects of our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- our ability to create demand for products in new markets;
- our ability to manage growth effectively;
- our ability to strengthen our sales and marketing presence;
- 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.

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

In 2012, we operated in Singapore, Indonesia and Germany. Approximately 23 percent of our revenues were derived from our facilities in these countries in 2012. As of December 31, 2012 approximately 26 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, Singapore dollar and other currencies could lead to lower reported consolidated revenues due to the translation of this currency into U.S. dollars when we consolidate our revenues and results from operations.

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

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

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

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

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

As of December 31, 2012, we had bank indebtedness of $9,905 and additional indebtedness of $262 payable to the former shareholder of Datrix. Our ability to pay the principal and interest on our indebtedness as it comes due will depend upon our current and future performance. Our performance is affected by general economic conditions and by financial, competitive, political, business and other factors. Many of these factors are beyond our control. We believe that availability under our existing credit facility combined with funds expected to be generated from operations and control of capital spending will be sufficient to meet our anticipated cash requirements for operating needs for at least the next 12 months. If, however, we are unable to renew these facilities or obtain waivers (see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources) in the future or do not generate sufficient cash or complete such financings on a timely basis, we may be required to seek additional financing or sell equity on terms which may not be as favorable as we could have otherwise obtained. No assurance can be given that any refinancing, additional borrowing or sale of equity will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our access to capital is affected by prevailing conditions in the financial and equity capital markets, as well as our own financial condition and performance.

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

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

any and all of our obligations under the loan agreements which would have a material adverse effect on our business, financial condition and results of operations.

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

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

Cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations.

Global cybersecurity threats can range from uncoordinated individual attempts to gain unauthorized access to our information technology (IT) systems to sophisticated and targeted measures known as advanced persistent threats. While we employ comprehensive measures to prevent, detect, address and mitigate these threats (including access controls, vulnerability assessments, continuous monitoring of our IT networks and systems and maintenance of backup and protective systems), cybersecurity incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (our own or that of third parties) and the disruption of business operations. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties, diminution in the value of our investment in research, development and engineering, and increased cybersecurity protection and remediation costs, which in turn could adversely affect our competitiveness and results of operations.

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

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

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

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

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

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

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

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.

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

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

We are a defendant along with a number of other parties in lawsuits alleging that plaintiffs have or may have contracted asbestos-related diseases as a result of exposure to asbestos products or equipment containing asbestos sold by one or more named defendants. These lawsuits relate to the discontinued heat technologies segment which we sold in March 2005. Due to the non-informative 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, 1970-1978 have been exhausted and that the carriers will no longer provide defense and insurance coverage under those policies. However, we have other primary and excess insurance policies that we believe 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 our tender of defense of these cases, or have denied coverage, or have accepted the tenders but asserted a reservation of rights and/or advised us that they need to investigate further. Because settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, we believe we 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 we will be required to pay; accordingly, we expect that our litigation costs will increase in the future as the older policies are exhausted. 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. If our insurance policies do not cover the costs and any awards for the asbestos-related lawsuits, we will have to use our cash or obtain additional financing to pay the asbestos-related obligations and settlement costs. There is no assurance that we will have the cash or be able to obtain additional financings on favorable terms to pay asbestos related obligations or settlements should they occur. The ultimate outcome of any legal matter cannot be predicted with certainty. In light of the significant uncertainty associated with asbestos lawsuits, there is no guarantee that these lawsuits will not materially adversely affect our financial position, results of operations or liquidity.

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

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

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

In addition, the stock market in recent years has experienced significant price and volume fluctuations. Such volatility 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.

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, referred to as Section 404, we are required to include in our Annual Reports on Form 10-K, our management s report on internal control over financial reporting. Currently, we are not required to include a report of our independent registered public accounting firm on our internal controls because we are a smaller reporting company under SEC rules; therefore, shareholders do not have the benefit of an independent review of our internal controls. While we have reported no material weaknesses in the Form 10-K for the fiscal year ended December 31, 2012, we cannot guarantee that we will not have material weaknesses reported by our management in the future. Compliance with the requirements of Section 404 is expensive and time-consuming. If in the future we fail to complete this evaluation in a timely manner, or if we determine that we have a material weakness, we could be subject to regulatory scrutiny and a loss of public confidence in our internal control over financial reporting. In addition, any failure to establish an effective system of disclosure controls and procedures could cause our current and potential investors and customers to lose confidence in our financial reporting and disclosure required under the Securities Exchange Act of 1934, which could adversely affect our business and the market price of our common stock.

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ITEM 1B. Unresolved Staff Comments

Not Applicable.

ITEM 2. Properties

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

a 47,000 sq. ft. manufacturing facility in Arden Hills, Minnesota, which also serves as the Company s headquarters, from a partnership consisting of two former officers of IntriCon Inc. and Mark S. Gorder who serves as the president and CEO of the Company and on the Company s Board of Directors. At this facility, the Company manufactures body-worn devices, other than plastic component parts. Annual base rent expense, including real estate taxes and other charges, is approximately $490. The Company believes the terms of the lease agreement are comparable to those which could be obtained from unaffiliated third parties. As amended, this lease expires in October 2013, subject to one option to renew for a three year period.

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

two buildings in Camden, Maine, which contain manufacturing facilities and offices and consist of a total of 32,000 square feet. Annual base rent expense on the 25,000 square foot facility, including real estate taxes and other charges, is approximately $109. This lease expires in June 2014. Annual base rent expense on the 7,000 square foot facility, including real estate taxes and other charges, is approximately $62. This lease expires in June 2017.

a 4,000 square foot building in Escondido, California, which houses assembly operations and administrative offices relating to our cardiac monitoring business. Annual base rent expense, including real estate taxes and other charges, is approximately $35. This lease expires in April 2014.

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

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

a 2,000 square foot facility in Germany which houses sales and administrative offices. Annual base rent expense, including real estate taxes and other charges, is approximately $39. This lease expires in June 2017.

See notes 13 and 14 to the Company s consolidated financial statements in Item 8 of the Annual Report on Form 10-K.

ITEM 3. Legal Proceedings

The Company is a defendant along with a number of other parties in lawsuits alleging that plaintiffs have or may have contracted asbestos-related diseases as a result of exposure to asbestos products or equipment containing asbestos sold by one or more named defendants. These lawsuits relate to the discontinued heat technologies segment which was sold in March 2005. Due to the 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 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 13 to the consolidated financial statements in Item 8. While it is not possible to predict with certainty the outcome of these matters, management is of the opinion that the disposition of these lawsuits and claims will not materially affect the Company s consolidated financial position, liquidity, or results of operations.

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ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 4A. Executive Officers of the Registrant

The names, ages and offices (as of February 28, 2013) of the Company s executive officers were as follows:

Name	Age	Position
Mark S. Gorder	66	President, Chief Executive Officer and Director of the Company
Scott Longval	36	Chief Financial Officer and Treasurer of the Company
Christopher D. Conger	52	Vice President, Research and Development
Michael P. Geraci	54	Vice President, Sales and Marketing
Dennis L. Gonsior	54	Vice President, Global Operations
Greg Gruenhagen	59	Vice President, Corporate Quality and Regulatory Affairs

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

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

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

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

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

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

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PART II

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

The Company s common shares are listed on the NASDAQ Global Market 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:

	2012 Market Price Range		2011 Market Price Range	
Quarter	High	Low	High	Low
First	$ 7.50	$ 5.53	$ 4.27	$ 3.75
Second	7.17	6.12	5.12	3.66
Third	6.57	3.91	4.60	2.84
Fourth	5.38	4.03	7.22	3.20

The closing sale price of the Company s common stock on February 27, 2013, was $4.65 per share.

At February 27, 2013 the Company had 300 shareholders of record of common stock. Such number does not reflect shareholders who beneficially own common stock in nominee or street name.

The Company currently intends to retain any future earnings to support operations and to finance the growth and development of its business and does not intend to pay cash dividends on its common stock for 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.

In 2012, the Company did not sell any unregistered securities and did not repurchase any of its securities.

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ITEM 6. Selected Financial Data

Five-Year Summary of Operations

Years ended December 31,	2012	2011	2010	2009 (b)	2008
Sales, net	**$ 63,933**	$ 56,058	$ 58,697	$ 51,676	$ 57,908
Gross profit	**14,976**	12,666	15,013	11,051	14,657
Operating expenses	**13,976**	13,858	13,419	11,681	12,360
Interest expense	**(755)**	(609)	(655)	(836)	(678)
Equity in income (loss) of partnerships	**(116)**	174	(135)	(150)	(4)
Gain on sale of investment in partnership	**822**				
Other income (expense), net	**(78)**	42	(4)	(220)	(36)
Income (loss) from continuing operations before income taxes and discontinued operations	**873**	(1,585)	800	(1,836)	1,579
Income tax (expense) benefit	**(164)**	160	(145)	34	(265)
Income (loss) from continuing operations before discontinued operations	**709**	(1,425)	655	(1,802)	1,314
Gain on sale of discontinued operations, net of income taxes			35		
Income (loss) from discontinued operations, net of income taxes			(329)	(2,119)	(276)
Net income (loss)	**$ 709**	$ (1,425)	$ 361	$ (3,921)	$ 1,038
Basic income (loss) per share:					
Continuing operations	**$ .13**	$ (.25)	$ .12	$ (.34)	$ .25
Discontinued operations			(.05)	(.39)	(.05)
Net income (loss)	**$ .13**	$ (.25)	$ .07	$ (.73)	$ .20
Diluted income (loss) per share:					
Continuing operations	**$ .12**	$ (.25)	$ .12	$ (.34)	$ .24
Discontinued operations			(.05)	(.39)	(.05)
Net income (loss)	**$ .12**	$ (.25)	$ .07	$ (.73)	$ .19
Weighted average number of shares outstanding during year:					
Basic	**5,669**	5,599	5,484	5,394	5,314
Diluted	**5,888**	5,599	5,535	5,394	5,539

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Other Financial Highlights

Years ended December 31,	2012	2011	2010	2009(b)	2008
Working capital (a)	**$ 8,893**	$ 8,207	$ 8,615	$ 8,504	$ 10,602
Total assets	**$ 39,132**	$ 40,730	$ 36,267	$ 37,363	$ 39,462
Long-term debt	**$ 7,222**	$ 8,217	$ 6,465	$ 7,730	$ 6,188
Shareholders equity	**$ 18,722**	$ 17,446	$ 18,571	$ 17,489	$ 20,312
Depreciation and amortization	**$ 2,150**	$ 2,258	$ 2,601	$ 2,470	$ 2,426

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

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

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

Company Overview

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

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

Business Highlights

In August 2012, the Company sold its 50% interest in its Global Coils joint venture, to joint venture partner Audemars SA. Global Coils is in the business of marketing, designing, manufacturing, and selling audio coils to the hearing health industry. Audemars paid $426 in cash at closing and will make future payments, both one time and recurring, as specified in the purchase agreement. Audemars also transferred certain hearing health inventory to IntriCon. The Company recorded a gain on the sale of $822, or $.14 per diluted share, in the gain on sale of investment in partnership line of the accompanying statement of operations.

In December 2012, the Company amended its credit facilities with The PrivateBank and Trust Company. Terms of the amendment included, among other things, permitting the Company to borrow an additional $1,250 by increasing the Company s term loan facility to $4,000, while keeping the existing amortization schedule in place. In addition, the amendment eliminated the Minimum EBITDA covenant, reset certain other financial covenants and changed the dates of covenant compliance from monthly to quarterly. Lastly, the amendment increased the inventory cap on the borrowing base from $3,000 to $3,500 and removed eligible equipment from the base. The Company is using the facilities to fund current growth opportunities, the Company s overseas low-cost manufacturing infrastructure and meet anticipated working capital requirements.

Forward Looking Statements

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

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Results of Operations: 2012 Compared with 2011

Consolidated Net Sales

Our net sales are comprised of three main markets: medical, hearing health, and professional audio - collectively our body-worn device segment. Below is a recap of our sales by main markets for the years ended December 31, 2012 and 2011:

	2012	2011	Change Dollars	Change Percent
Medical	$ 24,463	$ 22,923	$ 1,540	6.7%
Hearing Health	23,806	21,032	2,774	13.2%
Professional Audio Communications	15,664	12,103	3,561	29.4%
Consolidated net sales	$ 63,933	$ 56,058	$ 7,875	14.0%

In 2012, we experienced a 6.7 percent increase in medical sales primarily driven by higher sales to Medtronic and other key medical customers. Management believes the industry-wide trend to shift the point of care from expensive traditional settings, such as hospitals, to less expensive non-traditional settings like the home, will result in growth of the medical bio-telemetry industry. 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 both the diabetes market, with its Medtronic partnership, and cardiac diagnostic monitoring bio-telemetry market. The Company believes there are growth opportunities in these markets as well other emerging biotelemetry and home care markets, such as sleep apnea, 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 year ended December 31, 2012 increased 13.2 percent over the same period in 2011 driven by sales to hi HealthInnovations and sales into the nontraditional PSAP hearing health market. These gains were partially offset by temporary declines in legacy products. In mid-2012, we satisfied hi HealthInnovations initial product ramp-up needs for 2012 and in the near term we expect minimal new orders. The hi HealthInnovations program is based on a development of an innovative new distribution channel. While hi HealthInnovations continues to make progress, there are challenges to be overcome and it is difficult to project program needs at this time; however, we do believe in the long-term potential of this program. We continue to support hi HealthInnovations in building the infrastructure to provide high quality, affordable hearing healthcare to their customers. Examples of our efforts include the development and validation of hardware and software, providing quality management system support, and device tracking and analysis support. We believe this will position hi HealthInnovations to aggressively expand this program to their customer base. With market dynamics such as low penetration rates, an aging population, and the need for reduced cost and convenience, the Company believes the hearing health market offers significant growth opportunities, including the emergence of alternative care models, such the insurance channel and PSAP channel. IntriCon believes it is very well positioned to serve these value hearing health market channels. 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. Our DSP devices provide better clarity and an improved ability to filter out background noise at attractive pricing points. We believe product platform introductions such as the APT and Lumen devices will drive market share gains into all channels of the emerging value hearing health market.

Net sales to the professional audio device sector increased 29.4 percent in 2012 compared to the same period in 2011. The significant increase over the prior year was due to continued demand for securities products domestically and to the fulfillment of a large headset contract with the Singapore government, providing technically advanced headsets to be worn in difficult listening environments. While the Singapore government contract has been fulfilled in 2012, we believe there is potential for additional future contracts with the Singapore government and other agencies. Additionally, we believe our extensive portfolio of communication devices that are portable, smaller and perform well in noisy or hazardous environments will provide for future long-term growth in this market.

Gross Profit

Gross profit, both in dollars and as a percent of sales, for 2012 and 2011, were as follows:

	2012 Dollars	2012 Percent of Sales	2011 Dollars	2011 Percent of Sales	Change Dollars	Change Percent
Gross profit	$ 14,976	23.4%	$ 12,666	22.6%	$ 2,310	18.2%

In 2012, gross profit increased primarily due to greater sales across our three core markets, partially offset by infrastructure costs in Asia and an unfavorable product mix in our professional audio communications market. The Company further expanded its low-cost manufacturing capabilities during the year. The continued ramp-up of the Company's Indonesian facility provides low-cost manufacturing options to drive ongoing margin improvement and the ability to pursue additional high-volume manufacturing opportunities. In addition, the Company increased the medical manufacturing infrastructure at its Singapore facility to support the transfer of certain medical business. The Company has a number of initiatives to expand margins, including transferring select labor-intensive programs to Singapore and Indonesia, and increasing the percentage of proprietary IntriCon technology into all of its product platforms. However, due to the relatively fixed global cost manufacturing structure, the most immediate impact on margin growth will be through increased revenue volume.

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

Sales and marketing, general and administrative and research and development expenses for the years ended December 31, 2012 and 2011 were:

	2012		2011		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Sales and marketing	$ 3,324	5.2%	$ 3,185	5.7%	$ 139	4.3%
General and administrative	5,958	9.3%	5,797	10.3%	161	2.8%
Research and development	4,694	7.3%	4,876	8.7%	(182)	(3.7)%

Sales and marketing increased over the prior year due to increased sales and related selling commissions and a headcount addition in late 2012. Management expects to focus more capital and resources in sales and marketing in the upcoming years to expand its reach in the medical bio-telemetry and value hearing health markets. General and administrative expenses increased over the prior year period primarily driven by increased stock based compensation as compared to 2011. Research and development decreased over the prior year primarily due to a temporary reduction in fee for service work by third parties.

Interest Expense

Interest expense for 2012 was $755, an increase of $146 from $609 in 2011. The increase in interest expense was primarily due to higher average debt balances and higher interest rates as compared to the prior year.

Equity in Income (Loss) of Partnerships

The equity in income (loss) of partnerships for 2012 was $(116) compared to $174 in 2011.

The Company recorded a $166 decrease in the carrying amount of its investment in the Hearing Instrument Manufacturers Patent Partnership (HIMPP) for 2012, 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, 2012, compared to a $34 decrease in the carrying amount of the investment in 2011 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, 2011.

Prior to the sale of the Global Coils joint venture interest, the Company recorded a $50 and $208 increase in the carrying amount of IntriCon s investment in this joint venture, reflecting the Company s portion of the joint venture s operating results for year ended December 31, 2012 and 2011, respectively.

Gain on Sale of Investment in Partnership

In August 2012, the Company sold its 50% interest in its Global Coils joint venture, to its joint venture partner Audemars SA. The Global Coils joint venture is in the business of marketing, designing, manufacturing, and selling audio coils to the hearing health industry. Audemars paid $426 in cash at closing and will make future payments, both one time and recurring, as specified in the purchase agreement. Audemars also transferred certain hearing health inventory to IntriCon. The Company recorded a gain on the sale of $822 in the gain on sale of investment in partnership line of the accompanying statement of operations.

The net gain was computed as follows:

Cash proceeds	$ 426
Receivables	721
Inventory	186
Net assets disposed	(486)
Transaction costs	(25)
Gain on sale	$ 822

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Other Income (Expense), net

In 2012, other income (expense), net was $(78) compared to $42 in 2011 primarily related to the gain (loss) on foreign currency exchange.

Income Tax (Expense) Benefit

Income taxes were as follows:

	2012	2011
Income tax (expense) benefit	$ (164)	$ 160
Percentage of pre-tax income (loss)	18.8%	(10.1%)

The (expense) benefit in 2012 and 2011 was primarily due to foreign taxes on German and Singapore operations. The Company is in a net operating loss position (NOL) for US federal income tax purposes and, consequently, minimal income tax expense from the current period domestic operations was recognized. Our deferred tax asset related to the NOL carry forwards has been offset by a full valuation allowance. We estimate we have approximately $19,888 of NOL carry forwards available to offset future federal income taxes that begin to expire in 2022.

Results of Operations: 2011 Compared with 2010

Consolidated Net Sales

Below is a recap of our sales by main markets for the years ended December 31, 2011 and 2010:

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

In 2011, we experienced a 6.8 percent decrease medical sales primarily due to extended regulatory lead times and anticipated fluctuations in demand. The persisting economic softness and regulatory delays has caused many patients to defer discretionary medical procedures, and hospitals and doctors to cut back on purchases of legacy med-tech products. As a result, during the course of 2011, a few large medical customers experienced fluctuations in demand. As the year progressed, we were encouraged by the reengagement of Medtronic and other key medical customers, driving four quarters of sequential growth.

Net sales in our hearing health business for the year ended December 31, 2011 remained flat compared to the same period in 2010 driven by growth in our DSP circuits and sales to hi HealthInnovations, offset by t