INTRICON CORP
Form 10-Q
May 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 1-5005

INTRICON CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-1069060**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1260 Red Fox Road	
Arden Hills, Minnesota	**55112**
(Address of principal executive offices)	(Zip Code)

(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 April 30, 2018 was 6,964,458.

INTRICON CORPORATION

I N D E X

PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

INTRICON CORPORATION
Consolidated Condensed Balance Sheets
(In Thousands, Except Per Share Amounts)

	March 31, 2018 (Unaudited)	December 31, 2017 (as adjusted)
Current assets:		
Cash	$ 381	$ 373
Restricted cash	675	644
Accounts receivable, less allowance for doubtful accounts of $483 at March 31, 2018 and $332 at December 31, 2017	11,249	9,052
Inventories	14,862	13,708
Contract assets	4,766	2,979
Other current assets	1,380	1,544
Total current assets	33,313	28,300
Machinery and equipment	34,636	40,124
Less: Accumulated depreciation	27,089	32,949
Net machinery and equipment	7,547	7,175
Goodwill	10,808	10,808
Intangible assets, net	2,701	2,740
Investment in partnerships	1,931	1,616
Other assets, net	3,702	3,835
Total assets	$ 60,002	$ 54,474
Current liabilities:		
Current maturities of long-term debt	2,063	2,040
Accounts payable	12,966	10,423

Accrued salaries, wages and commissions	2,503	3,113
Other accrued liabilities	4,286	3,739
Total current liabilities	21,818	19,315
Long-term debt, less current maturities	10,948	9,321
Other postretirement benefit obligations	444	455
Accrued pension liabilities	795	772
Other long-term liabilities	3,114	3,172
Total liabilities	37,119	33,035
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $1.00 par value, authorized 1,000 shares; none issued and outstanding	—	—
Common stock, $1.00 par value per share; 20,000 shares authorized; 6,944 and 6,900 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	6,944	6,900
Additional paid-in capital	22,138	21,581
Accumulated deficit	(5,287)	(6,056)
Accumulated other comprehensive loss	(647)	(733)
Total shareholders' equity	23,148	21,692
Non-controlling interest	(265)	(253)
Total equity	22,883	21,439
Total liabilities and equity	$ 60,002	$ 54,474

(See accompanying notes to the consolidated condensed financial statements)

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

	Three Months Ended March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited and as adjusted)
Sales, net	$25,363	$ 21,215
Cost of sales	16,951	15,381
Gross profit	8,412	5,834
Operating expenses:		
Sales and marketing	2,840	2,311
General and administrative	3,061	2,558
Research and development	1,159	1,153
Total operating expenses	7,060	6,022
Operating income (loss)	1,352	(188)
Interest expense	(188)	(182)
Other income (expense)	(220)	56
Income (loss) from continuing operations before income taxes and discontinued operations	944	(314)
Income tax expense	187	64
Income (loss) from continuing operations before discontinued operations	757	(378)
Loss on sale of discontinued operations (Note 3)	—	(164)
Loss from discontinued operations (Note 3)	—	(113)
Net income (loss)	757	(655)
Less: Loss allocated to non-controlling interest	(12)	(385)
Net income (loss) attributable to IntriCon shareholders	$769	$ (270)
Basic income (loss) per share attributable to IntriCon shareholders:		
Continuing operations	$0.11	$ 0.00
Discontinued operations	—	$ (0.04)
Net income (loss) per share:	$0.11	$ (0.04)

Diluted income (loss) per share attributable to IntriCon shareholders:		
Continuing operations	$0.10	$ 0.00
Discontinued operations	—	(0.04)
Net income (loss) per share:	$0.10	$ (0.04)
Average shares outstanding:		
Basic	6,929	6,826
Diluted	7,843	6,826

(See accompanying notes to the consolidated condensed financial statements)

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

	Three Months Ended March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited and as adjusted)
Net income (loss)	$ 757	$ (655)
Interest rate swap, net of taxes of $0	4	12
Pension and postretirement obligations, net of taxes of $0	5	5
Foreign currency translation adjustment, net of taxes of $0	78	45
Comprehensive income (loss)	$ 844	$ (593)

(See accompanying notes to the consolidated condensed financial statements)

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

	Three Months Ended March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited and as adjusted)
Cash flows from operating activities:		
Net income (loss)	$757	$ (655)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	654	562
Stock-based compensation	333	218
Loss on sale of discontinued operations	—	164
Change in allowance for doubtful accounts	151	(3)
Equity in loss of partnerships	116	12
Changes in operating assets and liabilities:		
Accounts receivable	(2,407)	(888)
Inventories	(1,183)	(553)
Other assets	(1,648)	(631)
Accounts payable	2,262	1,670
Accrued expenses	(316)	(531)
Other liabilities	26	51
Net cash used in operating activities	(1,255)	(584)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(485)	(273)
Investment in partnerships	(164)	(94)
Net cash used in investing activities	(649)	(367)
Cash flows from financing activities:		
Proceeds from long-term borrowings	6,106	4,520
Repayments of long-term borrowings	(4,550)	(3,920)
Proceeds from employee stock purchases and exercise of stock options	267	60
Change in restricted cash	(55)	(21)
Net cash provided by financing activities	1,768	639

Effect of exchange rate changes on cash	144	25
Net increase (decrease) in cash	8	(287)
Cash, beginning of period	373	667
Cash, end of period	$381	$ 380
Noncash investing and financing:		
Investment in partnerships through liability incurred	$308	$ —
Acquisition of property, plant and equipment in accounts payable	305	—

(See accompanying notes to the consolidated condensed financial statements)

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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 March 31, 2018 and December 31, 2017, and the consolidated results of its operations and cash flows for the three months ended March 31, 2018 and 2017. Results of operations for the interim periods are not necessarily indicative of the results of operations expected for the full year or any other interim period.

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

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

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

In January 2018, the Company closed on the additional 33% stake in Soundperience, bringing its total ownership to 49% and its total investment to 1,500 Euros consisting of an equity investment and license agreement. Soundperience has designed self-fitting hearing aid technology. The Company does not anticipate the Soundperience business will have a notable financial impact on operating results, but rather will provide the Company with exclusive access in the

United States to critical software technology. Soundperience's self-fitting hearing aid technology is being used in the German market today, most notably through Signison, the Company's joint venture with the majority owner of Soundperience. Soundperience and Signison are accounted for in the Company's financial statements using the equity method.

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

2. New Accounting Pronouncements

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

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

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

3. Discontinued Operations

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

	Three Months Ended March 31, 2018	**Three Months Ended March 31, 2017**
Sales, net	$ —	$ 140
Operating costs and expenses	—	(253)
Loss from discontinued operations	—	(113)

The Company sold the cardiac diagnostic monitoring business on February 17, 2017 to Datrix, LLC for a future revenue earn-out that was valued by the Company at $0. The Company recorded a loss on the sale of $164. The net loss was computed as follows:

Accounts receivable, net	$179
Accrued liabilities	(15)
Net assets sold	$164
Fair value of consideration received	—
Loss on sale of discontinued operations, net of income taxes	$164