INTRICON CORP
Form 10-K
March 16, 2010
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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, 2009
or
o TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________.

Commission File Number 1-5005

INTRICON CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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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 o No o

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

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

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

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

The aggregate market value of the voting common shares held by non-affiliates of the registrant on June 30, 2009 was $14,477,621. 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 26, 2010 was 5,470,108.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s definitive proxy statement for the 2010 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, formerly Selas Corporation of America (together with its subsidiaries referred herein as the Company , or IntriCon , we , us or our) is an international firm engaged in the designing, developing, engineering and manufacturing of body-worn devices. The Company serves the body-worn device market by designing, developing, engineering and manufacturing micro-miniature injection-molded plastics, microelectronics, micro-mechanical assemblies and complete assemblies, primarily for bio-telemetry devices, medical equipment, hearing instruments, professional audio and telecommunications devices. The Company, headquartered in Arden Hills, Minnesota has facilities in Minnesota, California, Maine, Singapore and Germany, and operates through subsidiaries. The Company is a Pennsylvania corporation 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 business segment, the body-worn device segment (formally known as the precision miniature medical 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. The Company is in the process of exiting the electronic products segment and expects this to be completed by mid 2010. For all periods presented, the Company classified its heat technology segment and electronics products segment as discontinued operations.

Business Highlights

Major Events in 2009

On August 13, 2009, the Company acquired all of the outstanding stock of Jon Barron, Inc. doing business as Datrix (Datrix), a privately held developer, manufacturer, tester and marketer of medical devices and related software products, based in Escondido, California. The acquisition provides the Company entry into the ambulatory electrocardiograph (AECG) and event recording markets.

The purchase price included a closing cash payment of $1,225,000, issuance of 75,000 shares of restricted common stock of the Company and the issuance of a promissory note in the amount of $1,050,000 bearing annual interest at 6%. In addition the Company paid off Datrix s outstanding line of credit with Wells Fargo of $130,000 at closing.

The principal amount of the promissory note is payable in three installments of $350,000 on August 13, 2010, August 13, 2011 and August 13, 2012. The note bears annual interest at 6% and is payable with each principal payment as set forth above.

To finance a portion of the Datrix acquisition and replace the Company s existing credit facilities with Bank of America, including capital leases, the Company and its domestic subsidiaries entered into a new three year credit facility with The PrivateBank and Trust Company on August 13, 2009. The credit facility provides for:

- § an $8,000,000 revolving credit facility, with a $200,000 subfacility for letters of credit. Under the revolving credit facility, the availability of funds depends on a borrowing base composed of stated percentages of the Company s eligible trade receivables, eligible inventory, and eligible equipment less a reserve; and
- § a $3,500,000 term loan.

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

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On December 29, 2009, the Company decided to exit the electronics products segment operated by its wholly-owned subsidiary, RTI Electronics, 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 and to improve the Company s overall margins and profitability. In connection with its decision to divest the electronics business, the Company evaluated assets for impairment and severance costs and recorded the following: (i) an impairment charge of $685,000 relating to goodwill, (ii) a reduction to realizable value of $720,000 to tangible assets, and (iii) $275,000 in employee termination costs for the year ended December 31, 2009. Additional employee termination costs are expected to be approximately $185,000 in 2010.

Major Events in 2008

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

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

Major Events in 2007

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

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

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

AME receives support from the federal Small Business Innovation Research program and will develop the bio-telemetry instruments. IntriCon will manufacture these devices and supply them to third-party distributors. IntriCon also gains exclusive access to key AME technology and will be able to use this technology to develop additional bio-telemetry applications. In 2008 and 2009, there were amendments to the strategic alliance to include additional funded projects, related to the development of advanced biotelemetry technologies.

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Market Overview: Body-Worn Devices

IntriCon designs, develops, engineers and manufactures micro-miniature injection-molded plastics, microelectronics, micro-mechanical assemblies and complete assemblies, primarily for bio-telemetry devices, medical equipment, hearing instruments, professional audio and telecommunications devices.

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

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

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

In addition, there has been an industry-wide trend toward further miniaturization and ambulatory operation enabled by wireless connectivity, which is also referred to as bio-telemetry. Through the further development of our ULP BodyNet family, a series of wirelessly enabled products including our new wireless nanoLink and physioLink families, we believe the bio-telemetry offers a significant future opportunity. Increasingly, the medical industry is looking for wireless, low-power capabilities in their devices. We believe our strategic partnership with AME will allow us to develop new bio-telemetry devices that better connect patients and care givers, providing critical information and feedback. Current examples of IntriCon bio-telemetry products used by medical device manufacturers include components found in wireless glucose sensor pumps that introduce drugs into the bloodstream. In 2009, we also entered the cardiac diagnostic monitoring (CDM) market, with our acquisition of Datrix, a supplier of patient monitoring devices. We are leveraging Datrix s cardiac monitoring capabilities and incorporating IntriCon s core competencies to develop and launch a new line of CDM devices.

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

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

Using our ULP BodyNet family technology, specifically nanoDSP and our new wireless nanoLink and physioLink technologies, IntriCon is building a new generation of affordable, high-quality hearing aids and similar amplifier devices under contracts for OEM s. DSP devices have better clarity, attractive pricing points and an improved ability to filter out background noise. During 2009, we introduced our Scenic DSP amplifier with acoustic scene analysis, our new high-performance adaptive DSP hearing instrument amplifier. In our view, Scenic advanced capabilities are ideally suited for the hearing health market. We believe the introduction of Scenic solidifies our position as a leader of high-performance adaptive DSP hearing instrument amplifiers. Furthermore, we believe our strategic alliance with Dynamic Hearing will allow us to develop new body-worn applications and further expand both our hearing health and professional audio product portfolio.

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

While it harbors great potential, the hearing health market is experiencing slowness due to macroeconomic conditions. In general, the U.S. market does not provide insurance reimbursement for hearing aid purchases. People can defer their hearing aid purchase. We believe the sporadic buying patterns will continue into 2010. Reimbursement trends in Europe are more favorable, with insurers and the governments covering more devices.

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

In 2010, we plan to introduce a line of situational listening devices (SLD s) intended to help hearing impaired people hear in noisy environments like restaurants and automobiles, and to listen to television and music by direct wireless connection. Such devices are intended to be supplements to their conventional hearing aids, which do not handle those situations well. The product line consists of an earpiece, TV transmitter, companion microphone, iPod/iPhone transmitter, and USB transmitter.

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

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

In 2009, one customer accounted for 22 percent of the Company s body-worn device net sales. During 2009, the top five customers accounted for approximately $23.8 million or 46 percent of the Company s body-worn device net sales. See note 4 to the consolidated financial statements for a discussion of net sales and long-lived assets by geographic area and segment.

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Internationally, sales representatives employed by IntriCon GmbH (GmbH), a German company of which the Company owns 90% of its capital stock, solicit sales from European hearing instrument manufacturers on behalf of IntriCon.

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

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

Employees. As of December 31, 2009, our body-worn device segment had a total of 515 full time equivalent employees, of whom 34 are executive and administrative personnel, 17 are sales personnel and 464 are engineering and operations personnel. The Company considers its relations with its employees to be satisfactory. None of the Company s employees are represented by a union.

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

Research and Development. IntriCon conducts research and development activities primarily to improve its existing products and proprietary technology. The Company is committed to increasing its investment in the research and development of proprietary technologies, such as the ULP nanoDSP and Bodynet technologies. The Company believes the continued development of key proprietary technologies will be the catalyst for long-term revenues and margin growth. Research and development expenditures were $3,345,000, $3,248,000, and $3,089,000 in 2009, 2008 and 2007, respectively. These amounts are net of customer reimbursed research and development. See note 1 to the consolidated financial statements for information regarding customer funded research and development projects.

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

Regulation. The health care industry is highly regulated, and there can be no guarantee that the regulatory environment in which we operation will not change significantly and adversely to us in the future. We believe that the health care legislation, rules, regulations and interpretations will change, and we will monitor our agreements and operations from time to time to adhere to such changes in the health care regulatory environment.

Certain of our products are regulated by the U.S. Food and Drug Administration (the FDA) as medical devices under the Federal Food, Drug, and Cosmetic Act. Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA including any of the following sanctions: fines injunctions and civil penalties; recall or seizure of medical devices incorporating our products and intellectual property; operating restrictions, partial suspension or total shutdown of production; withdrawal of clearance; and criminal prosecution.

Discontinued Operations Electronic Products

Our electronic products segment business is conducted by RTI Electronics, Inc. (RTIE), a wholly owned subsidiary of the Company. RTIE designs and manufactures thermistor, film capacitor and magnetic products to industrial, commercial and military customers. The Company approved a plan to divest this business segment in the fourth quarter of 2009 and has accounted for it as discontinued operations as further described in note 2 in the accompanying consolidated financial statements in Item 8.

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

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

In 2009, one customer accounted for 12 percent of the RTIE s electronic products net sales. During 2009, the top five customers accounted for approximately $1.8 million or 32 percent of RTIE s electronic products net sales.

Employees. As of December 31, 2009, RTIE had a total of 57 full time equivalent employees, of whom 6 are executive and administrative personnel, 3 are sales personnel and 48 are operations personnel. RTIE considers its relations with its employees to be satisfactory. None of the RTIE s employees are represented by a union.

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

Forward-Looking Statements

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

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

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, 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.

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Available Information

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

The Company maintains an internet web site at www.IntriCon.com. The Company maintains a link to the SEC s website by which you may review its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the 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 actually occur, our business, financial condition or results of future operations could be materially adversely affected. This Annual Report on Form 10-K contains forward-looking statements that involve risk and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by us described below and elsewhere in this Annual Report on Form 10-K.

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

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

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

We are dependent on a small number of customers for a large portion of our revenues. In fiscal year 2009, our largest customer accounted for 22% of our net sales and our five largest customers accounted for 46% 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, 2009, we had accounts receivable, less allowance for doubtful accounts, of $7,084,000, which represented approximately 40.5 percent of our shareholders equity as of that date. As of that date, two customers accounted for approximately 16 and 11 percent of our accounts receivable, respectively. Our financial condition and profitability may be harmed if one or more of our customers are unable or unwilling to pay these accounts receivable when due.

The current domestic economic downturn could cause a severe disruption in our operations.

Our business has been negatively impacted by the current domestic economic downturn. If this downturn is prolonged 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 downturn and the associated credit crisis could continue or 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.

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Demand:

The current recession has resulted in lower sales by our customers. Additionally, our customers may not have access to sufficient cash or short-term credit to obtain our product or services.

Prices:

Certain markets have experienced and may continue to experience deflation, which would negatively impact our average prices and reduce our margins.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2009, we operated in Singapore and Germany. Approximately 18 percent of our revenues were derived from our facilities in these countries in 2009. As of December 31, 2009 approximately 17 percent of our long-lived assets are located in these countries. Political or economic instability in these countries could have an adverse impact on our results of operations due to diminished revenues in these countries. Our future revenues, costs of operations and profit results could be affected by a number of factors related to our international operations, including changes in foreign currency exchange rates, changes in economic conditions from country to country, changes in a country s political condition, trade protection measures, licensing and other legal requirements and local tax issues. Unanticipated currency fluctuations in the Euro could lead to lower reported consolidated revenues due to the translation of these currencies into U.S. dollars when we consolidate our revenues.

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, 2009, we had bank indebtedness of $8,378,000 and additional indebtedness of $1,983,000, including $1,050,000 payable to the former shareholder of Datrix and $760,000 payable to HIMPP. 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 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.

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If we fail to meet our financial and other covenants under our loan agreement with our lender, absent a waiver, we will be in default of the loan agreement and The PrivateBank and Trust Company 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 agreement. In the event we are unable to comply with these covenants during future periods, it is uncertain whether our lender will grant waivers for our non-compliance. If there is an event of default by us under the loan agreement, our lender has the option to, among other things, accelerate any and all of our obligations under the loan agreement which would have a material adverse effect on our business, financial condition and results of operations.

If the Company is unable to liquidate the assets it has marked as discontinued operations, its results of operations maybe adversely affected.

The Company may not be successful in liquidating the assets of its non-core electronic products business in 2010, which is shown as a discontinued operation. There can be no assurance that the customers of this business will continue to purchase product until the inventory is liquidated. If the remaining electronics business losses its competitiveness, it may be difficult to sell the assets at a price favorable to the Company or at all. In connection with any liquidation or sale, the Company may be required to take additional charges to earnings which could adversely affect the market price of our stock.

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

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

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

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

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.

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

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

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

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

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

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

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

We are a defendant along with a number of other parties in approximately 122 lawsuits as of December 31, 2009, (approximately 122 lawsuits as of December 31, 2008) 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 noninformative nature of the complaints, we do not know whether any of the complaints state valid claims against us. Certain insurance carriers have informed us that the primary policies for the period August 1, 1970-1973, have been exhausted and that the carriers will no longer provide a defense under those policies. We have requested that the carriers substantiate this situation. We believe we have additional policies available for other years which have been ignored by the carriers. Because settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, we believe when settlement payments are applied to these additional policies, we will have availability under the years deemed exhausted. If our insurance policies do not cover the costs and any awards for the asbestos-related lawsuits, we will have to use our cash or obtain additional financing to pay the asbestos-related obligations and settlement costs. There is no assurance that we will have the cash or be able to obtain additional financings on favorable terms to pay asbestos related obligations or settlements should they occur. The ultimate outcome of any legal matter cannot be predicted with certainty. In light of the significant uncertainty associated with asbestos lawsuits, there is no guarantee that these lawsuits will not materially adversely affect our financial position, results of operations or liquidity.

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

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

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

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

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

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

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

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

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 and, beginning with our Annual Report on Form 10-K for 2010, our registered public accounting firm s attestation report on internal control over financial reporting. While we have reported no material weaknesses in the Form 10-K for the fiscal year ended December 31, 2009, we cannot guarantee that we will not have material weaknesses reported by our management or our independent registered public accounting firm 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 our independent registered public accounting firm cannot timely attest to our internal controls, 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, six domestically and two internationally, as follows:

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

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

ITEM 3. Legal Proceedings

The Company is a defendant along with a number of other parties in approximately 122 lawsuits as of December 31, 2009, (approximately 122 lawsuits as of December 31, 2008) alleging that plaintiffs have or may have contracted asbestos-related diseases as a result of exposure to asbestos products or equipment containing asbestos sold by one or more named defendants. These lawsuits relate to the discontinued heat technologies segment which was sold in March 2005. Due to the noninformative nature of the complaints, the Company does not know whether any of the complaints state valid claims against the Company. Certain insurance carriers have informed the Company that the primary policies for the period August 1, 1970-1973, have been exhausted and that the carriers will no longer provide a defense under those policies. The Company has requested that the carriers substantiate this situation. The Company believes it has additional policies available for other years which have been ignored by the carriers. Because settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, the Company believes when settlement payments are applied to these additional policies, the Company will have availability under the years deemed exhausted. The Company does not believe that the asserted exhaustion of the primary insurance coverage for this period will have a material adverse effect on its financial condition, liquidity, or results of operations. Management believes that the number of insurance carriers involved in the defense of the suits and the significant number of policy years and policy limits, to which these insurance carriers are insuring the Company, make the ultimate disposition of these lawsuits not material to the Company s consolidated financial position or results of

operations.

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

The Company is also involved in other lawsuits arising in the normal course of business, as further described in Note 14 to the consolidated financial statements in Item 8. While it is not possible to predict with certainty the outcome of these matters, management is of the opinion that the disposition of these lawsuits and claims will not materially affect the Company s consolidated financial position, liquidity, or results of operations.

ITEM 4. (Removed and Reserved)

ITEM 4A. Executive Officers of the Registrant

The names, ages and offices (as of February 28, 2010) of the Company s executive officers were as follows:

Name	Age	Position
Mark S. Gorder	63	President, Chief Executive Officer and Director of the Company; President of IntriCon, Inc.
Scott Longval	33	Chief Financial Officer and Treasurer of the Company
Christopher D. Conger	49	Vice President, Research and Development
Michael P. Geraci	51	Vice President, Sales and Marketing
Dennis L. Gonsior	51	Vice President, Operations
Steve M. Binnix	60	Vice President and General Manager, RTI Electronics, Inc.
Greg Gruenhagen	56	Vice President, Corporate Quality and Regulatory Affairs

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

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

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.

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

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

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PART II

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

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

Market and Dividend Information

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

	2009 Market Price Range		2008 Market Price Range	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 5.01	$ 2.83	$ 13.30	$ 5.71
Second	3.35	2.56	10.07	7.10
Third	4.11	2.60	9.00	3.01
Fourth	3.76	2.80	6.50	3.12

The closing sale price of the Company s common stock on March 11, 2010, was $3.05 per share.

At March 1, 2010 the Company had 388 shareholders of record of common stock. Such number of records does not reflect shareholders who beneficially own common stock in nominee or street name.

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

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

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Stock Performance Graph

The following graph shows the cumulative total return for the last five years, calculated as of December 31 of each such year, for the Common Shares, the Standard & Poor s 500 Index, and the Russell 2000 Index (RUT). The graph assumes that the value of the investment in each of three was $100 at December 31, 2004 and that all dividends were reinvested.

Source: Yahoo Finance

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

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ITEM 6. Selected Financial Data

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

Years ended December 31,	2009(d)	2008	2007(a)	2006	2005(b)
Sales, net	**$ 51,676**	$ 57,908	$ 59,669	$ 41,438	$ 36,648
Gross profit	**11,051**	14,657	15,425	10,320	9,551
Operating expenses	**11,681**	12,360	12,360	8,638	8,679
Interest expense	**837**	679	942	438	409
Equity in loss (earnings) of partnerships	**149**	3	158		
Other (income) expense, net	**220**	36	79	54	(161)
Income (loss) from continuing operations before income taxes and discontinued operations	**(1,836)**	1,579	1,886	1,190	624
Income tax expense (benefit)	**(34)**	265	173	168	395
Income (loss) from continuing operations before discontinued operations	**(1,802)**	1,314	1,713	1,022	229
Income (loss) from discontinued operations, net of income taxes	**(2,119)**	(276)	154	141	1,300
Net income (loss)	**$ (3,921)**	$ 1,038	$ 1,867	$ 1,163	$ 1,529
Basic income (loss) per share:					
Continuing operations	**$ (.34)**	$ .25	$ .33	$ .20	$ .05
Discontinued operations	**(.39)**	(.05)	.03	.03	.25
Net income (loss)	**$ (.73)**	$ .20	$ .36	$ .23	$ .30
Diluted income (loss) per share:					
Continuing operations	**$ (.34)**	$ .24	$ .31	$ .19	$ .04
Discontinued operations	**(.39)**	(.05)	.03	.03	.25
Net income (loss)	**$ (.73)**	$ .19	$ .34	$ .22	$ .29
Weighted average number of shares outstanding during year:					
Basic	**5,394,125**	5,314,387	5,209,567	5,159,216	5,135,348
Diluted	**5,394,125**	5,539,456	5,519,780	5,319,802	5,261,491

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

Years ended December 31,	2009(d)	2008	2007(a)	2006	2005(b)
Working capital (c)	$ 8,504	$ 10,602	$ 9,365	$ 8,445	$ 8,185
Total assets	$ 37,363	$ 39,462	$ 39,732	$ 34,143	$ 29,237
Long-term debt	$ 7,730	$ 6,188	$ 6,963	$ 3,830	$ 5,319
Shareholders equity:	$ 17,489	$ 20,312	$ 18,597	$ 15,607	$ 14,089
Depreciation and amortization	$ 2,226	$ 1,966	$ 1,785	$ 1,511	$ 1,763

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

(b) For 2005, the Company reclassified the remaining portion of its Heat Technology business, which consisted of the burners and components portion of that business, as discontinued operations. The Company sold this portion of the business in the first quarter of 2005.

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

(d) In 2009, the Company reclassified its Electronic Products business, which consisted of the thermistor, film capacitor and magnetic products, as discontinued operations.

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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 injection-molded plastics, microelectronics, micro-mechanical assemblies and complete assemblies, primarily for bio-telemetry devices, medical equipment, hearing instruments, professional audio and telecommunications devices.

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

Business Highlights

On August 13, 2009, the Company purchased all of the outstanding stock of Jon Barron, Inc. doing business as Datrix (Datrix), a privately held developer, manufacturer, tester and marketer of medical devices and related software products, based in Escondido, California. The acquisition provides the Company entry into the ambulatory electrocardiograph (AECG) and event recording markets.

To finance a portion of the Datrix acquisition and replace the Company s existing credit facilities with Bank of America, including capital leases, the Company and its domestic subsidiaries entered into a new three year credit facility with The PrivateBank and Trust Company on August 13, 2009. The credit facility provides for:

§ an $8,000,000 revolving credit facility, with a $200,000 subfacility for letters of credit. Under the revolving credit facility, the availability of funds depends on a borrowing base composed of stated percentages of the Company s eligible trade receivables, eligible inventory, and eligible equipment less a reserve; and

§ a $3,500,000 term loan.

On December 29, 2009, the Company decided to exit the non-core electronics products segment operated by its wholly-owned subsidiary, RTI Electronics, and divest the assets used in the business. The decision to exit the electronics business was made to allow the Company to focus on its core body-worn device segment and an effort to improve the Company s overall margins and profitability. The Company expects the divestiture to be completed in mid-2010.

Forward Looking Statements

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

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Results of Operations: 2009 Compared with 2008

Consolidated Net Sales

Consolidated net sales for 2009 and 2008 were as follows (dollars in thousands):

	2009	2008	Change Dollars	Change Percent
Consolidated net sales	$ 51,676	$ 57,908	$ (6,232)	(10.8%)

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:

	2009	2008	Change Dollars	Change Percent
Medical	$ 23,005	$ 20,133	$ 2,872	14.3%
Hearing Health	$ 18,432	$ 23,768	$ (5,336)	(22.5%)
Professional Audio Communications	$ 10,239	$ 14,007	$ (3,768)	(26.9%)

We experienced an increase of 14 percent in net sales in the medical equipment market in 2009 as a direct result of increased sales to existing original equipment manufacturer, or OEM, customers. We believe there is an industry-wide trend toward further miniaturization and ambulatory operation enabled by wireless connectivity, referred to as bio-telemetry, which resulted in further growth in our medical business. We have experienced solid growth in our most advanced bio-telemetry device, a continuous wireless glucose monitor, which we manufacture for a major medical OEM. We are also working with our strategic partner, Advanced Medical Electronics, on proprietary bio-telemetry technologies that will enable us to develop new devices that connect patients and care givers, providing critical information and feedback. In 2009, we also entered the cardiac diagnostic monitoring (CDM) market, with our acquisition of Datrix, a supplier of patient monitoring devices. We are leveraging Datrix s cardiac monitoring capabilities by incorporating IntriCon s core competencies to develop and launch a new line of CDM devices.

Net sales in our hearing health business declined 23 percent from 2008 primarily due to lower demand from our customers in this market and the completion of a one-time hearing health project in the 2008 first and second quarters (sales of $1.0 million in the first and second quarters of 2008), which the customer took in-house in mid-2008. We expect the sporadic buying patterns to continue into 2010. Despite the anticipated short-term softness, we believe our longer term prospects in our hearing health business remain strong as we continue to develop advanced technologies, such as our nanoLink and physioLink , which will enhance the performance of hearing devices. In addition, we believe the market indicators in the hearing health industry, including the aging world population, suggest long-term industry growth.

Net sales to the professional audio communications market declined 27 percent over the prior year, primarily due to the challenging economic environment. Our professional audio communication business serves customers in need of high-performance portable communication devices. For customers focusing on homeland security needs, the line includes several communication devices that are more portable and perform well in noisy or hazardous environments. These products are also well suited for applications in the fire, law enforcement, safety, aviation and military markets.

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Gross Profit

Gross profit, both in dollars and as a percent of sales, for 2009 and 2008, were as follows (dollars in thousands):

	2009		2008		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Yr-over-Yr Percent
Gross profit	$ 11,051	21.4%	$ 14,657	25.3%	($3,606)	(3.9%)

In 2009, gross profit dollars decreased primarily due to lower sales volume which caused under absorption of manufacturing overhead during 2009 and general softness in hearing health and professional audio communications markets. We have various activities underway to increase our gross margins, such as transferring our microphone and receiver production from our Maine operation to our lower cost Singapore facility, increasing the percentage of IntriCon proprietary content in the devices we manufacture and working to introduce Six Sigma lean manufacturing methods into key medical device product lines.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended December 31, 2009 and 2008 were (dollars in thousands):

	2009		2008		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Yr-over-Yr Percent
Selling	$ 2,962	5.7%	$ 3,262	5.6%	($ 300)	0.1%
General and administrative	5,374	10.4%	5,850	10.1%	($ 476)	0.3%
Research and development	3,345	6.5%	3,248	5.6%	$ 97	0.9%

The decreased selling expenses for 2009 as compared to the prior year were primarily driven by decreases in royalties and commissions as a result of lower revenues. The decrease in general and administrative expenses were driven by a cost reduction program implemented in the first quarter by the Company in conjunction with the revenue decreases, as well as lower professional and legal fees compared to the prior year. The increased research and development expenses as compared to the prior year were due to our continued emphasis on investing in research and development projects to develop new products and technology to further enhance our product portfolio.

Interest Expense

Interest expense for 2009 was $837,000, an increase of $158,000 from $679,000 in 2008. The increase in interest expense was due primarily to charges related to the refinancing of the credit facility that were incurred in 2009 in connection with our new credit facility obtained in connection with our Datrix acquisition and higher interest rates in effect on greater outstanding debt in 2009.

Equity in Earnings (Losses) of Partnerships

The equity in losses of partnerships for 2009 was $149,000 compared to $4,000 in 2008.

The Company recorded a $210,000 decrease in the carrying amount of its investment in the Hearing Instrument Manufacturers Patent Partnership (HIMPP) for 2009, 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, 2009, compared to a $145,000 decrease in the carrying amount of the investment in 2008 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, 2008. The Company recorded a $61,000 and $141,000 increase in the carrying amount of Tibbett s investment in a joint venture, reflecting the Company s portion of the joint venture s operating results for year ended December 31, 2009 and 2008, respectively.

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Other Expenses

In 2009, other expense was $220,000 compared to $36,000 in 2008. The other expense for 2009 primarily related to the costs associated with the acquisition of Datrix. The 2008 expense primarily related to the losses on foreign currency exchange as a result of the exchange rate changes in the Singapore dollar and Euro.

Income Taxes

Income taxes were as follows (dollars in thousands):

	2009	2008
Income tax expense (benefit)	$ (34)	$ 265
Percentage of pre-tax income	(1.9%)	16.7%

The expense (benefit) in 2009 and 2008 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 carryforwards has been offset by a full valuation allowance. We estimate we have approximately $15.1 million of NOL carryforwards available to offset future federal income taxes that begin to expire in 2022.

Discontinued Operations

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

	2009	2008
Loss from discontinued Electronics Products Segment	$ (2,119)	$ (277)

The 2009 net loss of $(2,119,000), or $(0.39) per diluted share, was primarily due to an impairment charge associated with challenges in the current economic environment and industry conditions resulting in the decision to not commit to future investments, including research and development, in the Electronics Products segment, and ultimately divest the segment. The 2008 net loss of $(277,000), or $(0.05) per diluted share, was primarily due to loss in operations.

Results of Operations: 2008 Compared with 2007

Consolidated Net Sales

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

			Change	
	2008	2007	Dollars	Percent
Consolidated net sales	$ 57,908	$ 59,669	$ (1,761)	(3.0%)

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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:

	2008	2007	Change Dollars	Change Percent
Medical	$ 20,133	$ 18,765	$ 1,368	7.3%
Hearing Health	$ 23,768	$ 29,297	$ (5,529)	(18.9%)
Professional Audio Communications	$ 14,007	$ 11,606	$ 2,401	20.7%

We experienced an increase of 7 percent in net sales in the medical equipment market in 2008 as a direct result of increased sales to existing OEM customers. Net sales in our hearing health business declined 19 percent from 2007 primarily due to lower demand from our customers in this market..

Net sales to the professional audio communications market grew 21 percent over the prior year fueled by a full year of revenue from our May 2007 acquisition of Tibbetts and higher demand for communication devices from new and existing customers.

Gross Profit

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

	2008		2007		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Yr-over-Yr Percent
Gross profit	$ 14,657	25.3%	$ 15,425	25.9%	$ (768)	(0.6%)

In 2008, gross profit dollars decreased primarily due to lower sales volume; gross profit as a percentage of sales decreased primarily as a result of the wind-down of the one-time hearing health program in 2007 and general softness in hearing health.

Selling, General and Administrative Expenses

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

	2008		2007		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Yr-over-Yr Percent
Selling	$ 3,262	5.6%	$ 3,398	5.7%	$ (136)	(0.1%)
General and administrative	5,850	10.1%	5,873	9.8%	$ (23)	0.3%
Research and development	3,248	5.6%	3,089	5.2%	$ 159	0.4%

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

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Interest Expense

Interest expense for 2008 was $679,000, a decrease of $260,000 from $942,000 in 2007. The decrease in interest expense was due primarily to charges related to the refinancing of the credit facility that were incurred in 2007 in connection with the ITC acquisition and lower interest rates in effect on lower outstanding debt in 2008, offset in part by decreased interest income as a result of the lower balance of the note receivable.

Equity in Earnings of Partnerships

The equity in earnings of partnerships for 2008 was $4,000.

The Company recorded a $145,000 decrease in the carrying amount of its investment in the HIMPP for 2008, reflecting amortization of the patents and other intangibles and the Company s portion of the partnership s operating results for the year ended December 31, 2008.

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

Other Expenses

In 2008, other expense was $36,000 compared to $80,000 in 2007. The other expense for 2008 and 2007 primarily related to the loss on foreign currency exchange.

Income Taxes

Income taxes were as follows (dollars in thousands):

	2008	2007
Income tax expense	$ 265	$ 174
Percentage of pre-tax income	16.8%	9.2%

The expense in 2008 and 2007 was primarily due to foreign taxes on German and Singapore operations. On February 22, 2007, the Company received approval from the Singapore Ministry of Trade and Industry to lower the effective tax rate in Singapore from 20% to 13%. This change was retroactive to September 2003. As such a $106,000 benefit was recognized in the first quarter of 2007.

Discontinued Operations

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

	2008	2007
Income (loss) from discontinued Electronics Business Segment	$ (277)	$ 155

The 2008 net loss of $(277,000), or $(0.05) per diluted share, was primarily due to loss in operations. The 2007 net income of $155,000, or $0.03 per diluted share, was primarily due to a gain in operations.

Liquidity and Capital Resources

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

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As of December 31, 2009, we had approximately $0.4 million of cash on hand. Sources of our cash for the year ended December 31, 2009 have been from our operations, as described below.

Consolidated net working capital decreased to $8.5 million at December 31, 2009 from $10.6 million at December 31, 2008. Our cash flows from operating, investing and financing activities, as reflected in the statement of cash flows at December 31, are summarized as follows (dollars in thousands):

	2009	2008	2007
Cash provided (used) by:			
Continuing operations	$ 1,845	$ 2,452	$ 3,534
Investing activities	(2,484)	(98)	(7,060)
Financing activities	783	(2,480)	3,740
Effect of exchange rate changes on cash	(8)	(6)	8
Increase (decrease) in cash	$ 122	$ (132)	$ 221

Operating Activities. The most significant items that contributed to the $1.8 million of cash provided by continuing operations were depreciation and amortization of $2.5 million, goodwill write-off of $0.7, stock option expense of $0.6 million and changes in operating assets and liabilities of $1.7 million, partially offset by a net loss of $3.9 million. The change in operating assets and liabilities was primarily due to decreases in accounts receivable and inventories and an increase in accounts payable, partially offset by decreases in accrued expenses.

Investing Activities. The $2.5 million of cash used by investing activities primarily consisted of the $1.3 million associated with the acquisition of Datrix and $1.5 million for the purchases of property, plant and equipment.

Financing Activities. Net cash provided by financing activities of $0.8 million primarily relates to proceeds received under our PrivateBank credit facility, partially offset by subsequent payments made against the term note and domestic revolver.

Cash generated from operations may be affected by a number of factors. See Forward Looking Statements and Item 1A: Risk Factors contained in this Form 10-K for a discussion of some of the factors that can negatively impact the amount of cash we generate from our operations.

We had the following bank arrangements at December 31, (dollars in thousands):

	2009	2008
Total availability under existing facilities	$ 12,376	$ 13,243
Borrowings and commitments:		
Domestic credit facility	4,450	3,000
Domestic term loans	3,250	2,756
Foreign overdraft and letter of credit facility	678	605
Capital leases		1,330
Total borrowings and commitments	8,378	7,691
Remaining availability under existing facilities	$ 3,998	$ 5,552

Domestic Credit Facilities

The Company and its domestic subsidiaries entered into a new three year credit facility with The PrivateBank and Trust Company on August 13, 2009 to finance a portion of the Datrix acquisition and to replace the prior credit facilities with Bank of America, including capital leases. The new credit facility provides for:

§ an $8,000,000 revolving credit facility, with a $200,000 subfacility for letters of credit. Under the revolving credit facility, the availability of funds depends on a borrowing base composed of stated percentages of the Company s eligible trade receivables, eligible inventory, and eligible equipment less a reserve; and

- a $3,500,000 term loan.

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Loans under the credit facility are secured by a security interest in substantially all of the assets of the Company and its domestic subsidiaries, including a pledge of the stock of its domestic subsidiaries. Loans under the credit facility bear interest at varying rates based on predefined levels of the Company s leverage ratio, at the option of the Company, at:

§ the London InterBank Offered Rate (LIBOR) plus 3.00% - 4.00% depending on the Company s leverage ratio, or

§ the base rate, which is the higher of (a) the rate publicly announced from time to time by the lender as its prime rate and (b) the Federal Funds Rate plus 0.5%, plus 0.25% - 1.25% depending on the Company s leverage ratio.

Interest is payable monthly in arrears, except that interest on LIBOR based loans is payable at the end of the one, two or three month interest periods applicable to LIBOR based loans. IntriCon is also required to pay a non-use fee equal to 0.25% per year of the unused portion of the revolving line of credit facility, payable quarterly in arrears.

Weighted average interest on our domestic credit facilities (including prior facilities) was 4.07%, 5.51% and 7.82% for 2009, 2008 and 2007, respectively.

The outstanding principal balance of the term loan is payable in quarterly installments of varying amounts ranging from $168,750 to $187,500. Any remaining principal and accrued interest is payable on August 13, 2012. IntriCon is also required to use 100% of the net cash proceeds of certain asset sales (excluding inventory and certain other dispositions), sale of capital securities or issuance of debt to pay down the term loan.

The total remaining availability on the domestic revolving credit facility was approximately $2,821,000 at December 31, 2009. The principal balance of the term loan was $3,250,000 at December 31, 2009.

Upon termination of the Bank of America credit facility, the Company was required to settle the outstanding obligations of $121,000 for the liability related to its interest rate swap agreement with Bank of America and recognize the corresponding charge of $121,000 in interest expense which was previously included in other comprehensive income. In addition the Company expensed the remaining deferred financing costs of $86,000 related to the Bank of America facility, which is included in interest expense.

The borrowers are subject to various covenants under the credit facility, including financial covenants relating to minimum EBITDA, funded debt to EBITDA, fixed charge coverage ratio and capital expenditure financial covenants. Under the credit facility, except as otherwise permitted, the borrowers may not, among other things: incur or permit to exist any indebtedness; grant or permit to exist any liens or security interests on their assets or pledge the stock of any subsidiary; make investments; be a party to any merger or consolidation, or purchase of all or substantially all of the assets or equity of any other entity; sell, transfer, convey or lease all or any substantial part of its assets or capital securities; sell or assign, with or without recourse, any receivables; issue any capital securities; make any distribution or dividend (other than stock dividends), whether in cash or otherwise, to any of its equityholders; purchase or redeem any of its equity interests or any warrants, options or other rights to equity; enter into any transaction with any of its affiliates or with any director, officer or employee of any borrower; be a party to any unconditional purchase obligations; cancel any claim or debt owing to it; make payment on or changes to any subordinated debt; enter into any agreement inconsistent with the provisions of the credit facility or other agreements and documents entered into in connection with the credit facility; engage in any line of business other than the businesses engaged in on the date of the credit facility and businesses reasonably related thereto; or permit its charter, bylaws or other organizational documents to be amended or modified in any way which could reasonably be expected to materially adversely affect the interests of the lender. In March 2010, the Company entered into an amended agreement with The PrivateBank to waive certain covenant violations at December 31, 2009 and January 31, 2010 and reset certain covenant thresholds defined in the original agreement.

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Upon the occurrence and during the continuance of an event of default (as defined in the credit facility), the lender may, among other things: terminate its commitments to the borrowers (including terminating or suspending its obligation to make loans and advances); declare all outstanding loans, interest and fees to be immediately due and payable; take possession of and sell any pledged assets and other collateral; and exercise any and all rights and remedies available to it under the Uniform Commercial Code or other applicable law. In the event of the insolvency or bankruptcy of any borrower, all commitments of the lender will automatically terminate and all outstanding loans, interest and fees will be immediately due and payable. Events of default include, among other things, failure to pay any amounts when due; material misrepresentation; default in the performance of any covenant, condition or agreement to be performed that is not cured within 20 days after notice from the lender; default in the performance of obligations under certain subordinated debt, which includes the Company s note payable to the former shareholder of Datrix (including actual or attempted termination of a subordination agreement with the former shareholder of Datrix); default in the payment of other indebtedness or other obligation with an outstanding principal balance of more than $50,000, or of any other term, condition or covenant contained in the agreement under which such obligation is created, the effect of which is to allow the other party to accelerate such payment or to terminate the agreements; a breach by a borrower under certain material agreements, the result of which breach is the suspension of the counterparty s performance thereunder, delivery of a notice of acceleration or termination of such agreement; the insolvency or bankruptcy of any borrower; the entrance of any judgment against any borrower in excess of $50,000, which is not fully covered by insurance; any divestiture of assets or stock of a subsidiary constituting a substantial portion of borrowers assets; the occurrence of a change in control (as defined in the credit facility); certain collateral impairments; a contribution failure with respect to any employee benefit plan that gives rise to a lien under ERISA; and the occurrence of any event which lender determines could be reasonably expected to have a material adverse effect (as defined in the credit facility).

The prior Bank of America credit facility provided for:

§ a $10,000,000 revolving credit facility, with a $200,000 subfacility for letters of credit. Under the revolving credit facility, the availability of funds depended on a borrowing base composed of stated percentages of our eligible trade receivables and eligible inventory, less a reserve.

§ a $4,500,000 term loan, which was used to fund the Company s May, 2007 acquisition of Tibbetts.

Loans under the prior credit facility were secured by a security interest in substantially all of the assets of the borrowers including a pledge of the stock of the subsidiaries. All of the borrowers were jointly and severally liable for all borrowings under the credit facility.

The outstanding principal balance of the Bank of America term loan was $2,756,000 at December 31, 2008. In 2008, we used proceeds of $1,013,000 from the equipment sale-leaseback described below to pay down the term loan.

The outstanding principal balance of the Bank of America revolving credit facility was $3,000,000 at December 31, 2008. The total remaining availability on the revolving credit facility was approximately $4,349,000 at December 31, 2008.

In June 2008, the Company completed a sale-leaseback of machinery and equipment with Bank of America. The transaction generated proceeds of $1,098,000, of which $1,013,000 was used to pay down the domestic term loan. The facility was repaid on August 13, 2009 with proceeds borrowed under the new PrivateBank facility.

Foreign Credit Facility

In addition to its domestic credit facilities, the Company s wholly-owned subsidiary, IntriCon, PTE LTD., entered into an international senior secured credit agreement with Oversea-Chinese Banking Corporation Ltd. that provides for a $1.8 million line of credit. Borrowings bear interest at a rate of .75% to 2.5% over the lender s prevailing prime lending rate. Weighted average interest on the international credit facilities was 5.31%, 5.84% and 6.36% for 2009, 2008 and 2007, respectively. The outstanding balance was $678,000 and $605,000 at December 31, 2009 and 2008, respectively. The total remaining availability on the international senior secured credit agreement was approximately $1,177,000 and $1,203,000 at December 31, 2009 and 2008, respectively.

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Datrix Note

As discussed above, in connection with the Company s acquisition of Datrix, the Company issued a subordinated, non-negotiable promissory note dated August 13, 2009 to the former shareholder of Datrix, in the principal amount of $1.05 million. The Datrix note bears interest at an annual rate of 6%, provided, however, that upon the occurrence and during the continuance of an event of default (as defined in the Datrix note), at the holder s option, the outstanding principal amount under the Datrix note will bear interest at an annual rate of 10%. The principal amount of the Datrix note is due and payable in three equal annual installments of $350,000 beginning on August 13, 2010 plus accrued and unpaid interest. Amounts outstanding under the Datrix note will automatically become immediately due and payable upon the sale of assets of the Company attributable to 90% or more of the Company s consolidated sales volume or upon the direct or indirect acquisition of beneficial ownership of 50% or more of the combined voting power of the Company s then-outstanding voting securities. Amounts owed under the Datrix note are unsecured and subordinated to the Company s obligations pursuant to the credit facility discussed above.

The Company has the right to withhold and set off against amounts due under the Datrix note for certain claims for indemnification pursuant to the agreement governing the Company s acquisition of Datrix. Upon the occurrence and during the continuance of an event of default, the holder may, among other things, declare the entire unpaid principal balance of the Datrix note, together with all accrued interest, immediately due and payable. Immediate acceleration of such amounts will occur automatically in the event of the Company s insolvency or bankruptcy. Events of default include, among other things, the Company s failure to pay amounts due under the Datrix note and such failure continues for 10 days; the insolvency or bankruptcy of the Company; the Company s liquidation, winding up, dissolution, or suspension of operations in excess of 90 days; and the occurrence and continuation of an event of default as set forth in the Company s credit facility.

We believe that funds expected to be generated from operations, the available borrowing capacity through our revolving credit loan facilities and the 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 do not generate sufficient cash from operations, or if we incur additional unanticipated liabilities, we may be required to seek additional financing or sell equity or debt on terms which may not be as favorable as we could have otherwise obtained. No assurance can be given that any refinancing, additional borrowing or sale of equity or debt will be possible when needed or that we will be able to negotiate acceptable terms. In addition, our access to capital is affected by prevailing conditions in the financial and equity capital markets, as well as our own financial condition. While management believes that we will be able to meet our liquidity needs for at least the next 12 months, no assurance can be given that we will be able to do so.

Contractual Obligations

The following table represents our contractual obligations and commercial commitments, excluding interest expense, as of December 31, 2009.

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**More than 5 Years**
Domestic credit facility	$ 4,450,000	$	4,450,000		$
Domestic term loan	3,250,000	687,000	2,563,000		
Domestic Note Payable	1,050,000	350,000	700,000		
Foreign overdraft and letter of credit facility	678,000	678,000			
Partnership payable	760,000	260,000	500,000		
Dynamic Hearing license payments	525,000	525,000			
Pension other post retirement benefit obligations	1,523,000	223,000	452,000	456,000	392,000
Capital leases	11,000	11,000			
Operating leases	4,078,000	1,148,000	1,469,000	796,000	665,000

Total contractual cash obligations	$ 16,325,000	$ 3,882,000	$ 10,134,000	$ 1,252,000	$ 1,057,000

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There are certain provisions in the underlying contracts that could accelerate our contractual obligations as noted above.

Foreign Currency Fluctuation

Generally, the effect of changes in foreign currencies on our results of operations is partially or wholly offset by our ability to make corresponding price changes in the local currency. From time to time, the impact of fluctuations in foreign currencies may have a material effect on the financial results of the Company. Foreign currency transaction amounts included in the statements of operation include losses of $13,000, $77,000 and $112,000 in 2009, 2008 and 2007, respectively. See Note 11 to the Company s consolidated financial statements included herein.

Off-Balance Sheet Obligations

We had no material off-balance sheet obligations as of December 31, 2009.

Related Party Transactions

For a discussion of related party transactions, see Note 15 to the Company s consolidated financial statements included herein.

Litigation

For a discussion of litigation, see Item 3. Legal Proceedings and Note 14 to the Company s consolidated financial statements included herein.

New Accounting Pronouncements

See New Accounting Pronouncements set forth in Note 1 of the Notes to the Consolidated Financial Statements under Item 8 of this Annual Report on Form 10-K, for information pertaining to recently adopted accounting standards or accounting standards to be adopted in the future.

Critical Accounting Policies and Estimates

The significant accounting policies of the Company are described in Note 1 to the consolidated financial statements and have been reviewed with the audit committee of our Board of Directors. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period.

Certain accounting estimates and assumptions are particularly sensitive because of their importance to the consolidated financial statements and possibility that future events affecting them may differ markedly. The accounting policies of the Company with significant estimates and assumptions are described below.

Revenue Recognition

Our continuing operations recognize revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Under contractual terms, shipments are generally FOB shipment point.

Customers have 30 days to notify the Company if the product is damaged or defective. Beyond that, there are no significant obligations that remain after shipping other than warranty obligations. Contracts with customers do not include product return rights; however, we may elect in certain circumstances to accept returns for product. We record revenue for product sales net of returns. Net sales also include amounts billed to customers for shipping and handling, if applicable. The corresponding shipping and handling costs are included in the cost of sales.

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In general, we warrant our 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. While our warranty costs have historically been within our expectations, we cannot guarantee that we will continue to experience the same warranty return rates or repair costs that we have experienced in the past.

Accounts Receivable Reserves

This reserve is an estimate of the amount of accounts receivable that are uncollectible. The reserve is based on a combination of specific customer knowledge, general economic conditions and historical trends. Management believes the results could be materially different if economic conditions change for our customers.

Inventory Valuation

Inventory is recorded at the lower of our cost or market value. Market value is an estimate of the future net realizable value of our inventory. It is based on historical trends, product life cycles, forecast of future inventory needs and on-hand inventory levels. Management believes reserve levels could be materially affected by changes in technology, our customer base, customer needs, general economic conditions and the success of certain Company sales programs.

Discontinued Operations

Included in discontinued operations is the Company s non-core electronics segment. On December 29, 2009, the Company s board of directors approved a plan to divest the assets of the non-core electronics segment and eliminate personnel and support costs associated with this segment. The Company concluded the segment is being held for sale at December 31, 2009 and, accordingly, the Company has restated the previously reported financial results of the non-core electronics segment to report the net results as a separate line in the consolidated statements of operations as income (loss) from discontinued operations, net for all periods presented, and the assets and liabilities of this segment on consolidated balance sheets have separately classified as Assets/Liabilities of discontinued operations . The Company elected to not allocate consolidated interest expense to the discontinued operations where the debt is not directly attributed to or related to the discontinued operations. All of the financial information in the consolidated financial statements and notes to the consolidated financial statements has been revised to reflect only the results of continuing operations.

Goodwill and Intangible Assets

Considerable management judgment is necessary in estimating future cash flows and other factors affecting the valuation of goodwill and intangible assets, including the operating and macroeconomic factors that may affect them. The Company uses historical financial information, internal plans and projections and industry information in making such estimates. The Company did not recognize any impairment charges for goodwill or intangible assets during fiscal 2009, 2008 or 2007. Although the Company had an operating loss for fiscal 2009, management believes that based on cost reduction actions and estimated revenue growth and margin improvement initiatives, that the Company will have cash flows that support the value of goodwill and intangible assets. While the Company currently believes the expected cash flows from these assets exceeds the carrying amount, materially different assumptions regarding future performance and discount rates could result in future impairment losses. In particular, if the Company no longer believes it will achieve its long-term projected sales or operating expenses, the Company may conclude in connection with any future impairment tests that the estimated fair value of its goodwill, including intangible assets, are less than the book value and recognize an impairment charge. Such impairment would adversely affect the Company s earnings.

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Long-lived Assets

The carrying value of long-lived assets is periodically assessed to insure their carrying value does not exceed their estimated net realizable future value. This assessment includes certain assumptions related to future needs for the asset to help generate future cash flow. Changes in those assessments, future economic conditions or technological changes could have a material adverse impact on the carrying value of these assets.

Deferred Taxes

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Actual future operating results, as well as changes in our future performance, could have a material adverse impact on the valuation reserves.

Employee Benefit Obligations

We provide retirement and health care insurance for certain domestic retirees and employees. We measure the costs of our obligation based on our best estimate. The net periodic costs are recognized as employees render the services necessary to earn the post-retirement benefit. Several assumptions and statistical variables are used in the models to calculate the expense and liability related to the plans. We determine assumptions about the discount rate, the expected rate of return on plan assets and the future rate of compensation increases. The actuarial models also use assumptions on demographic factors such as retirement, mortality and turnover. Changes in actuarial assumptions could vary materially from actual results due to economic events and different rates of retirement, mortality and withdrawal.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Our consolidated cash flows and earnings are subject to fluctuations due to changes in foreign currency exchange rates and interest rates.

Foreign Currency Risk

We attempt to limit our exposure to changing foreign currency exchange rates through operational and financial market actions. We do not hold derivatives for trading purposes.

We manufacture and sell our products in a number of locations around the world, resulting in a diversified revenue and cost base that is exposed to fluctuations in European and Asian currencies. This diverse base of foreign currency revenues and costs serves to create a hedge that limits our net exposure to fluctuations in these foreign currencies.

Short-term exposures to changing foreign currency exchange rates are occasionally managed by financial market transactions, principally through the purchase of forward foreign exchange contracts (with maturities of six months or less) to offset the earnings and cash flow impact of the nonfunctional currency denominated receivables and payables relating to select contracts. The decision by management to hedge any such transaction is made on a case-by-case basis. Foreign exchange forward contracts are denominated in the same currency as the receivable or payable being covered, and the term and amount of the forward foreign exchange contract substantially mirrors the term and amount of the underlying receivable or payable. The receivables and payables being covered arise from bank debt, trade and intercompany transactions of and among our foreign subsidiaries. At December 31, 2009, we did not have any forward foreign exchange contracts outstanding. We cannot assure you that foreign currency fluctuations will not have a material adverse impact on our financial condition and results of operations.

All assets and liabilities of foreign operations with foreign functional currency are translated into U.S. dollars at prevailing rates of exchange in effect at the balance sheet date. Revenues and expenses are translated using average rates of exchange for the year. The functional currency of the Company s German operations is the European Euro. As of January 1, 2006, the functional currency of the Company s Singapore operations changed from the Singapore dollar to the U.S. dollar. Adjustments resulting from the process of translating the financial statements of foreign subsidiaries into U.S. dollars are reported as a separate component of shareholders equity, net of tax, where appropriate. Foreign currency transaction amounts included in the statements of operation include losses of $13,000, $77,000 and $112,000 in 2009, 2008 and 2007, respectively. Based on our 2009 results of operations, if foreign currency exchange rates were to strengthen/weaken by 25% against the U.S. dollar, we would expect a resulting pre-tax loss/gain of approximately $1.6 million.

For more information regarding foreign currency risks, see Foreign Currency Fluctuation Item 7 on page 32 of this Annual Report on Form 10-K.

Interest Rate Risk

At December 31, 2009, we had $8.4 million in outstanding variable rate borrowings. A material change in interest rates could adversely affect our operating results and cash flows. A 100 basis-point increase in interest rates would increase our annual interest expense by $10,000 for each $1.0 million of variable debt outstanding for the entire year. Based on our average variable rate borrowings outstanding in 2009, a 100 basis-point increase in interest rates would have resulted in additional interest expense of $84,000.

The Company uses derivative financial instruments in the form of interest rate swaps in managing its interest rate exposure. The Company does not hold or issue derivative financial instruments for trading purposes. When entered into, the Company formally designates the derivative financial instrument as a hedge of a specific underlying exposure if such criteria are met, and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally assesses, both at inception and at least quarterly thereafter, whether the derivative financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Because of the high correlation between the derivative financial instrument and the underlying exposure being hedged, fluctuations in the value of the derivative financial instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. Any ineffective portion of a derivative financial instrument s change in fair value would be immediately recognized in earnings.

Upon termination of the Bank of America credit facility, the Company was required to settle the outstanding obligations of $121,000 for the liability related to its interest rate swap agreement with Bank of America and recognize the corresponding charge of $121,000 in interest expense which was previously included in other comprehensive income.

In conjunction with the new credit facility the Company entered into an interest rate swap agreement with The Private Bank and Trust Company. At December 31, 2009 the Company had a United States Dollar denominated interest rate swap outstanding which effectively fixed the interest rate on floating rate debt, exclusive of lender spreads, at 2.75% for a notional principal amount of $4,000,000 through December 2009. The derivative net loss on this contract recorded in accumulated other comprehensive loss at December 31, 2009 was $35,000.

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ITEM 8. Financial Statements and Supplementary Data

Management s Report on Internal Control over Financial Reporting

Management of IntriCon Corporation and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) of the Securities Exchange Act of 1934. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that (1) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2009, using criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company s management believes that, as of December 31, 2009, the Company s internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management s report in this annual report.

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the most recent fiscal quarter covered by this report that would have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors
IntriCon Corporation and Subsidiaries
Arden Hills, Minnesota

We have audited the accompanying consolidated balance sheets of IntriCon Corporation and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, shareholders equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IntriCon Corporation and Subsidiaries as of December 31, 2009 and 2008 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
March 15, 2010

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IntriCon Corporation
Consolidated Statements of Operations

Years ended December 31	**2009**	**2008**	**2007**
Sales, net	**$ 51,675,653**	$ 57,908,096	$ 59,669,342
Costs of sales	**40,624,599**	43,250,704	44,244,129
Gross profit	**11,051,054**	14,657,392	15,425,213
Operating expenses:			
Selling expense	**2,961,720**	3,262,441	3,397,891
General and administrative expense	**5,374,126**	5,849,735	5,872,932
Research and development expense	**3,344,939**	3,247,767	3,088,770
Total operating expenses	**11,680,785**	12,359,943	12,359,593
Operating income (expense)	**(629,731)**	2,297,449	3,065,620
Interest expense	**(836,592)**	(678,567)	(942,033)
Equity in earnings (loss) of partnerships	**(149,596)**	(3,652)	(157,500)
Other expense, net	**(219,883)**	(36,097)	(79,764)
Income (loss) from continuing operations before income taxes and discontinued operations	**(1,835,802)**	1,579,133	1,886,323
Income tax (expense) benefit	**33,819**	(264,762)	(173,849)
Income (loss) before discontinued operations	**(1,801,983)**	1,314,371	1,712,474
Income (loss) from discontinued operations, net of income taxes	**(2,118,538)**	(276,770)	154,764
Net income (loss)	**$ (3,920,521)**	$ 1,037,601	$ 1,867,238
Basic income (loss) per share:			
Continuing operations	**$ (.34)**	$ .25	$ .33
Discontinued operations	**(.39)**	(.05)	.03
Net income (loss)	**$ (.73)**	$ .20	$ .36
Diluted income (loss) per share:			
Continuing operations	**$ (.34)**	$ .24	$ .31
Discontinued operations	**(.39)**	(.05)	.03
Net income (loss)	**$ (.73)**	$ .19	$ .34

See accompanying notes to the consolidated financial statements.

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Consolidated Balance Sheets

At December 31,

	2009	2008
Assets		
Current assets		
Cash	**$ 385,055**	$ 249,396
Restricted cash	**405,745**	385,916
Accounts receivable, less allowance for doubtful accounts of $226,000 at December 31, 2009 and $332,000 at December 31, 2008	**7,083,694**	8,611,636
Inventories	**8,220,996**	8,012,988
Refundable income taxes	**63,676**	27,645
Note receivable from sale of discontinued operations		225,000
Other current assets	**815,742**	610,531
Current assets of discontinued operations	**1,139,813**	1,899,809
Total current assets	**18,114,721**	20,022,921
Property, plant and equipment		
Machinery and equipment	**35,516,164**	34,360,449
Less: accumulated depreciation and amortization	**28,725,359**	26,992,023
Net property, plant and equipment	**6,790,805**	7,368,426
Goodwill	**9,716,841**	7,581,107
Investment in partnerships	**1,237,178**	1,386,774
Other assets of discontinued operations	**141,877**	1,256,141
Other assets, net	**1,361,355**	1,846,448
	$ 37,362,777	$ 39,461,817

See accompanying notes to the consolidated financial statements.

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At December 31,

	2009	2008
Liabilities and Shareholders Equity		
Current liabilities		
Checks written in excess of cash	**$ 101,416**	$ 199,189
Current maturities of long-term debt	**1,708,839**	1,503,762
Accounts payable	**3,637,329**	2,797,616
Deferred gains	**110,084**	120,478
Partnership payable	**260,000**	260,000
Liabilities of discontinued operations	**926,409**	763,968
Other accrued liabilities	**2,866,584**	3,775,684
Total current liabilities	**9,610,661**	9,420,697
Long-term debt, less current maturities	**7,729,797**	6,187,923
Other post-retirement benefit obligations	**756,000**	760,608
Partnership payable	**500,000**	760,000
Dynamic Hearing license agreement payable		525,000
Deferred income taxes	**128,753**	155,273
Accrued pension liability	**543,194**	578,388
Deferred gains	**605,463**	761,456
Total liabilities	**19,873,868**	19,149,345
Commitments and contingencies (notes 7 and 14)		
Shareholders equity		
Common shares, $1.00 par value per share; 20,000,000 shares authorized; 5,985,862 and 5,858,006 shares issued; 5,470,108 and 5,342,252 outstanding at December 31, 2009 and 2008, respectively	**5,985,862**	5,858,006
Additional paid-in capital	**14,986,840**	14,121,772
Retained earnings (deficit)	**(2,005,187)**	1,915,334
Accumulated other comprehensive loss	**(213,528)**	(317,562)
Less: 515,754 common shares held in treasury, at cost	**(1,265,078)**	(1,265,078)
Total shareholders equity	**17,488,909**	20,312,472

	$ 37,362,277	$ 39,461,817

See accompanying notes to the consolidated financial statements.

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Consolidated Statements of Cash Flows

Years ended December 31,	2009	2008	2007
Cash flows from operating activities:			
Net income (loss)	$ **(3,920,521)**	$ 1,037,601	1,867,238
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Loss on impairment of long lived assets and goodwill	**910,331**		
Depreciation and amortization	**2,470,156**	2,425,704	2,127,568
Stock-based compensation	**560,571**	525,972	280,376
Gains on sale of property and equipment	**(51,386)**	(1,900)	(3,858)
Deferred taxes	**(26,520)**	66,000	10,000
Change in deferred gain	**(166,387)**	(110,084)	(110,084)
Allowance for doubtful accounts	**9,131**	130,134	(11,670)
Allowance for note receivable		(225,000)	
Equity in earnings of partnerships including impact of amortization expense	**149,596**	3,652	157,500
Changes in operating assets and liabilities:			
Accounts receivable	**1,762,565**	(1,247,981)	1,242,457
Inventories	**729,219**	949,367	(4,607)
Other assets	**201,025**	507,371	(476,464)
Accounts payable	**743,456**	(822,795)	(1,966,327)
Accrued expenses	**(1,508,988)**	(553,654)	445,586
Customers advance payments on contracts		(190,062)	10,229
Other liabilities	**(17,494)**	(42,498)	(34,631)
Net cash provided by continuing operations	**1,844,754**	2,451,827	3,533,313
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(1,466,700)**	(1,473,563)	(2,763,217)
Cash paid for acquisitions, net of cash received	**(1,342,171)**		(4,606,251)
Proceeds from dividend received from joint venture		200,000	
Proceeds from sales of property, plant and equipment	**100,000**	1,100,091	9,169
Proceeds from note receivable	**225,000**	75,000	300,000
Net cash used by investing activities	**(2,483,961)**	(98,472)	(7,060,299)
Cash flows from financing activities:			
Proceeds from stock purchases and exercise of stock options	**151,946**	236,633	872,221
Repayments of short-term borrowings		(370,760)	
Proceeds from long term borrowings	**17,813,248**	14,752,253	9,483,583
Repayments of long-term debt	**(17,179,618)**	(16,664,066)	(6,093,137)
Payments of partnership payable		(260,000)	(260,000)
Change in restricted cash	**(8,598)**	(2,710)	(4,983)
Change in checks written in excess of cash	**6,334**	(170,945)	(257,842)
Net cash provided (used) by financing activities	**783,312**	(2,479,595)	3,739,842
Effect of exchange rate changes on cash	**(8,536)**	(5,611)	8,461
Increase (decrease) in cash	**135,659**	(131,851)	221,317
Cash beginning of year	**249,396**	381,247	159,930
Cash end of year	$ **385,055**	$ 249,396	$ 381,247

See accompanying notes to the consolidated financial statements.

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Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss)

Years ended December 31, 2009, 2008 and 2007

	Common Stock Number of Shares	Common Stock $ Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Comprehensive Income (loss)	Treasury Stock	Total Shareholders Equity
Balance December 31, 2006	5,706,235	$ 5,706,235	$ 12,339,988	$ (989,505)	$ (184,674)		$ (1,265,078)	$ 15,606,966
Exercise of stock options	106,502	106,502	765,719					872,221
Shares issued in lieu of cash for services	754	754	5,366					6,120
Stock option expense			280,376					280,376
Net income				1,867,238		$ 1,867,238		1,867,238
Change in fair value of interest rate swap					(79,215)	(79,215)		(79,215)
Translation gain, net of income taxes of $0					43,489	43,489		43,489
Comprehensive income						$ 1,831,512		
Balance December 31, 2007	5,813,491	5,813,491	13,391,449	877,733	(220,400)		(1,265,078)	18,597,195
Exercise of stock options	3,400	3,400	4,900					8,300
Shares issued under the Employee Stock Purchase Plan	34,213	34,213	172,870					207,083
Shares issued in lieu of cash for services	1,902	1,902	10,331					12,233
Shares issued under the Non-employee Director and Exec. Officer Stock Purchase Program	5,000	5,000	16,250					21,250
Stock option expense			525,972					525,972
Net income				1,037,601		$ 1,037,601		1,037,601
Change in fair value of interest rate swap					(57,033)	(57,033)		(57,033)
Translation gain, net of income taxes of $0					(40,129)	(40,129)		(40,129)
Comprehensive income						$ 940,439		
Balance December 31, 2008	5,858,006	$ 5,858,006	$ 14,121,772	$ 1,915,334	$ (317,562)		$ (1,265,078)	$ 20,312,472
Shares issued for the purchase of Datrix	75,000	75,000	195,000					270,000
Shares issued under the Employee Stock Purchase Plan	29,516	29,516	60,430					89,946
Shares issued in lieu of cash for services	3,340	3,340	7,067					10,407
Shares issued under the Non-employee Director and Exec. Officer Stock Purchase Program	20,000	20,000	42,000					62,000
Stock option expense			560,571					560,571
Net loss				(3,920,521)		$ (3,920,521)		(3,920,521)
Change in fair value of interest rate swap					101,648	101,648		101,648
Translation gain, net of income taxes of $0					2,386	2,386		2,386
Comprehensive loss						$ (3,816,487)		

Balance December 31, 2009	5,985,862	$ 5,985,862	$ 14,986,840	$ (2,005,187)	$ (213,528)		$ (1,265,078)	$ 17,488,909

See accompanying notes to the consolidated financial statements.

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Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Headquartered in Arden Hills, Minnesota, IntriCon Corporation (formerly Selas Corporation of America) (referred to as the Company, we, us or our) is an international firm 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 injection-molded plastics, microelectronics, micro-mechanical assemblies and complete assemblies, primarily for bio-telemetry devices, medical equipment, hearing instruments, electronics, professional audio and telecommunications devices and computers. In addition to its operations in Minnesota, the Company has facilities in California, Maine, Singapore, and Germany.

Basis of Presentation In the fourth quarter of 2009, the Company initiated its plan to divest its non-core electronics segment. This segment consisted of the operating assets of the wholly-owned subsidiary, RTI Electronics, located in Anaheim, California. The Company has accounted for the plan to dispose of the subsidiaries as a discontinued operation and, accordingly, has reclassified all of its historical financial data. Consequently, the financial statements and footnote disclosures reflected in continuing operations the body-worn device segment only. See further information in Note 2.

Discontinued Operations - Included in discontinued operations is the Company s non-core electronics segment. On December 29, 2009, the Company s board of directors approved a plan to divest the assets of the non-core electronics segment and eliminate personnel and support costs associated with this segment. The Company concluded the segment is being held for sale at December 31, 2009 and, accordingly, the Company has restated the previously reported financial results of the non-core electronics segment to report the net results as a separate line in the consolidated statements of operations as income (loss) from discontinued operations, net for all periods presented, and the assets and liabilities of this segment on consolidated balance sheets have separately classified as Assets/Liabilities of discontinued operations . The Company elected to not allocate consolidated interest expense to the discontinued operations where the debt is not directly attributed to or related to the discontinued operations. All of the financial information in the consolidated financial statements and notes to the consolidated financial statements has been revised to reflect only the results of continuing operations.

Consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company owns 90 percent of its Germany subsidiary, with the remaining 10 percent owned by the general manager. All material intercompany transactions and balances have been eliminated in consolidation. On January 1, 2010, the Company purchased the remaining 10 percent minority interest of its German subsidiary for approximately $18,000. The non-controlling interest was immaterial for all periods presented.

Segment Disclosures A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Company s segments have similar economic characteristics and are similar in the nature of the products sold, type of customers, methods used to distribute the Company s products and regulatory environment. Management believes that the Company meets the criteria for aggregating its operating segments of its continuing operations into a single reporting segment.

Use of Estimates Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the recording of reported amounts of revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements. Actual results could differ from those estimates. Considerable management judgment is necessary in estimating future cash flows and other factors affecting the valuation of goodwill and intangible assets, including the operating and macroeconomic factors that may affect them. The Company uses historical financial information, internal plans and projections and industry information in making such estimates. The Company did not recognize any impairment charges for goodwill or intangible assets during fiscal 2009, 2008 or 2007. Although the Company had an operating loss for fiscal 2009, management believes that based on cost reduction actions and estimated revenue growth and margin improvement initiatives, that the Company will have cash flows that supports the value of goodwill and intangible assets. While the Company currently believes the expected cash flows from these assets exceeds the carrying amount, materially different assumptions regarding future performance and discount rates could result in future impairment losses. In particular, if the Company no longer believes it will achieve its long-term projected sales or operating expenses, the Company may conclude in connection with any future impairment tests that the estimated fair value of its goodwill, including intangible assets, are less than the book value and recognize an impairment charge. Such impairment would adversely affect the Company s earnings.

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Revenue Recognition The Company s continuing operations recognize revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Under contractual terms shipments are generally FOB shipment point.

Customers have 30 days to notify the Company if the product is damaged or defective. Beyond that, there are no significant obligations that remain after shipping other than warranty obligations. Contracts with customers do not include product return rights, however, the Company may elect in certain circumstances to accept returns for product. The Company records revenue for product sales net of returns. Sales and use tax are reported on a net basis, excluding them from sale and cost of sales.

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. While the Company s warranty costs have historically been within its expectations, the Company cannot guarantee that it will continue to experience the same warranty return rates or repair costs that it has experienced in the past.

Shipping and Handling Costs The Company included shipping and handling revenues in sales and shipping and handling costs in cost of sales.

Fair Value of Financial Instruments The carrying value of cash, short-term accounts and notes receivable, notes payable, trade accounts payables, and other accrued expenses approximate fair value because of the short maturity of those instruments. The fair values of the Company s long-term debt and interest rate swap agreement approximate their carrying values based upon current market rates of interest.

Concentration of Cash The Company deposits its cash in what management believes are high credit quality financial institutions. The balance, at times, may exceed federally insured limits.

Restricted Cash Restricted cash consists of deposits required to secure a credit facility at our Singapore location and deposits required to fund retirement related benefits for certain employees of foreign subsidiaries.

Accounts Receivable The Company reviews customers credit history before extending unsecured credit and establishes an allowance for uncollectible accounts based upon factors surrounding the credit risk of specific customers and other information. Invoices are generally due 30 days after presentation. Accounts receivable over 30 days are considered past due. The Company does not accrue interest on past due accounts receivables. Receivables are written off once all collection attempts have failed and are based on individual credit evaluation and specific circumstances of the customer. Accounts receivable are shown net of allowance for uncollectible accounts of $226,000 and $332,000 at December 31, 2009 and 2008, respectively.

Inventories Inventories are stated at the lower of cost or market. The cost of the inventories was determined by the average cost and first-in, first-out methods.

Property, Plant and Equipment Property, plant and equipment are carried at cost. Depreciation is computed by straight-line and accelerated methods using estimated useful lives of 5 to 40 years for buildings and improvements, and 3 to 12 years for machinery and equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Improvements are capitalized and expenditures for maintenance, repairs and minor renewals are charged to expense when incurred. At the time assets are retired or sold, the costs and accumulated depreciation are eliminated and the resulting gain or loss, if any, is reflected in the consolidated statement of operations. Depreciation expense from continuing operations was $1,967,000, $1,838,000, and $1,720,000 for the years ended December 31, 2009, 2008, and 2007, respectively.

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Impairment of Long-lived Assets and Long-lived Assets to be Disposed Of The Company reviews its long-lived assets, certain identifiable intangibles, and goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future net cash flows expected to be generated by the asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company assesses the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company will record impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amount. The amount of impairment loss recorded will be measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. To date, the Company has determined that no impairment of long-lived assets from continuing operations exists.

The test for goodwill impairment is a two-step process, and is performed at least annually during the Company s fourth quarter. The first step is a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. If this step reflects impairment, then the loss would be measured as the excess of recorded goodwill over its implied fair value. Implied fair value is the excess of fair value of the reporting unit over the fair value of all identified assets and liabilities.

Other assets net - The principal amounts included in other assets, net are a prepaid technology fee, debt issuance costs, and a technology fee. The debt issuance costs are being amortized over the related term of the debt on a straight-line basis (which approximates the interest method) and are included in interest expense and the other assets are being amortized over their estimated useful life on a straight-line basis. Amortization expense was $260,000, $128,000, and $65,000 for the years ended December 31, 2009, 2008 and 2007, respectively. The estimated amortization expense for the years ending December 31, 2010 to 2014 is as follows: 2010 - $292,000, 2011 - $223,000, 2012 - $137000, 2013 - $74,000, 2014 - $0.

Investments in Partnerships - Certain of the Company s investment in equity securities are long-tem, strategic investments in companies. The Company accounts for these investments under the equity method of accounting and records the investment at the amount the Company paid for its initial investment and adjusts for the Company s share of the investee s income or loss and dividends paid. The Company s investments include an investment in Hearing Instrument Manufacturers Patent Partnership (K/S HIMPP) and a 50% interest in a joint venture with a Swiss company as more fully described in Note 18. Equity method of accounting partnership interests are reviewed quarterly for changes in circumstances or the occurrence of events that suggest the Company s investment may not be recoverable. To date there have been no impairment losses recognized.

Income Taxes Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation reserves are established to the extent the future benefit from the deferred tax assets realization is more likely than not to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes accrued interest and penalties related to uncertain tax positions in income tax expense. At January 1, 2008, the Company had accrued zero for the payment of tax related interest and there was no tax interest or penalties recognized in the statements of operations. The Company s federal and state tax returns are potentially open to examinations for fiscal years 2006-2009 and state tax returns for the fiscal year 2005-2009. The Company does not expect any reasonably possible material changes to the estimated amounts associated with its uncertain tax positions and related accruals for interest and penalties through December 31, 2010.

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Employee Benefit Obligations The Company provides pension and health care insurance for certain domestic retirees and employees of its operations discontinued in 2005. These obligations have been included in continuing operations as the Company expects to retain these obligations. The Company also provides retirement related benefits for certain foreign employees. The Company measures the costs of its obligation based on actuarial determinations. The net periodic costs are recognized as employees render the services necessary to earn the post-retirement benefit and are recorded on the consolidated balance sheet as accrued pension liability.

Several assumptions and statistical variables are used in the models to calculate the expense and liability related to the plans. Assumptions about the discount rate, the expected rate of return on plan assets and the future rate of compensation increases are determined by the Company. Note 10 includes disclosure of these rates on a weighted-average basis, encompassing the plans. The actuarial models also use assumptions on demographic factors such as retirement, mortality and turnover. The Company believes the assumptions are within accepted guidelines and ranges. However, these actuarial assumptions could vary materially from actual results due to economic events and different rates of retirement, mortality and withdrawal.

Stock Option Plan Under the various Company stock-based compensation plans, executives, employees and outside directors receive awards of options to purchase common stock. Under all awards, the terms are fixed at the grant date. Generally, the exercise price equals the market price of the Company s stock on the date of the grant. Options under the plans generally vest from one to five years, and the option s maximum term is 10 years. Options issued to directors vest from one to three years. One plan also permits the granting of stock awards, stock appreciation rights, restricted stock units and other equity based awards. The Company expenses the grant-date fair values of stock options and awards ratably over the vesting period of the related share-based award. See Note 12 for additional information.

Product Warranty The Company offers a warranty on various products and services. The Company estimates the costs that may be incurred under its warranties and records a liability in the amount of such costs at the time the product is sold. Factors that affect the Company s warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. The Company periodically assessed the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The amount of the reserve recorded is equal to the costs to repair or otherwise satisfy the claim. The following table presents changes in the Company s warranty liability for the years ended December 31, 2009, 2008 and 2007.

	2009	2008	2007
Beginning of the year balance	$ 100,200	$ 136,000	$ 104,500
Warranty expense	47,600	44,900	79,900
Closed warranty claims	(77,100)	(80,700)	(48,400)
Change in estimate			
End of the year balance	$ 70,700	$ 100,200	$ 136,000

Advertising Costs Advertising costs are charged to expense as incurred. Advertising costs were $15,000, $5,000, and $47,000, for the years ended December 31, 2009, 2008, and 2007, respectively, and are included in selling expense in the consolidated statements of operations.

Research and Development Costs Research and development costs, net of customer funding amounted to $3.3 million, $3.2 million, and $3.1 million in 2009, 2008 and 2007, respectively, are charged to expense when incurred.

The following table sets forth development costs associated with customer funding:

	Year ended December 31,		
	2009	2008	2007
Total cost incurred	$ 784,000	$ 679,000	$ 362,000
Amount funded by customers	(784,000)	(645,000)	(281,000)
Net expense	$	$ 34,000	$ 81,000

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Income (loss) Per Share Basic income (loss) per share is computed by dividing net (loss) income by the weighted average number of shares of common stock outstanding during the year. Diluted income (loss) per common share reflects the potential dilution of securities that could share in the earnings. The Company uses the treasury stock method for calculating the dilutive effect of stock options.

Comprehensive Income (Loss) Comprehensive income (loss) consists of net income (loss), change in fair value of derivative instruments and foreign currency translation adjustments and is presented in the consolidated statements of shareholders equity and comprehensive income (loss).

Foreign Currency Translation and Transactions -The Company s German subsidiary accounted for its transactions in its functional currency, the Euro. Foreign assets and liabilities are translated into United States dollars using the year-end exchange rates. Equity is translated at average historical exchange rates. Results of operations are translated using the average exchange rates throughout the year. Translation gains or losses are accumulated as a separate component of shareholders equity.

Derivative Financial Instruments Information regarding our derivative financial instruments is found in Note 17. We do not use derivative financial instruments for speculative or trading purposes. All derivative transactions must be linked to an existing balance sheet item or firm commitment, and the notional amount cannot exceed the value of the exposure being hedged.

We recognize all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. Changes in the fair value of derivative financial instruments are recognized periodically in shareholders equity as a component of accumulated other comprehensive loss. Generally, changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in accumulated other comprehensive loss, net of tax. We present amounts used to settle cash flow hedges as financing activities in our consolidated statements of cash flows.

New Accounting Pronouncements

In September 2006, the FASB issued ASC 820, Fair Value Measurements and Disclosures . This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies to accounting pronouncements that require or permit fair value measurements, except for share-based compensation transactions. This Statement was effective for financial statements issued for fiscal years beginning after November 15, 2007, except for non-financial assets and liabilities for which this Statement was effective for years beginning after November 15, 2008. The adoption of this statement was not material to the Company.

In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 168, *the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. This statement, which was adopted by the Company during fiscal 2009, modified the Generally Accepted Accounting Principles (GAAP) hierarchy by establishing only two levels of GAAP, authoritative and non-authoritative accounting literature. The FASB Accounting Standards Codification (FASB ASC), also known collectively as the Codification , is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases by the SEC. In accordance with this statement, all accounting references in these financial statements have been updated, replacing SFAS references with FASB ASC references.

During May 2009, FASB ASC 855, *Subsequent Events* was issued. This statement requires all entities to evaluate subsequent events through the date that the financial statements are available to be issued and disclose in the notes the date through which the Company has evaluated subsequent events and whether the financial statements were issued or were available to be issued on the disclosed date. FASB ASC 855 defines two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet and the second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. FASB ASC 855 was adopted in the third quarter of fiscal 2009 and did not have a material impact on the Company s consolidated financial statements. The Company determined there were no subsequent events requiring recording or disclosure in the financial statements.

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In December 2007, the Financial Accounting Standards Board issued new accounting guidance on business combinations and non-controlling interests in consolidated financial statements. The new guidance revises the method of accounting for a number of aspects of business combinations and noncontrolling interests, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests) and post-acquisition exit activities of acquired businesses. The new guidance was effective for the Company during our fiscal year beginning January1, 2009. The adoption of the new guidance impacted the results of operations due to the requirement to expense acquisition costs as incurred

On January 1, 2009, we adopted new accounting guidance on disclosures about derivative instruments and hedging activities. The new guidance impacts disclosures only and requires additional qualitative and quantitative information on the use of derivatives and their impact on an entity s financial position, results of operations and cash flows. Refer to Note 17 for additional information regarding hedging activities.

2. 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, 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 and expected to improve the Company s overall margins and profitability. 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 $685,000 relating to goodwill, (ii) a reduction to realizable value of $720,000 to tangible assets, and (iii) $275,000 in employee termination costs for the year ended December 31, 2009. Additional employee termination costs are expected to be approximately $185,000 in 2010. The Company expects the divesture to be completed by mid-2010.

The following table shows the results of operations of the Company s electronic products segment (in thousands):

	Year Ended December 31,		
	2009	**2008**	**2007**
Sales, net	$ 5,382	$ 7,647	$ 9,314
Operating costs and expenses	(5,653)	(7,901)	(9,116)
Loss on impairment of long lived asset and goodwill	(910)		
Operating income (loss)	(1,181)	(254)	198
Other expense, net	(923)	(24)	(36)
Income (loss) from operations before income tax benefit	(2,104)	(278)	162
Income tax expense (benefit)	15	(1)	7
Net income (loss) from discontinued operations	$ (2,119)	$ (277)	$ 155

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The following table shows the assets and liabilities of the electronic products segment at December 31, 2009 and 2008 (in thousands):

	2009	2008
Cash	$ 5	$
Accounts receivable, net	757	913
Inventory, net	332	839
Other current assets	46	148
Current assets of discontinued operations	1,140	1,900
Property and equipment, net	116	544
Other assets of discontinued operations, including goodwill of $685 as of December 31, 2008	26	712
Accounts payable	351	352
Accrued compensation and other liabilities	575	412
Current liabilities of discontinued operations	$ 926	$ 764

Information regarding the nonrecurring fair value measurement completed in each period was as follows:

2009 (in thousands):	Fair Value as of measurement date	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impairment Charge
Long-lived assets and goodwill of discontinued operations	$ 116	$	$	$ 116	$ 910

3. ACQUISITION

On August 13, 2009, the Company acquired all of the outstanding stock of Jon Barron, Inc. doing business as Datrix (Datrix), a privately held developer, manufacturer, tester and marketer of medical devices and related software products, based in Escondido, California. The acquisition provides the Company entry into the ambulatory electrocardiograph (AECG) and event recording markets.

The purchase price included a closing cash payment of $1,225,000, issuance of 75,000 shares of common stock of the Company, valued at $270,000 based on the fair value of the common stock on August 13, 2009, and the issuance of a promissory note in the amount of $1,050,000 bearing annual interest at 6%. In addition, the Company paid off Datrix s outstanding line of credit with Wells Fargo of $130,000 at closing.

The principal amount of the promissory note is payable in three installments of $350,000 on August 13, 2010, August 13, 2011 and August 13, 2012. The note bears annual interest at 6% and is payable with each principal as set forth above.

The assets and liabilities of Datrix were recorded as of the acquisition date at their respective fair values and consolidated with those of the Company. Likewise, the results of operations of the Datrix operations since August 13, 2009 have been included in the accompanying consolidated statements of operations. The allocation of the net purchase price of the acquisition resulted in goodwill of approximately $2,136,000. The goodwill represents operating and market synergies that the Company expects to be realized as a result of the acquisition and future opportunities and is not tax deductible. The purchase price allocation is based on estimates of fair values of assets acquired and liabilities assumed. The valuation required the use of significant assumptions and estimates. These estimates were based on assumptions the Company believed to be reasonable.

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The purchase price was as follows as of August 13, 2009 (amounts in thousands):

Cash paid to seller at closing	$	1,225
Cash paid to Wells Fargo at closing		130
Stock consideration		270
Seller note at close		1,050
Total purchase price	$	2,675

The following table summarizes the purchase price allocation for the Datrix acquisition (amounts in thousands):

Cash	$	13
Other current assets		514
Intangible assets (weighted average life of 2.4 years)		125
Goodwill Body-Worn Segment		2,136
Current liabilities		(113)
Total preliminary purchase price allocation	$	2,675

Results from operations of Datrix are not considered material to the financial statements for 2009. Proforma results are also not considered material for 2009 and 2008. Acquisition costs of $277,000 were incurred during the year ended December 31, 2009 and are included in other expenses, net in the Consolidated Statement of Operations.

On May 22, 2007, the Company completed the acquisition of substantially all of the assets, other than real estate, of Tibbetts Industries, Inc. (Tibbetts), a privately held designer and manufacturer of components used in hearing aids and medical devices, based in Camden, Maine. The acquisition expanded the Company s component technology and customer base.

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company as if the acquisition of Tibbetts had occurred at January 1, 2007. All amounts presented are in thousands. The historical consolidated financial information has been adjusted to give effect to pro forma events that are directly attributable to the acquisition and are factually supportable, including the increase in interest expense related to the borrowings used to fund the acquisition and the increase in depreciation expense of Tibbetts related to the step-up of fixed assets to fair value. The unaudited pro forma condensed consolidated financial information is presented for informational purposes only. The pro forma information is not necessarily indicative of what the financial position or results of operations actually would have been had the acquisition been completed on the dates indicated. In addition, the unaudited pro forma condensed consolidated financial information does not purport to project the future financial position or operating results of the Company after completion of the acquisition.

(amounts in thousands, except per share amounts)		**Year ended December 31, 2007 (unaudited)**
Net sales	$	61,205
Cost of sales		45,577
S, G & A		12,873
Interest expense		1,050
Other expense		242
Income from continuing operations before income taxes	$	1,463
Income per share:		

Basic	$	0.28
Diluted	$	0.27
Weighted average number of shares outstanding:		
Basic		5,210
Diluted		5,520

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The pro forma income from continuing operations for the period presented includes the increase in interest expense related to the borrowings used to fund the acquisition and the increase in depreciation expense of Tibbetts related to the step-up of fixed assets to fair value.

4. GEOGRAPHIC INFORMATION

The geographical distribution of long-lived assets and net sales to geographical areas as of and for the years ended December 31, 2009and 2008 are set forth below:

Long-lived Assets

	2009	2008
United States	$ 5,893,000	$ 6,281,000
Other primarily Singapore	1,229,000	1,425,000
Consolidated	$ 7,122,000	$ 7,706,000

Long-lived assets consist primarily of property and equipment. 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 sales exceeds the carrying value of the assets.

Net Sales to Geographical Areas

	2009	2008	2007
United States	$ 36,587,193	41,037,167	$ 44,248,197
Germany	3,335,249	3,749,265	3,413,579
China	2,716,100	2,579,948	2,373,276
Switzerland	561,004	994,551	953,982
Singapore	891,671	1,416,444	1,525,659
France	1,428,005	1,461,847	939,073
Japan	1,740,476	1,157,372	1,280,774
United Kingdom	528,413	762,819	439,699
Turkey	297,664	446,362	488,539
Hong Kong	365,044	283,869	123,961
All other countries	3,224,834	4,018,452	3,882,603
Consolidated	$ 51,675,653	$ 57,908,096	$ 59,669,342

Geographic net sales are allocated based on the location of the customer. All other countries include net sales primarily to various countries in Europe and in the Asian Pacific.

One customer accounted for 22 percent, 15 percent and 13 percent of the Company s consolidated net sales in 2009, 2008 and 2007, respectively. A second customer accounted for 11 percent of the Company s consolidated net sales in 2009. During 2009, the top five customers accounted for approximately $24 million or 46 percent of the Company s consolidated net sales. During 2008, the top five customers accounted for approximately $23 million or 40 percent of the Company s consolidated net sales. During 2007, the top five customers accounted for approximately $26 million or 44 percent of the Company s consolidated net sales.

At December 31, 2009, two customers accounted for 16 percent and 11 percent of the Company s consolidated accounts receivable, respectively. Two customers accounted for 13 percent and 12 percent of the Company s consolidated accounts receivable at December 31, 2008.

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5. GOODWILL

The Company performed the required goodwill impairment test during the years ended December 31, 2009, 2008, and 2007. The Company completed or obtained an analysis to assess the fair value of its business units to determine whether goodwill carried on its books was impaired and the extent of such impairment, if any for the years ended December 31, 2009, 2008, and 2007. For each year, the analysis used the discounted cash flow analysis; future benefits over a period of time are estimated and then discounted back to present value. Based upon this analysis, the Company determined that its current goodwill balances associated with the body-worn device segment were not impaired as of December 31, 2009, 2008 and 2007.

A two-step approach is used in evaluating goodwill for impairment. First, we compare the fair value of the reporting unit to which the goodwill is assigned to the carrying amount of its net assets. In calculating fair value, we use the income approach. The income approach is a valuation technique under which we estimate future cash flows using the reporting unit s financial forecast from the perspective of an unrelated market participant. Future estimated cash flows are discounted to their present value to calculate fair value. The discount rate used is the value-weighted average of our estimated cost of capital derived using both known and estimated customary market metrics. In determining the fair value of our reporting units we are required to estimate a number of factors, including projected future operating results, terminal growth rates, economic conditions, anticipated future cash flows, the discount rate and the allocation of shared or corporate items. For reasonableness, the summation of our reporting units fair values is compared to our consolidated fair value as indicated by our market capitalization plus an appropriate control premium. If the carrying amount of a reporting unit s net assets exceeds its estimated fair value, the second step of the goodwill impairment analysis requires us to measure the amount of the impairment loss. An impairment loss is calculated by comparing the implied fair value of the goodwill to its carrying amount. In calculating the implied fair value of the goodwill, we measure the fair value of the reporting unit s assets and liabilities, excluding goodwill. The excess of the fair value of the reporting unit over the amount assigned to its assets and liabilities, excluding goodwill, are the implied fair value of the reporting unit s goodwill.

The changes in the carrying amount of goodwill for the years presented are as follows:

Carrying amount at December 31, 2006	$	5,264,585
Goodwill acquired during the year		2,288,104
Carrying amount at December 31, 2007		7,552,689
Revision to prior year purchase price allocation		28,418
Carrying amount at December 31, 2008		7,581,107
Goodwill acquired during the year (Note 3)		2,135,734
Carrying amount at December 31, 2009	$	9,716,841

6. INVENTORIES

Inventories consisted of the following:

December 31,		Raw materials		Work-in process		Finished products and components		Total
2009								
Domestic	$	3,650,572	$	1,679,985	$	934,554	$	6,265,111
Foreign		1,515,502		216,577		223,806		1,955,885
Total	$	5,166,074	$	1,896,562	$	1,158,360	$	8,220,996
2008								
Domestic	$	3,128,429	$	1,549,238	$	1,118,685	$	5,796,352
Foreign		1,609,392		326,874		280,370		2,216,636
Total	$	4,737,821	$	1,876,112	$	1,399,055	$	8,012,988

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7. SHORT AND LONG-TERM DEBT

Short and long term debt at December 31were as follows:

	2009	2008
Domestic Asset-Based Revolving Credit Facility	$ 4,450,000	$ 3,000,000
Foreign Overdraft and Letter of Credit Facility	678,000	606,000
Domestic Term Loan	3,250,000	2,756,000
Domestic Capital Equipment Leases	11,000	1,330,000
Note Payable Datrix Purchase	1,050,000	
Total Debt	9,439,000	7,692,000
Less: Current maturities	(1,709,000)	(1,504,000)
Total Long Term Debt	$ 7,730,000	$ 6,188,000

Payments Due by Period

	2010	2011	2012	2013	2014	Thereafter	Total
Domestic credit facility	$	$	$ 4,450,000	$	$	$	$ 4,450,000
Domestic term loan	688,000	712,000	1,850,000				3,250,000
Domestic Note Payable	350,000	350,000	350,000				1,050,000
Foreign overdraft and letter of credit facility	660,000	18,000					678,000
Capital leases	11,000						11,000
Total debt	$ 1,709,000	$ 1,080,000	$ 6,650,000	$	$	$	$ 9,439,000

The Company and its domestic subsidiaries entered into a new three year credit facility with The PrivateBank and Trust Company on August 13, 2009, to finance a portion of the Datrix acquisition and replacing the prior credit facilities with Bank of America, including capital leases. The credit facility provides for:

an $8,000,000 revolving credit facility, with a $200,000 subfacility for letters of credit. Under the revolving credit facility, the availability of funds depends on a borrowing base composed of stated percentages of the Company s eligible trade receivables and eligible inventory, and eligible equipment less a reserve; and

a $3,500,000 term loan.

Loans under the credit facility are secured by a security interest in substantially all of the assets of the Company and its domestic subsidiaries including a pledge of the stock of its domestic subsidiaries. Loans under the credit facility bear interest at varying rates based on predefined levels of Funded Debt / EBITDA, at the option of the Company, at:

the London InterBank Offered Rate (LIBOR) plus 3.00% - 4.00%, or

the base rate, which is the higher of (a) prime rate or the Federal Funds Rate plus 0.5%, plus 0.25% - 1.25%.

Interest is payable monthly in arrears, except that interest on LIBOR based loans is payable at the end of the one, two or three month interest periods applicable to LIBOR based loans. IntriCon is also required to pay a non-use fee equal to 0.25% per year of the unused portion of the revolving line of credit facility, payable quarterly in arrears.

Weighted average interest on our domestic credit facilities (including prior facilities) was 4.07%, 5.51% and 7.82% for 2009, 2008 and 2007, respectively.

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The outstanding principal balance of the term loan is payable in quarterly installments of varying amounts ranging from $168,750 to $187,500. Any remaining principal and accrued interest is payable on August 13, 2012. IntriCon is also required to use 100% of the net cash proceeds of certain asset sales (excluding inventory and certain other dispositions), sale of capital securities or issuance of debt to pay down the term loan.

Upon termination of the Bank of America credit facility (which was available in 2007, 2008 and through August 13, 2009), the Company was required to settle the outstanding obligations of $121,000 for the liability related to its interest rate swap agreement with Bank of America and recognize the corresponding expense of $121,000 in interest expense which was previously included in other comprehensive income. In addition the Company expensed the remaining deferred financing costs of $86,000 related to the Bank of America facility, which is included in interest expense.

The Company is subject to various covenants under the credit facility, including financial covenants relating to tangible net worth, funded debt to Earnings Before Interest, Taxes, Depreciation and Amortization, fixed charge coverage ratio and capital expenditures. Under the credit facility, except as otherwise permitted, the borrowers may not, among other things, incur or permit to exist any indebtedness; grant or permit to exist any liens or security interests on their assets or pledge the stock of any subsidiary; make investments; be a party to any merger or consolidation, or purchase of all or substantially all of the assets or equity of any other entity; sell, transfer, convey or lease all or any substantial part of its assets or capital securities; sell or assign, with or without recourse, any receivables; issue any capital securities; make any distribution or dividend (other than stock dividends), whether in cash or otherwise, to any of its equityholders; purchase or redeem any of its equity interests or any warrants, options or other rights in respect thereof; enter into any transaction with any of its affiliates or with any director, officer or employee of any borrower; be a party to any unconditional purchase obligations; cancel any claim or debt owing to it; enter into any agreement inconsistent with the provisions of the credit facility or other agreements and documents entered into in connection with the credit facility; engage in any line of business other than the businesses engaged in on the date of the credit facility and businesses reasonably related thereto; or permit its charter, bylaws or other organizational documents to be amended or modified in any way which could reasonably be expected to materially adversely affect the interests of the lender. In March 2010, the Company entered into an amendment with The PrivateBank to waive certain covenant violations at December 31, 2009 and January 31, 2010 and reset certain covenant thresholds defined in the original agreement.

The prior credit facility with Bank of America provided for:

- a $10,000,000 revolving credit facility, with a $200,000 subfacility for letters of credit. Under the revolving credit facility, the availability of funds depended on a borrowing base composed of stated percentages of our eligible trade receivables and eligible inventory, less a reserve.

- a $4,500,000 term loan, which was used to fund the Company s May, 2007 acquisition of Tibbetts Industries, Inc.

Loans under the prior credit facility were secured by a security interest in substantially all of the assets of the borrowers including a pledge of the stock of the subsidiaries. All of the borrowers were jointly and severally liable for all borrowings under the credit facility.

The principal balance of the Bank of America term loan was $2,756,250 at December 31, 2008. In 2008, we used proceeds of $1,013,000 from an equipment sale-leaseback described below to pay down the term loan.

The outstanding balance of the Bank of America revolving credit facility was $3,000,000 at December 31, 2008. The total remaining availability on the revolving credit facility was approximately $4,349,000 at December 31, 2008.

In June 2008, the Company completed a sale-leaseback of machinery and equipment with Bank of America. The transaction generated proceeds of $1,098,000, of which $1,013,000 was used to pay down the domestic term loan. The facility was repaid on August 13, 2009 with proceeds borrowed under the new PrivateBank facility.

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In addition to its domestic credit facilities, the Company s wholly-owned subsidiary, IntriCon, PTE LTD., entered into an international senior secured credit agreement with Oversea-Chinese Banking Corporation Ltd. that provides for a $1.8 million line of credit through 2009. Borrowings bear interest at a rate of .75% to 2.5% over the lender s prevailing prime lending rate. Weighted average interest on the international credit facilities was 5.31%, 5.84% and 6.36% for 2009, 2008 and 2007, respectively. The outstanding balance was $678,000 and $605,000 at December 31, 2009 and 2008, respectively.

The total remaining availability on the domestic and international revolving credit facility was approximately $3,998,000 at December 31, 2009. The principal balance of the term loan was $3,250,000 at December 31, 2009.

8. OTHER ACCRUED LIABILITIES

Other accrued liabilities at December 31, 2009, and 2008 were as follows:

	2009	2008
Salaries, wages and commissions	$ 1,231,026	$ 1,826,990
Taxes, including payroll withholdings and excluding income taxes	40,547	51,835
Accrued severance benefits		61,639
Accrued professional fees	314,351	361,580
Accrued Dynamic Hearing strategic alliance payments	525,000	475,000
Other	755,660	998,640
	$ 2,866,584	$ 3,775,684

Accrued severance benefits recorded at December 31, 2008 were paid in 2009.

9. DOMESTIC AND FOREIGN INCOME TAXES

Domestic and foreign income taxes (benefits) from continuing operations were comprised as follows:

	Years ended December 31,		
	2009	2008	2007
Current			
Federal	$	$	$
State		94,014	(18,802)
Foreign	(7,299)	104,748	182,651
	(7,299)	198,762	163,849
Deferred			
Federal			
State			
Foreign	(26,520)	66,000	10,000
	(26,520)	66,000	10,000
Income taxes (benefit)	$ (33,819)	$ 264,762	$ 173,849
Income (loss) from continuing operations before income taxes is as follows:			
Foreign	12,118	597,234	1,088,951
Domestic	(1,847,920)	981,899	797,372
	$ (1,835,802)	$ 1,579,133	$ 1,886,323

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The following is a reconciliation of the statutory federal income tax rate to the effective tax rate based on income (loss) from continuing operations:

	Years ended December 31,		
	2009	2008	2007
Tax provision at statutory rate	(34.0)%	34.0%	34.0%
Change in valuation allowance	31.2	(29.1)	(20.9)
Impact of permanent items, including stock based compensation expense	3.0	14.6	
Effect of foreign tax rates	(0.0)	(2.4)	(8.7)
State taxes net of federal benefit	(0.4)	3.2	1.4
Other	(1.6)	(3.5)	3.5
Domestic and foreign income tax rate	(1.8)%	16.8%	9.2%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2009, and 2008 are presented below:

	2009	2008
Deferred tax assets:		
Net operating loss carry forwards and credits United States	$ 5,404,789	$ 4,738,108
Depreciation and amortization	578,012	300,650
Inventory related timing differences	1,057,992	821,884
Compensation accruals	675,692	435,123
Accruals and reserves	588,028	590,862
Other	455,721	380,508
Total deferred tax assets	8,760,234	7,267,135
Less: valuation allowance	8,760,234	7,267,135
Deferred tax assets net of valuation allowance	$	$
Deferred tax liabilities:		
Plant and equipment, due to differences in depreciation and capitalized interest	$ (128,753)	$ (155,273)
Total deferred tax liabilities	(128,753)	(155,273)
Net deferred tax liabilities	$ (128,753)	$ (155,273)

Domestic and foreign deferred taxes were comprised as follows:

December 31, 2009	**Federal**	**State**	**Foreign**	**Total**
Current deferred asset	$	$	$	$
Non-current deferred liability			(128,753)	(128,753)
Net deferred tax liability	$	$	$ (128,753)	$ (128,753)

December 31, 2008	**Federal**	**State**	**Foreign**	**Total**
Current deferred asset	$	$	$	$
Non-current deferred liability			(155,273)	(155,273)
Net deferred tax liability	$	$	$ (155,273)	$ (155,273)

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The valuation allowance is maintained against deferred tax assets which the Company has determined are not likely to be realized. The change in valuation allowance was $1,493,000, $(867,000) and $(429,000) for the years ended December 31, 2009, 2008 and 2007, respectively. In addition, the Company has net operating loss carryforwards for Federal tax purposes of approximately $15.1 million that begin to expire in 2022. Subsequently recognized tax benefits, if any, relating to the valuation allowance for deferred tax assets or realization of net operating loss carryforwards will be reported in the consolidated statements of operations. If substantial changes in the Company s ownership occur, there could be an annual limitation on the amount of the carryforwards that are available to be utilized. The Company analyzes ownership changes on a consistent basis.

The Company has not recognized a deferred tax liability relating to cumulative undistributed earnings of controlled foreign subsidiaries in Germany and Singapore that are essentially permanent in duration. If some or all of the undistributed earnings of the controlled foreign subsidiaries are remitted to the Company in the future, income taxes, if any, after the application of foreign tax credits will be provided at that time. Determination of the amount of unrecognized tax liability related to undistributed earnings in foreign subsidiaries is not currently practical.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company regularly assesses the likelihood that the deferred tax assets will be recovered from future taxable income. The Company considers projected future taxable income and ongoing tax planning strategies, then records a valuation allowance to reduce the carrying value of the net deferred taxes to an amount that is more likely than not to be realized. Based upon the Company s assessment of all available evidence, including the previous three years of United States based taxable income and loss after permanent items, estimates of future profitability, and the Company s overall prospects of future business, the Company determined that it is more likely than not that the Company will not be able to realize a portion of the deferred tax assets in the future. The Company will continue to assess the potential realization of deferred tax assets on an annual basis, or an interim basis if circumstances warrant. If the Company s actual results and updated projections vary significantly from the projections used as a basis for this determination, the Company may need to change the valuation allowance against the gross deferred tax assets.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. The Company determined all tax positions for which the statute of limitations remained open. As a result of the implementation, the Company did not record any adjustment to the liability for unrecognized income tax benefits or retained earnings. The Company does not have any unrecognized tax benefits as of December 31, 2009 and 2008.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal and local, or non-U.S. income tax examinations by tax authorities for the years starting before 2006 and state for the years starting before 2005. There are no other on-going or pending IRS, state, or foreign examinations.

The Company recognizes penalties and interest accrued related to unrecognized tax benefits in income tax expense for all periods presented. During the tax years ended December 31, 2009, 2008, and 2007 the Company has no amounts accrued for the payment of interest and penalties.

10. EMPLOYEE BENEFIT PLANS

The Company has defined contribution plans for most of its domestic employees. Under these plans, eligible employees may contribute amounts through payroll deductions supplemented by employer contributions for investment in various investments specified in the plans. In the second quarter of 2009, the Company elected to suspend employer contributions into the defined contribution plans. The Company contribution to these plans for 2009, 2008, and 2007 was $74,000, $301,000, and $225,000, respectively.

The Company provides post-retirement medical benefits to certain domestic full-time employees who meet minimum age and service requirements. In 1999, a plan amendment was instituted which limits the liability for post-retirement benefits beginning January 1, 2000 for certain employees who retire after that date. This plan amendment resulted in a $1.1 million unrecognized prior service cost reduction which will be recognized as employees render the services necessary to earn the post-retirement benefit. The Company s policy is to pay the cost of these post-retirement benefits when required on a cash basis. The Company also has provided certain foreign employees with retirement related benefits.

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The following table presents the amounts recognized in the Company s consolidated balance sheet at December 31, 2009 and 2008 for post-retirement medical benefits:

	2009	2008
Change in Projected Benefit Obligation		
Projected benefit obligation at January 1	$ 905,608	$ 1,001,532
Service cost (excluding administrative expenses)		
Interest cost	58,318	55,292
Actuarial loss/(gain)	90,348	8,784
Participant contributions	87,500	85,000
Benefits paid	(252,500)	(245,000)
Projected benefit obligation at December 31	889,274	905,608
Change in fair value of plan assets		
Employer contributions	165,000	160,000
Participant contributions	87,500	85,000
Benefits paid	(252,500)	(245,000)
Fair value of plan assets at December 31		
Funded status	(889,274)	(905,608)
Amount recognized in balance sheet		
Current liabilities	133,274	145,000
Noncurrent liabilities	756,000	760,608
Net amount	$ 889,274	$ 905,608
Amount recognized in other comprehensive income		
Unrecognized net actuarial gain		
Total	$	$

Accrued post-retirement medical benefit costs are classified as other post-retirement benefit obligations as of December 31, 2009 and 2008.

Net periodic post-retirement medical benefit costs for 2009, 2008 and 2007 included the following components:

	2009	2008	2007
Service cost	$	$	$ 629
Interest cost	58,318	55,292	69,225
Net periodic post-retirement medical benefit cost	$ 58,318	$ 55,292	$ 69,854

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) was assumed for 2010; the rate was assumed to decrease gradually to 5% by the year 2013 and remain at that level thereafter. The health care cost trend rate assumption may have a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated post-retirement medical benefit obligation as of December 31, 2009 by $11,129 and the aggregate of the service and interest cost components of net periodic post-retirement medical benefit cost for the year ended December 31, 2009 by $819. Employer contributions for 2010 are expected to be approximately $145,000.

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The assumptions used years ended December 31 were as follows:

	2009	2008	2007
Annual increase in cost of benefits	9.00%	9.00%	9.00%
Discount rate used to determine year-end obligations	6.00%	7.00%	6.00%
Discount rate used to determine year-end expense	7.00%	6.00%	6.00%

The following employer benefit payments, which reflect expected future service, are expected to be paid:

2010	$ 145,000
2011	$ 145,000
2012	$ 145,000
2013	$ 145,000
2014	$ 140,000
Years 2015 2019	$ 685,000

The Company provides retirement related benefits to former executive employees and to certain employees of foreign subsidiaries. The liabilities established for these benefits at December 31, 2009 and 2008 are illustrated below.

	2009	2008
Current portion	$ 90,656	$ 90,656
Long term portion	543,194	578,388
Total liability at December 31	$ 633,850	$ 669,044

11. CURRENCY TRANSLATION ADJUSTMENTS

All assets and liabilities of foreign operations in which the functional currency is foreign are translated into U.S. dollars at prevailing rates of exchange in effect at the balance sheet date. Revenues and expenses are translated using average rates of exchange for the year. Adjustments resulting from the process of translating the financial statements of foreign subsidiaries into U.S. dollars are reported as a separate component of shareholders equity, net of tax, where appropriate. Foreign currency transaction amounts included in the statements of operation include a loss of $13,000 in 2009, a loss of $77,000 in 2008, and a loss of $112,000 in 2007.

12. COMMON STOCK AND STOCK OPTIONS

The Company has a 1994 stock option plan, a 2001 stock option plan, a non-employee directors stock option plan and a 2006 equity incentive plan. New grants may not be made under the 1994, the 2001 and the non-employee directors stock option plans; however certain option grants under these plans remain exercisable as of December 31, 2009. The aggregate number of shares of common stock for which awards could be granted under the 2006 equity incentive plan as of the date of adoption was 698,500 shares. Additionally, as outstanding options under the 2001 stock option plan and non-employee directors stock option plan expire, the shares of the Company s common stock subject to the expired options will become available for issuance under the 2006 equity incentive plan.

Under the various plans, executives, employees and outside directors receive awards of options to purchase common stock. Under the 2006 equity incentive plan, the Company may also grant stock awards, stock appreciation rights, restricted stock units and other equity-based awards, although no such awards, other than awards under the director program and management purchase program described below, had been granted as of December 31, 2009. Under all awards, the terms are fixed on the grant date. Generally, the exercise price equals the market price of the Company s stock on the date of the grant. Options under the plans generally vest over three years, and have a maximum term of 10 years.

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Additionally, the board has established the non-employee directors stock fee election program, referred to as the director program, as an award under the 2006 equity incentive plan. The director program gives each non-employee director the right under the 2006 equity incentive plan to elect to have some or all of his quarterly director fees paid in common shares rather than cash. There were 3,340 and 1,902 shares issued in lieu of cash for director fees under the director program for the years ended December 31, 2009 and 2008, respectively.

On July 23, 2008, the Compensation Committee of the Board of Directors approved the non-employee director and executive officer stock purchase program, referred to as the management purchase program, as an award under the 2006 Plan. The purpose of the management purchase program is to permit the Company s non-employee directors and executive officers to purchase shares of the Company s Common Stock directly from the Company. Pursuant to the management purchase program, as amended, participants may elect to purchase shares of Common Stock from the Company not exceeding an aggregate of $100,000 during any fiscal year. Participants may make such election one time during each twenty business day period following the public release of the Company s earnings announcement, referred to as a window period, and only if such participant is not in possession of material, non-public information concerning the Company and subject to the discretion of the Board to prohibit any transactions in Common Stock by directors and executive officers during a window period. There were 20,000 and 5,000 shares purchased under the management purchase program during the years ended December 31, 2009 and 2008, respectively.

Stock option activity during the periods indicated is as follows:

	Number of Shares	Weighted-average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2006	797,733	$ 4.51	
Options forfeited	(2,000)	4.60	
Options granted	165,000	13.72	
Options exercised	(106,502)	8.19	
Outstanding at December 31, 2007	854,231	5.83	
Options forfeited	(45,131)	9.82	
Options granted	175,950	7.35	
Options exercised	(3,400)	2.44	
Outstanding at December 31, 2008	981,650	5.93	
Options forfeited	(10,850)	10.69	
Options granted	83,000	3.29	
Options exercised			
Outstanding at December 31, 2009	1,053,800	$ 5.67	$
Exercisable at December 31, 2008	642,866	$ 4.23	
Exercisable at December 31, 2009	808,067	$ 5.16	$
Available for future grant at January 1, 2009	256,894		
Available for future grant at December 31, 2009	161,404		

The number of shares available for future grant at December 31, 2009, does not include a total of up to 399,200 shares subject to options outstanding under the 2001 stock option plan and non-employee directors stock option plan which will become available for grant under the 2006 Equity Incentive Plan in the event of the expiration of said options. Based on the Company s stock price at December 31, 2009, the aggregate intrinsic value of outstanding and exercisable options was $0.

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The weighted-average remaining contractual term of options exercisable at December 31, 2009, was 5.6 years. The total intrinsic value of options exercised during fiscal 2009, 2008, and 2007, was $0, $19,000, and $475,000, respectively.

The weighted-average per share fair value of options granted was $1.71, $2.85, and $5.13, in 2009, 2008, and 2007, respectively, using the Black-Scholes option-pricing model.

For disclosure purposes, the fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2009	2008	2007
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	58.8 62.4%	42.3 - 53.5%	43.0%
Risk-free interest rate	1.27 - 2.58%	1.4 - 2.8%	3.5%
Expected life (years)	4.0	4.0	4.0

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of subjective assumptions, including the expected stock price volatility. Because the Company s options have characteristics different from those of traded options, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options.

The Company calculates expected volatility for stock options and awards using both historical volatility as well as the average volatility of our peer competitors. The reason historical volatility was not strictly used is the material changes in the Company s operations as a result of the sales of business segments that occurred in 2004 and 2005. The expected term for stock options and awards is calculated based on the Company s estimate of future exercise at the time of grant.

The Company currently estimates a nine percent forfeiture rate for stock options but will continue to review this estimate in future periods.

The risk-free rates for the expected terms of the stock options and awards and the employee stock purchase plan is based on the U.S. Treasury yield curve in effect at the time of grant.

The Company recorded $561,000, $526,000 and $280,000 of non-cash stock option expense for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, there was $550,000 of total unrecognized compensation costs related to non-vested awards that is expected to be recognized over a weighted-average period of 1.3 years.

At the 2008 annual meeting of shareholders, the shareholders approved the IntriCon Corporation 2008 Employee Stock Purchase Plan (the Purchase Plan). A maximum of 100,000 shares may be sold under the Purchase Plan. There were 29,516 and 30,172 shares purchased under the plan for the years ended December 31, 2009 and 2008, respectively.

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13. INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted income (loss) per share:

	2009			2008			2007		
	Income Numerator	Shares Denominator	Per Share Amount	Income Numerator	Shares Denominator	Per Share Amount	Loss Numerator	Shares Denominator	Per Share Amount
Basic income (loss) per share									
Net income (loss)	$ (3,920,521)	5,394,125	$ (.73)	$ 1,037,601	5,314,387	$ .20	$ 1,867,238	5,209,567	$ .36
Effect of dilutive securities									
Stock options					225,069			310,213	
Diluted income (loss) per share	$ (3,920,521)	5,394,125	$ (.73)	$ 1,037,601	5,539,456	$ .19	$ 1,867,238	5,519,780	$ .34

The Company excluded stock options of 492,700, 231,950, and 190,131, in 2009, 2008, and 2007, respectively, from the computation of the diluted income per share as their effect would be anti-dilutive. For additional disclosures regarding the stock options, see Note 12.

14. CONTINGENCIES AND COMMITMENTS

The Company is a defendant along with a number of other parties in approximately 122 lawsuits as of December 31, 2009, (approximately 122 lawsuits as of December 31, 2008) 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. Due to the noninformative nature of the complaints, we do not know whether any of the complaints state valid claims against us. Certain insurance carriers have informed us that the primary policies for the period August 1, 1970-1973, have been exhausted and that the carriers wi