INTRICON CORP
Form 10-Q
November 14, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from _____ to _____

Commission File Number: 1-5005

INTRICON CORPORATION

(Exact name of registrant as specified in its charter)

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

(651) 636-9770

(Registrant's telephone number, including area code)

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant 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 No

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

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

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

Yes No

The number of outstanding shares of the registrant's common stock, $1.00 par value, on October 28, 2011 was 5,620,529 (net of 515,754 treasury shares).

INTRICON CORPORATION

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PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

INTRICON CORPORATION

Consolidated Condensed Balance Sheets

(In Thousands, Except Per Share Amounts)

	September 30, 2011 (Unaudited)	December 31, 2010
Current assets:		
Cash	$ 193	$ 281
Restricted cash	542	478
Accounts receivable, less allowance for doubtful accounts of $223 at September 30, 2011 and $219 at December 31, 2010	7,918	8,228
Inventories	9,713	8,331
Refundable income taxes	205	—
Other current assets	1,011	446
Total current assets	19,582	17,764
Machinery and equipment	38,123	36,610
Less: Accumulated depreciation	31,700	30,184
Net machinery and equipment	6,423	6,426
Goodwill	9,709	9,709
Investment in partnerships	1,426	1,109
Other assets, net	1,071	1,259
Total assets	$ 38,211	$ 36,267
Current liabilities:		
Checks written in excess of cash	$ 390	$ 409
Current maturities of long-term debt	2,727	2,095
Accounts payable	4,607	3,161
Accrued salaries, wages and commissions	2,100	1,593
Deferred gain	110	110
Partnership payable	260	260
Income taxes payable	—	24
Other accrued liabilities	1,710	1,497
Total current liabilities	11,904	9,149

Long-term debt, less current maturities	6,644	6,465
Other postretirement benefit obligations	691	710
Long-term partnership payable	240	240
Deferred income taxes	94	169
Accrued pension liabilities	436	464
Deferred gain	413	495
Other long-term liabilities	123	4
Total liabilities	20,545	17,696
Commitments and contingencies (note 12)		
Shareholders' equity:		
Common stock, $1.00 par value per share; 20,000 shares authorized; 6,136 and 6,073 shares issued; 5,620 and 5,557 shares outstanding at September 30, 2011 and December 31, 2010, respectively	6,136	6,073
Additional paid-in capital	15,902	15,644
Accumulated deficit	(2,717)	(1,644)
Accumulated other comprehensive loss	(390)	(237)
Less: 516 common shares held in treasury, at cost	(1,265)	(1,265)
Total shareholders' equity	17,666	18,571
Total liabilities and shareholders' equity	$ 38,211	$ 36,267

(See accompanying notes to the consolidated condensed financial statements)

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INTRICON CORPORATION

Consolidated Condensed Statements of Operations

(In Thousands, Except Per Share Amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2011 (Unaudited)	September 30, 2010 (Unaudited)	September 30, 2011 (Unaudited)	September 30, 2010 (Unaudited)
Sales, net	$13,873	$ 14,727	$41,584	$ 44,215
Cost of sales	10,789	10,912	32,261	32,693
Gross profit	3,084	3,815	9,323	11,522
Operating expenses:				
Sales and marketing	734	751	2,422	2,373
General and administrative	1,486	1,398	4,382	4,335
Research and development	1,326	1,231	3,600	3,455
Total operating expenses	3,546	3,380	10,404	10,163
Operating income (loss)	(462)	435	(1,081)	1,359
Interest expense	(144)	(158)	(431)	(500)
Equity in income (loss) of partnerships	(12)	54	317	42
Other (expense) income	69	(57)	32	29
Income (loss) from continuing operations before income taxes and discontinued operations	(549)	274	(1,163)	930
Income tax expense (benefit)	(60)	31	(90)	106
Income (loss) before discontinued operations	(489)	243	(1,073)	824
Loss from discontinued operations, net of income taxes	—	—	—	(329)
Gain on sale of discontinued operations, net of income taxes	—	—	—	35
Net income (loss)	$(489)	$ 243	$(1,073)	$ 530
Basic income (loss) per share:				
Continuing operations	$(0.09)	$ 0.04	$(0.19)	$ 0.15
Discontinued operations	$0.00	$ 0.00	$0.00	(0.05)
Net income (loss)	$(0.09)	$ 0.04	$(0.19)	$ 0.10
Diluted income (loss) per share:				
Continuing operations	$(0.09)	$ 0.04	$(0.19)	$ 0.15
Discontinued operations	$0.00	$ 0.00	$0.00	(0.05)

Net income (loss)	$(0.09)	$ 0.04	$(0.19)	$ 0.10
Average shares outstanding:				
Basic	5,600	5,485	5,576	5,477
Diluted	5,600	5,614	5,576	5,540

(See accompanying notes to the consolidated condensed financial statements)

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INTRICON CORPORATION

Consolidated Condensed Statements of Cash Flows

(In Thousands)

	Nine Months Ended September 30, 2011 (Unaudited)	September 30, 2010 (Unaudited)
Cash flows from operating activities:		
Net income (loss)	$(1,073)	$ 530
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on sale of discontinued operations	—	(35)
Depreciation and amortization	1,722	2,088
Stock-based compensation	150	362
Loss on disposition of property	8	5
Change in deferred gain	(83)	(83)
Change in allowance for doubtful accounts	2	(7)
Equity in income of partnerships	(317)	(42)
Provision for deferred income taxes	(75)	21
Changes in operating assets and liabilities:		
Accounts receivable	332	(1,030)
Inventories	(1,374)	(829)
Other assets	(611)	(73)
Accounts payable	1,442	266
Accrued expenses	579	105
Other liabilities	(176)	24
Net cash provided by operating activities	526	1,302
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,535)	(1,219)
Proceeds from sale of discontinued operations, net	—	775
Net cash used in investing activities	(1,535)	(444)
Cash flows from financing activities:		
Proceeds from long-term borrowings	11,899	8,690
Repayments of long-term borrowings	(11,088)	(9,252)
Proceeds from employee stock purchases and exercise of stock options	163	70
Change in restricted cash	(42)	64
Change in checks written in excess of cash	(19)	(19)
Net cash provided by (used in) financing activities	913	(447)

Effect of exchange rate changes on cash	8	(4)
Net (decrease) increase in cash	(88)	407
Cash, beginning of period	281	385
Cash, end of period	$193	$ 792

(See accompanying notes to the consolidated condensed financial statements)

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INTRICON CORPORATION

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

1. General

   In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly IntriCon Corporation's ("IntriCon" or the "Company") consolidated financial position as of September 30, 2011 and December 31, 2010, and the consolidated results of its operations for the three and nine months ended September 30, 2011 and 2010. Results of operations for the interim periods are not necessarily indicative of the results of the operations expected for the full year or any other interim period.

   The Company has evaluated subsequent events occurring after the date of the consolidated financial statements for events requiring recording or disclosure in the financial statements. On October 31, 2011 the Company's subsidiary executed a lease amendment for its Arden Hills, MN location to extend the term of the lease for two years. The total annual base rent expense, real estate taxes and other charges under the newly executed lease amendment are expected to be approximately $481.

2. New Accounting Pronouncements

   In May 2011, the Financial Accounting Standards Board ("FASB") issued new guidance concerning fair value measurements and disclosure. The new guidance is the result of joint efforts by the FASB and the International Accounting Standards Board to develop a single, converged fair value framework on how to measure fair value and the necessary disclosures concerning fair value measurements. The guidance is effective for interim and annual periods beginning after December 15, 2011 and no early adoption is permitted. The Company is currently evaluating this new guidance and its materiality to the consolidated financial statements.

   In June 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This ASU increases the prominence of other comprehensive income ("OCI") in the financial statements and provides companies two options for presenting OCI, which until now has typically been placed within the statement of equity. One option allows an OCI statement to be included with the statement of operations, and together the two will make a statement of total comprehensive income. Alternately, companies may present an OCI statement separate from the statement of operations; however, the two statements will have to appear consecutively within a financial report. This ASU does not affect the types of items that are reported in OCI, nor does it affect the calculation or presentation of earnings per share. For public companies, this ASU is effective for periods beginning after December 15, 2011. The Company will adopt the OCI presentation requirements required by ASU No. 2011-05 beginning with its first quarter in 2012 and does not anticipate that the adoption will have a material impact on the consolidated financial statements.

   In September 2011, the FASB issued ASU No. 2011-08: "Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment.'This ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under this ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 is effective for annual periods beginning after December 15, 2011. We do not expect that ASU 2011-08 will have any material impact on our financial position and results of operations because it is a change in application of the goodwill impairment test only.

3. Discontinued Operations

In December 2009, the Company's Board of Directors authorized management to exit the non-core electronics products segment operated by its wholly-owned subsidiary, RTI Electronics, Inc. and divest the assets used in the business. The decision to exit the electronics products segment was made to allow the Company to focus on its core body-worn device segment. In connection with its decision to divest the electronics business, the Company evaluated assets for impairment and costs of terminating employees and recorded the following: (i) an impairment charge of $685 relating to goodwill, (ii) a reduction to realizable value of $720 to tangible assets, and (iii) $275 in employee termination costs for the year ended December 31, 2009. Additional costs related to employee terminations of approximately $200 were recorded during the first half of 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 Equity Partners ("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.

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The Company recorded a gain on sale of $35. The net gain was computed as follows during the second quarter of the 2010 fiscal year:

Cash	$4
Accounts receivable, net	773
Inventory, net	383
Other current assets	16
Property and equipment, net	72
Other assets	26
Accounts payable	(356)
Accrued expenses	(130)
Long-term debt	(48)
Total	$740
Cash proceeds received from Shackleton	850
Net assets sold	(740)
Transaction costs	(75)
Gain on sale of discontinued operations	$35

The following table shows the results of operations of the Company’s electronic products for the nine months ended September 30, 2010:

Sales, net	$2,346
Operating costs and expenses	(2,670)
Operating loss	(324)
Other expense, net	(5)
Loss from operations before income tax expense	(329)
Income tax expense	—
Net loss from discontinued operations	$(329)

4. Product Warranty

In general, the Company warrants its products to be free from defects in material and workmanship and will fully conform to and perform to specifications for a period of one year. The following table presents changes in the Company’s warranty liability for the nine months ended September 30, 2011 and the year ended December 31, 2010:

	September 30, 2011	December 31, 2010

Beginning balance	$ 105	$ 71
Warranty expense	20	116
Closed warranty claims	(51)	(82)
Ending balance	$ 74	$ 105

5. Geographic Information

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

	September 30, 2011	December 31, 2010
United States	$ 5,141	$ 5,027
Other – primarily Singapore	1,667	1,789
Consolidated	$ 6,808	$ 6,816

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

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The geographical distribution of net sales to geographical areas for the three and nine months ended September 30, 2011 and 2010 were as follows:

Net Sales to Geographical Areas	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
United States	$9,981	$ 10,112	$28,892	$ 30,623
Germany	416	261	1,245	1,410
China	244	1,386	1,375	