TROTTER JOHNNY
Form 4
September 14, 2010

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
TROTTER JOHNNY

(Last) (First) (Middle)

P. O. BOX 701

(Street)

ABILENE, TX 79604-0701

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
FIRST FINANCIAL BANKSHARES INC [FFIN]

3. Date of Earliest Transaction (Month/Day/Year)
09/14/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/14/2010		P		1,000	A	$ 46.68	91,040	D	
Common Stock								700	I	By Spouse
Common Stock								18,041	I	By Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
TROTTER JOHNNY P. O. BOX 701 ABILENE, TX 79604-0701	X			

Signatures

By: J. Bruce Hildebrand Attorney in Fact for Johnny Trotter	09/14/2010
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. he 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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ITEM 6. Selected Financial Data

Five-Year Summary of Operations

Years ended December 31,	2011	2010	2009 (c)	2008	2007(a)
Sales, net	**$ 56,058**	$ 58,697	$ 51,676	$ 57,908	$ 59,669
Gross profit	**12,666**	15,013	11,051	14,657	15,425
Operating expenses	**13,858**	13,419	11,681	12,360	12,360
Interest expense	**(609)**	(655)	(836)	(678)	(942)
Equity in income (loss) of partnerships	**174**	(135)	(150)	(4)	(158)
Other income (expense), net	**42**	(4)	(220)	(36)	(79)
Income (loss) from continuing operations before income taxes and discontinued operations	**(1,585)**	800	(1,836)	1,579	1,886
Income tax (expense) benefit	**160**	(145)	34	(265)	(173)
Income (loss) from continuing operations before discontinued operations	**(1,425)**	655	(1,802)	1,314	1,713
Gain on sale of discontinued operations, net of income taxes		35			
Income (loss) from discontinued operations, net of income taxes		(329)	(2,119)	(276)	154
Net income (loss)	**$ (1,425)**	$ 361	$ (3,921)	$ 1,038	$ 1,867
Basic income (loss) per share:					
Continuing operations	**$ (.25)**	$ .12	$ (.34)	$ .25	$ .33
Discontinued operations		(.05)	(.39)	(.05)	.03
Net income (loss)	**$ (.25)**	$ .07	$ (.73)	$ .20	$ .36
Diluted income (loss) per share:					
Continuing operations	**$ (.25)**	$ .12	$ (.34)	$ .24	$ .31
Discontinued operations		(.05)	(.39)	(.05)	.03
Net income (loss)	**$ (.25)**	$ .07	$ (.73)	$ .19	$ .34
Weighted average number of shares outstanding during year:					
Basic	**5,599**	5,484	5,394	5,314	5,210
Diluted	**5,599**	5,535	5,394	5,539	5,520

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Other Financial Highlights

Years ended December 31,	2011	2010	2009(c)	2008	2007(a)
Working capital (b)	**$ 8,207**	$ 8,615	$ 8,504	$ 10,602	$ 9,365
Total assets	**$ 40,730**	$ 36,267	$ 37,363	$ 39,462	$ 39,732
Long-term debt	**$ 8,217**	$ 6,465	$ 7,730	$ 6,188	$ 6,963
Shareholders equity	**$ 17,446**	$ 18,571	$ 17,489	$ 20,312	$ 18,597
Depreciation and amortization	**$ 2,258**	$ 2,601	$ 2,470	$ 2,426	$ 1,785

(a) Included in the 2007 results and balances at December 31, 2007, are net sales of $4,500, total assets of $6,400, long-term debt of $4,300, and depreciation and amortization of $100 from the acquisition of Tibbetts Industries. Because the 2007 results include only a portion of a year and balances at December 31, 2007 include amounts from the acquisition of Tibbetts Industries, the financial statements for 2007 may not be comparable to other years presented.

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

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

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

Company Overview

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

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

Business Highlights

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

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

In August 2011, the Company amended its credit facilities with The PrivateBank and Trust Company. Terms of the amendment included, among other things, extending the term of the $8,000 revolving credit facility, with a subfacility for letters of credit, to mature in August 2014 and increasing the Company s term loan facility to $4,000, amortized in quarterly principal installments of $250, and an extension of the maturity to August 2014. The $12,000 in credit facilities includes London Interbank Offered Rate (LIBOR) interest rate options at varying rates based on funded debt to EBITDA levels. In addition, the amendment reset certain financial covenants. The Company is using the facilities to fund current growth opportunities, expand low-cost manufacturing footprint and meet anticipated working capital requirements.

Forward Looking Statements

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

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Results of Operations: 2011 Compared with 2010

Consolidated Net Sales

Our net sales are comprised of three main markets: medical, hearing health, and professional audio - collectively our body-worn device segment. Below is a recap of our sales by main markets for the years ended December 31, 2011 and 2010:

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

In 2011, we experienced a 7 percent decrease medical sales primarily due to extended regulatory lead times and anticipated fluctuations in demand. The persisting economic softness and regulatory delays has caused many patients to defer discretionary medical procedures, and hospitals and doctors to cut back on purchases of legacy med-tech products. As a result, during the course of 2011, a few large medical customers experienced fluctuations in demand. As the year progressed, we were encouraged by the reengagement of Medtronic and other key medical customers, driving four quarters of sequential growth.

Management believes there is an industry-wide trend toward further miniaturization and ambulatory monitoring enabled by wireless connectivity, referred to as bio-telemetry, which in the past resulted in further growth in our medical business. Additionally, we are actively involved with Medtronic for future development of next-generation products. We are also working with our strategic partner, AME, on proprietary bio-telemetry technologies that will enable us to develop new devices that connect patients and care givers, providing critical information and feedback.

Net sales in our hearing health business for the year ended December 31, 2011 remained flat compared to the same period in 2010 driven by growth in our DSP circuits and sales to hi HealthInnovations, offset by temporary declines in legacy products. We believe long term prospects in our hearing health business remain strong as we continue to develop and launch advanced technologies, such as our nanoDSP, Overtus, APT and Lumen products, which will enhance the performance of hearing devices. In addition, we believe that the hi HealthInnovations agreement holds tremendous potential. Further, 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 device sector decreased 8 percent in 2011 compared to the same period in 2010. We believe that the primary driver of the decrease was due to the possible U.S. government shutdown and budgetary approval process which delayed our contract product launches with certain government organizations. We believe our extensive portfolio of communication devices that are portable, smaller and perform well in noisy or hazardous environments will provide for future long-term growth in this market.

Gross Profit

Gross profit, both in dollars and as a percent of sales, for 2011 and 2010, were as follows:

	2011 Dollars	2011 Percent of Sales	2010 Dollars	2010 Percent of Sales	Change Dollars	Change Percent
Gross profit	$ 12,666	22.6%	$ 15,013	25.6%	$ (2,347)	(15.6%)

In 2011, gross profit decreased primarily due to lower sales volumes, costs related to establishing the Company s Indonesian facility and ramp up costs associated with the hi HealthInnovations agreement. The decrease in gross profits was partially offset by the impact of various profit enhancement programs. We have various activities underway to increase our gross profit, such as transferring our microphone and receiver production from our Maine facility 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.

In an effort to drive for further gross profit improvements, the Company evaluated low cost manufacturing options in Asia. In July 2011, the Company signed a five year lease agreement for a manufacturing facility in Batam, Indonesia. The Company commenced manufacturing at the facility in October 2011.

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

Sales and marketing, general and administrative and research and development expenses for the years ended December 31, 2011 and 2010 were:

	2011		2010		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Sales and marketing	$ 3,185	5.7%	$ 3,133	5.3%	$ 52	1.7%
General and administrative	5,797	10.3%	5,801	9.9%	(4)	(0.0%)
Research and development	4,876	8.7%	4,485	7.6%	391	8.7%

Sales and marketing and general and administrative expenses were relatively flat as compared to the prior year periods. Research and development increased over the prior year period primarily due to continued development of core technologies and research and development to support product offerings under the hi HealthInnovations manufacturing agreement.

Interest Expense

Interest expense for 2011 was $609, a decrease of $46 from $655 in 2010. The decrease in interest expense was primarily due to lower average debt balances and interest rates as compared to the prior year.

Equity in Income (Loss) of Partnerships

The equity in income (loss) of partnerships for 2011 was $174 compared to ($135) in 2010.

The Company recorded a $34 decrease in the carrying amount of its investment in the Hearing Instrument Manufacturers Patent Partnership (HIMPP) for 2011, 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, 2011, compared to a $191 decrease in the carrying amount of the investment in 2010 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, 2010.

The Company recorded a $208 and $56 increase in the carrying amount of IntriCon s investment in a joint venture, reflecting the Company s portion of the joint venture s operating results for year ended December 31, 2011 and 2010, respectively.

Other Income (Expenses)

In 2011, other income (expense) was $42 compared to $(4) in 2010.

Income Taxes

Income taxes were as follows:

	2011	2010
Income tax (expense) benefit	$ 160	$ (145)
Percentage of pre-tax income (loss)	(10.1%)	18.1%

The (expense) benefit in 2011 and 2010 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 $19,800 of NOL carryforwards available to offset future federal income taxes that begin to expire in 2022.

Discontinued Operations

We had no discontinued operations in 2011. We recorded a loss from discontinued operations (electronics business) in 2010 as follows:

		2010
Loss from discontinued Electronics Products Business	$	(294)

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The 2010 net loss of $(294), or $(0.05) per diluted share, was primarily due to loss in operations, net of a $35 gain on sale of the electronics business.

Results of Operations: 2010 Compared with 2009

Consolidated Net Sales

Our net sales are comprised of three main markets: medical, hearing health, and professional audio - collectively our body-worn device segment. Below is a recap of our sales by main markets for the years ended December 31, 2010 and 2009:

			Change	
	2010	**2009**	**Dollars**	**Percent**
Medical	$ 24,594	$ 23,005	$ 1,589	6.9%
Hearing Health	21,007	18,432	2,575	14.0%
Professional Audio Communications	13,096	10,239	2,857	27.9%
Consolidated net sales	$ 58,697	$ 51,676	$ 7,021	13.6%

We experienced an increase of 7 percent in net sales in the medical equipment market in 2010 as a direct result of continued sales to existing OEM customers and the addition of sales from our proprietary Cardiac Monitoring Devices, or CDMs, which we acquired in the Datrix acquisition in the third quarter of 2009. The increase was partially offset by fourth quarter sluggishness discussed below.

Persisting economic sluggishness has caused many patients to delay discretionary medical procedures, and hospitals and doctors to cut back on purchases of legacy med-tech products. During the course of the year, several large medical customers experienced temporary fluctuations in demand. As some customers had inventory levels above their immediate needs, the Company experienced certain medical orders slowing in the fourth quarter of 2010.

Net sales in our hearing health business for the year ended December 31, 2010 increased 14 percent, respectively, from the same period in 2009. The hearing health growth was primarily driven by a rebound in the hearing aid industry during the second half of 2010 coupled with pent-up demand.

Net sales to the professional audio communications market increased 28 percent over the prior year, primarily through organic growth, resulting from increased sales of headset devices to the installed sound market and communication devices to government agencies.

Gross Profit

Gross profit, both in dollars and as a percent of sales, for 2010 and 2009, were as follows:

	2010		2009		Change	
	Dollars	**Percent of Sales**	**Dollars**	**Percent of Sales**	**Dollars**	**Percent**
Gross profit	$ 15,013	25.6%	$ 11,051	21.4%	$ 3,962	35.9%

In 2010, gross profit increased primarily due to higher sales volumes and the impact of various profit enhancement programs.

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

Sales and marketing, general and administrative and research and development expenses for the years ended December 31, 2010 and 2009 were:

	2010		2009		Change	
	Dollars	**Percent of Sales**	**Dollars**	**Percent of Sales**	**Dollars**	**Percent**
Sales and marketing	$ 3,133	5.3%	$ 2,962	5.7%	$ 171	5.8%

General and administrative	5,801	9.9%	5,374	10.4%	427	7.9%
Research and development	4,485	7.6%	3,345	6.5%	1,140	34.1%

The increased sales and marketing expenses for 2010 as compared to the prior year period were driven by increases in royalties and commissions as a result of higher revenues and additional sales expense from the August 2009 acquisition of Datrix. The increase in general and administrative expenses was primarily driven by additional operating expenses from the acquisition of Datrix. 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 proprietary technology to further enhance our product portfolio.

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Interest Expense

Interest expense for 2010 was $655, a decrease of $181 from $836 in 2009. The reduction in interest expense was primarily due to charges incurred in the August 2009 debt refinancing with PrivateBank and Trust Company. Additional 2009 interest charges included $84 of deferred financing costs, $121 to terminate and settle the Bank of America interest rate swap and $62 in charges and interest incurred to repurchase equipment under our Bank of America capital lease facility. These changes were partially offset by higher 2010 interest rates in effect, as discussed below in Liquidity and Capital Resources.

Equity in Income (Loss) of Partnerships

The equity in income (loss) of partnerships for 2010 was $(135) compared to $(150) in 2009.

The Company recorded a $191 decrease in the carrying amount of its investment in the Hearing Instrument Manufacturers Patent Partnership (HIMPP) for 2010, 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, 2010, compared to a $202 decrease in the carrying amount of the investment in 2009 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, 2009.

The Company recorded a $56 and $53 increase in the carrying amount of IntriCon s investment in a joint venture, reflecting the Company s portion of the joint venture s operating results for year ended December 31, 2010 and 2009, respectively.

Other Income (Expenses)

In 2010, other income (expense) was $(4) compared to $(220) in 2009. The other income (expense) for 2009 primarily related to the costs associated with the acquisition of Datrix. The 2010 other income (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:

	2010	2009
Income tax (expense) benefit	$ (145)	$ 34
Percentage of pre-tax income (loss)	18.1%	(1.9%)

The expense (benefit) in 2010 and 2009 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.

Discontinued Operations

We recorded a loss from discontinued operations (electronics business) as follows:

	2010	2009
Loss from discontinued Electronics Products Business	$ (294)	$ (2,119)

The 2010 net loss of $(294), or $(0.05) per diluted share, was primarily due to loss in operations, net of the $35 gain on sale of the electronics business. The 2009 net loss of $(2,119), or $(0.39) per diluted share, was primarily due to an impairment charge associated with challenges in the 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.

Liquidity and Capital Resources

Our primary sources of cash have been cash flows from operations, bank borrowings, and other financing transactions. For the last three years, cash has been used for repayments of bank borrowings, the Datrix and Tibbetts acquisitions, purchases of equipment, establishment of an additional Asian manufacturing facility and working capital to support research and development, including product offerings under our hi HealthInnovations agreement.

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As of December 31, 2011, we had approximately $119 of cash on hand. Sources and uses of our cash for the year ended December 31, 2011 have been from our operations, as described below.

Consolidated net working capital decreased to $8,200 at December 31, 2011 from $8,600 at December 31, 2010. Our cash flows from operating, investing and financing activities, as reflected in the statement of cash flows for the years ended December 31, are summarized as follows:

	2011	2010	2009
Cash provided (used) by:			
Continuing operations	$ (3)	$ 1,616	$ 2,105
Investing activities	(2,582)	(1,043)	(2,484)
Financing activities	2,420	(668)	523
Effect of exchange rate changes on cash	3	(9)	(8)
Increase (decrease) in cash	$ (162)	$ (104)	$ 136

***Operating Activities*.** The most significant items that contributed to the $3 of cash used by continuing operations were increases in inventory and receivables offset by non-cash depreciation and amortization of $2,258 and increases in accounts payable. Days sales in inventory increased from 68 at December 31, 2010 to 95 at December 31, 2011 due to inventory ramp up associated with the hi Health Innovations agreement. Days payables outstanding increased from 35 days at December 31, 2010 to 64 days at December 31, 2011.

Investing Activities. Net cash used by investing activities consisted of purchases of property, plant and equipment of $2,582. A significant portion of the purchases of the property, plant and equipment related to the cash invested to fund the Indonesia facility build and capital to support the ramp up associated with the hi Health Innovations agreement.

Financing Activities. Net cash provided by financing activities of $2,420 was comprised primarily of net borrowings of bank debt of $2,540 to support the costs related to establishing the Company s Indonesian facility and ramp up associated with the hi HealthInnovations agreement.

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,:

	2011	2010
Total availability under existing facilities	$ 13,517	$ 10,532
Borrowings and commitments:		
Domestic credit facility	5,369	3,920
Domestic term loans	3,500	2,563
Foreign overdraft and letter of credit facility	1,881	1,377
Total borrowings and commitments	10,750	7,860
Remaining availability under existing facilities	$ 2,767	$ 2,672

Domestic Credit Facilities

To finance a portion of the Company s acquisition of Jon Barron, Inc. doing business as Datrix (Datrix) and replace the Company s existing credit facilities with Bank of America, including capital leases, the Company and its domestic subsidiaries entered into a credit facility with The PrivateBank and Trust Company on August 13, 2009. The credit facility, as amended, provides for:

§ an $8,000 revolving credit facility, with a $200 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 term loan in the original amount of $3,500.

In August 2011, the Company amended the credit facility with The PrivateBank. Per the terms of the amended agreement, the maturity of both the term loan and the revolving credit facility was extended to expire on August 13, 2014. Further, the term loan was increased from its then current balance of $2,225 to $4,000. In addition, the amendment reset certain financial covenants.

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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 the Company s leverage ratio 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) 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 3.93%, 5.06% and 4.07% for 2011, 2010 and 2009, respectively.

The outstanding balance of the revolving credit facility was $5,369 and $3,920 at December 31, 2011 and 2010, respectively. The total remaining availability on the revolving credit facility was approximately $1,935 and $2,072 at December 31, 2011 and 2010, respectively. The credit facility expires on August 13, 2014 and all outstanding borrowings will become due and payable.

The outstanding principal balance of the term loan, as amended, is payable in quarterly installments of $250, commencing with the calendar quarter ended September 30, 2011. Any remaining principal and accrued interest is payable on August 13, 2014. 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.

During 2011, the Company entered into interest rate swaps with The PrivateBank which are accounted for as effective cash flow hedges. The interest rate swaps had a combined initial notional amount of $5,500, with a portion of the swap amortizing on a basis consistent with the $250 quarterly installments required under the term loan. The interest rate swaps fix the Company s one month LIBOR interest rate on the notional amounts at rates ranging from 4.33% - 4.62%. The interest rate swaps expire on August 13, 2014. Interest rate swaps, which are considered derivative instruments, of $93 are reported in the balance sheets at fair value in other current liabilities at December 31, 2011. The impact of the interest rate swaps and related additional disclosure is not considered material to the financial statements for 2011.

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 2012, the Company entered into an amendment with The PrivateBank to waive certain covenant violations at December 31, 2011 and reset certain covenant thresholds defined in the agreement. After giving effect to the waiver, the Company was in compliance with all applicable covenants under the credit facility as of December 31, 2011.

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, 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, 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).

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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 $1,977 line of credit. The international credit agreement was modified in August 2010 and again in August 2011 to allow for an additional total of $736 in borrowing under the existing base to fund the Singapore facility relocation, Batam facility construction and various other capital needs. 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 4.28% and 4.14% for the years ended December 31, 2011 and 2010. The outstanding balance was $1,881 and $1,377 at December 31, 2011 and 2010, respectively. The total remaining availability on the international senior secured credit agreement was approximately $832 and $600 at December 31, 2011 and 2010, respectively.

Datrix Promissory Note

A portion of the purchase price of the Datrix acquisition was paid by the issuance of a promissory note to the seller in the amount of $1,050 bearing annual interest at 6%. The remaining principal amount of the promissory note is payable in one installment of $350 on August 13, 2012. The note bears annual interest at 6% and is payable with each installment of principal as set forth above. The Company made the first two installment payments, including interest, of $413 and $395 on August 13, 2010 and August 13, 2011, respectively.

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, 2011.

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**More than 5 Years**
Domestic credit facility	$ 5,369	$	$ 5,369	$	$
Domestic term loan	3,500	1,000	2,500		
Domestic note payable	350	350			
Foreign overdraft and letter of credit facility	1,881	1,533	348		
Partnership payable	240	240			
Pension and other post retirement benefit obligations	1,378	213	379	288	498
Operating leases	4,861	1,499	2,200	1,162	
Total contractual cash obligations	$ 17,579	$ 4,835	$ 10,796	$ 1,450	$ 498

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 $17, $134 and $13 in 2011, 2010 and 2009, respectively. See Note 11 to the Company s consolidated financial statements included herein.

Explanation of Responses:

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Off-Balance Sheet Obligations

We had no material off-balance sheet obligations as of December 31, 2011 other than the operating leases disclosed above.

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

The Company recognizes revenue when the customer takes ownership, primarily upon product shipment, 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.

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 shipment other than warranty obligations. Contracts with customers do not include product return rights, however, the Company may elect in certain circumstances to accept returns of products. The Company records revenue for product sales net of returns. Sales and use tax are reported on a net basis, excluding them from sales 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.

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, forecasts 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.

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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 2011, 2010 or 2009, other than that related to discontinued operations described in Note 2 to the Company s financial statements. 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.

Long-lived Assets

The carrying value of long-lived assets is periodically assessed to insure their carrying value does not exceed the undiscounted cash flows expected to be generated from their expected use and eventual disposition. 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 impact on the valuation allowance.

Employee Benefit Obligations

We provide retirement and health care insurance for certain domestic and retirees and former Selas 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. We cannot assure you that foreign currency fluctuations will not have a material adverse impact on our financial condition and results of operations.

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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. The functional currency of the Company s Indonesian operations is 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 $17, $134 and $13 in 2011, 2010 and 2009, respectively.

For more information regarding foreign currency risks, see Foreign Currency Fluctuation above.

Interest Rate Risk

From time to time, 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. Interest rate swaps, which are considered derivative instruments, of $93 are reported in the balance sheets at fair value in other current liabilities at December 31, 2011. For more information on the interest rate swaps outstanding see Note 7 in the notes to the Company s financial statements.

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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, 2011, 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, 2011, 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 a provision of the Dodd Frank Act, which eliminated such requirement for smaller reporting companies, as defined in SEC regulations, such as IntriCon.

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, MN

We have audited the accompanying consolidated balance sheets of IntriCon Corporation and Subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders equity and comprehensive income (loss), and cash flows for the years ended December 31, 2011, 2010 and 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, 2011 and 2010 and the results of their operations and cash flows for the years ended December 31, 2011, 2010 and 2009, in conformity with U.S. generally accepted accounting principles.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
March 14, 2012

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IntriCon Corporation
Consolidated Statements of Operations
(In Thousands, Except Per Share Amounts)

Years ended December 31		**2011**		**2010**		**2009**
Sales, net	**$**	**56,058**	$	58,697	$	51,676
Costs of sales		**43,392**		43,684		40,625
Gross profit		**12,666**		15,013		11,051
Operating expenses:						
Sales and marketing		**3,185**		3,133		2,962
General and administrative		**5,797**		5,801		5,374
Research and development		**4,876**		4,485		3,345
Total operating expenses		**13,858**		13,419		11,681
Operating income (loss)		**(1,192)**		1,594		(630)
Interest expense		**(609)**		(655)		(836)
Equity in income (loss) of partnerships		**174**		(135)		(150)
Other income (expense), net		**42**		(4)		(220)
Income (loss) from continuing operations before income taxes and discontinued operations		**(1,585)**		800		(1,836)
Income tax (expense) benefit		**160**		(145)		34
Income (loss) before discontinued operations		**(1,425)**		655		(1,802)
Loss from discontinued operations, net of income taxes				(329)		(2,119)
Gain on sale of discontinued operations, net of income taxes				35		
Net income (loss)	**$**	**(1,425)**	$	361	$	(3,921)
Basic income (loss) per share:						
Continuing operations	**$**	**(.25)**	$	.12	$	(.34)
Discontinued operations				(.05)		(.39)
Net income (loss)	**$**	**(.25)**	$	.07	$	(.73)
Diluted income (loss) per share:						
Continuing operations	**$**	**(.25)**	$	.12	$	(.34)
Discontinued operations				(.05)		(.39)
Net income (loss)	**$**	**(.25)**	$	.07	$	(.73)

See accompanying notes to the consolidated financial statements.

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IntriCon Corporation
Consolidated Balance Sheets (In Thousands, Except Per Share Amounts)

At December 31,	2011	2010
Current assets:		
Cash	$ 119	$ 281
Restricted cash	540	478
Accounts receivable, less allowance for doubtful accounts of $223 and $219 at December 31, 2011 and 2010, respectively	8,545	8,228
Inventories	11,720	8,331
Refundable income taxes	82	
Other current assets	652	446
Total current assets	21,658	17,764
Machinery and equipment	39,170	36,610
Less: Accumulated depreciation	32,164	30,184
Net machinery and equipment	7,006	6,426
Goodwill	9,709	9,709
Investment in partnerships	1,283	1,109
Other assets, net	1,074	1,259
Total assets	$ 40,730	$ 36,267
Current liabilities:		
Checks written in excess of cash	$ 396	$ 409
Current maturities of long-term debt	2,883	2,095
Accounts payable	6,298	3,161
Accrued salaries, wages and commissions	1,617	1,593
Deferred gain	110	110
Partnership payable	240	260
Income taxes payable		24
Other accrued liabilities	1,907	1,497
Total current liabilities	13,451	9,149
Long-term debt, less current maturities	8,217	6,465
Other postretirement benefit obligations	685	710
Long-term partnership payable		240
Deferred income taxes		169
Accrued pension liabilities	431	464
Deferred gain	385	495
Other long-term liabilities	115	4
Total liabilities	23,284	17,696
Commitments and contingencies (note 14)		
Shareholders equity:		
Common stock, $1.00 par value per share; 20,000 shares authorized; 5,646 and 6,073 shares issued; 5,646 and 5,557 shares outstanding at December 31, 2011 and 2010, respectively	5,646	6,073
Additional paid-in capital	15,259	15,644
Accumulated deficit	(3,069)	(1,644)
Accumulated other comprehensive loss	(390)	(237)
Less: 516 common shares held in treasury, at cost		(1,265)
Total shareholders equity	17,446	18,571
Total liabilities and shareholders equity	$ 40,730	$ 36,267

See accompanying notes to the consolidated financial statements.

Explanation of Responses:

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IntriCon Corporation

Consolidated Statements of Cash Flows (In Thousands)

Years ended December 31,	**2011**	**2010**	**2009**
Cash flows from operating activities:			
Net income (loss)	**$ (1,425)**	$ 361	$ (3,921)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Gain on sale of discontinued operations		(35)	
Loss on impairment of long lived assets and goodwill			910
Depreciation and amortization	**2,258**	2,601	2,470
Stock-based compensation	**214**	474	561
Loss (gains) on sale of property and equipment	**8**	28	(51)
Deferred taxes	**(169)**	40	(27)
Change in deferred gain	**(110)**	(110)	(166)
Allowance for doubtful accounts	**4**	(7)	9
Equity in (income) loss of partnerships	**(174)**	135	150
Changes in operating assets and liabilities:			
Accounts receivable	**(354)**	(1,192)	1,763
Inventories	**(3,391)**	(164)	729
Other assets	**(303)**	159	201
Accounts payable	**3,155**	(468)	743
Accrued expenses	**376**	(223)	(1,249)
Other liabilities	**(92)**	17	(17)
Net cash (used) provided by continuing operations	**(3)**	1,616	2,105
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(2,582)**	(1,811)	(1,467)
Cash paid for acquisitions, net of cash received			(1,342)
Proceeds from sales of property, plant and equipment			100
Proceeds from sale of discontinued operations, net		775	
Proceeds from note receivable			225
Other		(7)	
Net cash used by investing activities	**(2,582)**	(1,043)	(2,484)
Cash flows from financing activities:			
Proceeds from stock purchases and exercise of stock options	**230**	261	152
Proceeds from long-term borrowings	**16,685**	12,194	17,813
Repayments of long-term debt	**(14,145)**	(13,074)	(17,180)
Payments of partnership payable	**(260)**	(260)	(260)
Change in restricted cash	**(77)**	(96)	(8)
Change in checks written in excess of cash	**(13)**	307	6
Net cash provided (used) by financing activities	**2,420**	(668)	523
Effect of exchange rate changes on cash	**3**	(9)	(8)
Increase (decrease) in cash	**(162)**	(104)	136
Cash beginning of year	**281**	385	249
Cash end of year	**$ 119**	$ 281	$ 385

See accompanying notes to the consolidated financial statements.

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IntriCon Corporation
Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss)
(In Thousands)

	Common Stock Number of Shares	Common Stock $ Amount	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Comprehensive Income (loss)	Treasury Stock	Total Shareholders Equity
Balance December 31, 2008	5,858	$ 5,858	$ 14,122	$ 1,916	$ (318)		$ (1,265)	$ 20,313
Shares issued for the purchase of Datrix	75	75	195					270
Shares issued under the Employee Stock Purchase Plan	30	30	60					90
Shares issued in lieu of cash for services	3	3	7					10
Shares issued under the Non-employee Director and Exec. Officer Stock Purchase Program	20	20	42					62
Stock option expense			561					561
Net loss				(3,921)		$ (3,921)		(3,921)
Change in fair value of interest rate swap, net of income taxes of $0					102	102		102
Translation gain, net of income taxes of $0					2	2		2
Comprehensive loss						$ (3,817)		
Balance December 31, 2009	5,986	$ 5,986	$ 14,987	$ (2,005)	$ (214)		$ (1,265)	$ 17,489
Exercise of stock options	69	69	126					195
Shares issued under the Employee Stock Purchase Plan	15	15	50					65
Shares issued in lieu of cash for services	3	3	7					10
Stock option expense			474					474
Net income				361		$ 361		361
Change in fair value of interest rate swap, net of income taxes of $0					35	35		35
Translation loss, net of income taxes of $0					(58)	(58)		(58)
Comprehensive income						$ 338		
Balance December 31, 2010	6,073	$ 6,073	$ 15,644	$ (1,644)	$ (237)		$ (1,265)	$ 18,571
Exercise of stock options	69	69	91					160
Shares issued under the Employee Stock Purchase Plan	17	17	53					70
Shares issued in lieu of cash for services	3	3	6					9
Stock option expense			214					214
Retirement of Treasury Shares	(516)	(516)	(749)				1,265	
Net loss				(1,425)		$ (1,425)		(1,425)
Change in fair value of interest rate swap, net of income taxes of $0					(93)	(93)		(93)
Translation loss, net of income taxes of $0					(60)	(60)		(60)
Comprehensive income						$ (1,578)		
Balance December 31, 2011	5,646	$ 5,646	$ 15,259	$ (3,069)	$ (390)		$	$ 17,446

See accompanying notes to the consolidated financial statements.

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IntriCon Corporation

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

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 company engaged in designing, developing, engineering and manufacturing body-worn devices. The Company serves the body-worn device market by designing, developing, engineering and manufacturing micro-miniature products, microelectronics, micro-mechanical assemblies and complete assemblies, primarily for bio-telemetry devices, hearing instruments and professional audio communication devices. In addition to its operations in Minnesota, the Company has facilities in California, Maine, Singapore, Indonesia and Germany.

Basis of Presentation In the fourth quarter of 2009, the Company initiated its plan to divest its non-core electronics segment to allow for greater focus on its body-worn device segment. On May 28, 2010 the Company completed the sale of substantially all of the assets of its electronics business to an affiliate of Shackleton Equity Partners. For all periods presented, the Company classified its former electronics products segment as discontinued operations. Consequently, the financial statements and footnote disclosures reflect continuing operations. See further information in Note 2.

Consolidation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. 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. 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 the components of its only operating segment of 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, intangible assets, and employee benefit obligations 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.

Revenue Recognition The Company recognizes revenue when the customer takes ownership, primarily upon product shipment, 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.

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 shipment other than warranty obligations. Contracts with customers do not include product return rights, however, the Company may elect in certain circumstances to accept returns of products. The Company records revenue for product sales net of returns. Sales and use tax are reported on a net basis.

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 includes 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, accounts receivable, notes payable, and trade accounts payables, approximate fair value because of the short maturity of those instruments. The fair values of the Company s long-term debt 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.

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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 $223 and $219 at December 31, 2011 and 2010, 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 was $1,994, $2,127, and $1,967 for the years ended December 31, 2011, 2010, and 2009, respectively.

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 undiscounted 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. 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 as of November 30th. 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 utilizing 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. Debt issuance cost included in interest expense was $142, $135 and $159 for the years ended December 31, 2011, 2010 and 2009, respectively. Amortization expense was $264, $262, and $260 for the years ended December 31, 2011, 2010 and 2009, respectively.

Investments in Partnerships Certain of the Company s investments 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 17. The 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 lack of future benefit from the deferred tax assets realization is more likely than not unable 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, 2011, the Company had no accrual for the payment of tax related interest and there was no tax interest or penalties recognized in the consolidated statements of operations. The Company s federal and state tax returns are potentially open to examinations for fiscal years 2008-2011 and state tax returns for the fiscal year 2007-2011.

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 retained 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 liabilities.

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 three years, and the option s maximum term is 10 years. Options issued to directors vest from one to three years. One of the plans also permits the granting of stock awards, stock appreciation rights, restricted stock units and other equity based awards. The Company expenses 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 assesses 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, 2011, 2010 and 2009.

	2011	2010	2009
Beginning of the year balance	$ 105	$ 71	$ 100
Warranty expense	27	116	48
Closed warranty claims	(50)	(82)	(77)
End of the year balance	$ 82	$ 105	$ 71

Patent Costs Costs associated with the submission of a patent application are expensed as incurred given the uncertainty of the patents providing future economic benefit to the Company.

Advertising Costs Advertising costs are charged to expense as incurred. Advertising costs were $3, $11, and $15, for the years ended December 31, 2011, 2010 and 2009, respectively, and are included in sales and marketing expense in the consolidated statements of operations.

Research and Development Costs Research and development costs, net of customer funding, amounted to $4,876, $4,485, and $3,345 in 2011, 2010 and 2009, respectively, and are charged to expense when incurred.

Customer Funded Tooling Costs The Company designs and develops molds and tools for reimbursement on behalf of several customers. Costs associated with the design and development of the molds and tools are charged to expense, net of the customer reimbursement amount. Customer funded tooling, net was income of $266, $35 and $21 for the years ended December 31, 2011, 2010 and 2009, respectively, and is included in research and development in the consolidated statements of operations.

Income (loss) Per Share Basic income (loss) per share is computed by dividing net income (loss) 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 - The Company s German subsidiary accounts 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 When deemed appropriate, the Company enters into derivative instruments. We do not use derivative financial instruments for speculative or trading purposes. All derivative transactions are linked to an existing balance sheet item or firm commitment, and the notional amount does not exceed the value of the exposure being hedged.

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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 income (loss) on the consolidated statements of operations. 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 income (loss), net of tax or, if ineffective, on the consolidated statements of operations.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued new guidance concerning fair value measurements and disclosure. The new guidance is the result of joint efforts by the FASB and the International Accounting Standards Board to develop a single, converged fair value framework on how to measure fair value and the necessary disclosures concerning fair value measurements. The guidance is effective for interim and annual periods beginning after December 15, 2011 and no early adoption is permitted. The Company is currently evaluating this new guidance and does not anticipate that the adoption will have a material impact on the consolidated financial statements.

In June 2011, the FASB issued an Accounting Standards Update (ASU) increasing the prominence of other comprehensive income (OCI) in the financial statements and providing companies two options for presenting OCI, which until now has typically been placed within the statement of equity. One option allows an OCI statement to be included with the statement of operations, and together the two will make a statement of total comprehensive income. Alternately, companies may present an OCI statement separate from the statement of operations; however, the two statements will have to appear consecutively within a financial report. This ASU does not affect the types of items that are reported in OCI, nor does it affect the calculation or presentation of earnings per share. For public companies, this ASU is effective for periods beginning after December 15, 2011. The Company will adopt the OCI presentation requirements beginning with its first quarter in 2012 and does not anticipate that the adoption will have a material impact on the consolidated financial statements.

In September 2011, the FASB issued an ASU that permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under this ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. This ASU is effective for annual periods beginning after December 15, 2011. We do not expect that it will have any material impact on our financial position and results of operations because it is a change in application of the goodwill impairment test only.

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, Inc. and divest the assets used in the business. The decision to exit the electronics products segment was made to allow the Company to focus on its core body-worn device segment. In connection with its decision to divest the electronics business, the Company evaluated assets for impairment and costs of terminating employees and recorded the following: (i) an impairment charge of $685 relating to goodwill, (ii) a reduction to realizable value of $720 to tangible assets, and (iii) $275 in employee termination costs for the year ended December 31, 2009. Additional costs related to employee terminations of approximately $200 were recorded during the first half of 2010.

On May 28, 2010 the Company completed the sale of substantially all of the assets of its electronics business to an affiliate of Shackleton Equity Partners (Shackleton), pursuant to an Asset Purchase Agreement dated May 28, 2010. Shackleton paid $850 cash at closing for the assets and assumed certain operating liabilities of IntriCon s electronics business, subject to an accounts receivable adjustment.

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

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

The following table shows the results of operations of the Company s electronic products segment for the 2010 and 2009 fiscal years:

	Year Ended December 31, 2010		2009	
Sales, net	$	2,346	$	5,382
Operating costs and expenses		(2,670)		(5,653)
Loss on impairment of long lived asset and goodwill				(910)
Operating loss		(324)		(1,181)
Other expense, net		(5)		(923)
Loss from operations before income tax benefit		(329)		(2,104)
Income tax expense (benefit)				15
Net loss from discontinued operations	$	(329)	$	(2,119)

As discussed above, along with the decision to divest the electronics business, the Company evaluated assets for impairment as of December 31, 2009. There was no additional impairment identified and recorded during the 2010 fiscal year. Information regarding the nonrecurring fair value measurement of such impairments completed during the twelve month period ended December 31, 2009 was as follows:

2009:	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 provided the Company entry into the ambulatory electrocardiograph (AECG) and event recording markets.

The purchase price included a closing cash payment of $1,225, issuance of 75 shares of restricted common stock of the Company, valued at $270 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 bearing annual interest at 6%. The remaining principal amount of the promissory note is payable in one installment of $350 on August 13, 2012. The note bears annual interest at 6% and is payable with each installment of principal as set forth above. The Company made the first two installment payments, including interest, of $413 and $395 on August 13, 2010 and August 13, 2011, respectively.

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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 $2,128. 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.

The purchase price was as follows as of August 13, 2009:

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:

Cash	$	13
Other current assets		522
Intangible assets (weighted average life of 2.4 years)		125
Goodwill		2,128
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.

Acquisition costs of $277 were primarily incurred and recorded during the year ended December 31, 2009 and included the following:

Investment Banker	$	121
Legal		127
Accounting		2
Other		27
Total	$	277

Acquisition costs are included in other expenses, net in the consolidated statements of operations. We consider the majority of the acquisition costs to be of the non-operating, miscellaneous nature, as they were incurred as part of a non-operating activity, a business acquisition. The Company s investment banker costs during the period relate to the acquisition and without such acquisition, the costs would not have been incurred. Further, legal and accounting services were specifically related for the acquisition project.

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 are set forth below:

Long-lived Assets

		2011		**2010**
United States	$	5,382	$	5,027
Other primarily Singapore		2,014		1,789
Consolidated	$	7,396	$	6,816

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

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Net Sales to Geographical Areas

	2011	2010	2009
United States	$ 39,912	$ 40,108	$ 36,587
Germany	1,979	2,517	3,335
China	1,745	3,531	2,716
Switzerland	1,122	764	561
Singapore	715	1,367	892
France	1,424	1,625	1,428
Japan	1,473	1,810	1,741
United Kingdom	1,480	799	528
Turkey	766	401	298
Hong Kong	1,026	757	365
Vietnam	1,110	1,330	868
All other countries	3,306	3,688	2,357
Consolidated	$ 56,058	$ 58,697	$ 51,676

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, 22 percent and 22 percent of the Company s consolidated net sales in 2011, 2010 and 2009, respectively. A second customer accounted for 11 percent of the Company s consolidated net sales in 2009. During 2011, 2010 and 2009 the top five customers accounted for approximately $25,000, $25,000 and $24,000 or 44 percent, 42 percent and 46 percent of the Company s consolidated net sales, respectively.

At December 31, 2011, one customer accounted for 12 percent of the Company s consolidated accounts receivable. One customer accounted for 13 percent of the Company s consolidated accounts receivable at December 31, 2010.

5. GOODWILL

The Company performed the required goodwill impairment test as of November 30th for each of the years ended December 31, 2011, 2010 and 2009. The Company completed or obtained an analysis to assess the fair value of its reporting units to determine whether goodwill was impaired and the extent of such impairment, if any for the years ended December 31, 2011, 2010 and 2009. Based upon this analysis, the Company determined that its current goodwill balance was not impaired as of the date of testing.

A two-step approach is used in evaluating goodwill for impairment. First, the Company compares 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, the Company uses the income approach. The income approach is a valuation technique under which the Company estimates 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 the Company estimated cost of capital derived using both known and estimated customary market metrics. In determining the fair value of the Company s reporting units, the Company is 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 the Company s reporting units fair values is compared to the Company 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 the Company 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, the Company measures 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, 2008	$ 7,581

Goodwill acquired during the year (Note 3)		2,136
Carrying amount at December 31, 2009		9,717
Revision to prior year purchase price allocation		(8)
Carrying amount at December 31, 2010		9,709
Changes to the carrying amount		
Carrying amount at December 31, 2011	$	9,709

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6. INVENTORIES

Inventories consisted of the following:

December 31,	Raw materials	Work-in process	Finished products and components	Total
2011				
Domestic	$ 4,198	$ 1,793	$ 2,317	$ 8,308
Foreign	2,174	1,078	160	3,412
Total	$ 6,372	$ 2,871	$ 2,477	$ 11,720
2010				
Domestic	$ 3,614	$ 1,258	$ 1,129	$ 6,001
Foreign	1,667	476	187	2,330
Total	$ 5,281	$ 1,734	$ 1,316	$ 8,331

7. SHORT AND LONG-TERM DEBT

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

	2011	2010
Domestic Asset-Based Revolving Credit Facility	$ 5,369	$ 3,920
Foreign Overdraft and Letter of Credit Facility	1,881	1,377
Domestic Term Loan	3,500	2,563
Note Payable Datrix Purchase (See Note 3)	350	700
Total Debt	11,100	8,560
Less: Current maturities	(2,883)	(2,095)
Total Long Term Debt	$ 8,217	$ 6,465

	Payments Due by Period						
	2012	2013	2014	2015	2016	Thereafter	Total
Domestic credit facility	$	$	$ 5,369	$	$	$	$ 5,369
Domestic term loan	1,000	1,000	1,500				3,500
Domestic note payable	350						350
Foreign overdraft and letter of credit facility	1,533	271	61	16			1,881
Total debt	$ 2,883	$ 1,271	$ 6,930	$ 16	$	$	$ 11,100

Domestic Credit Facilities

To finance a portion of the Company s acquisition of Jon Barron, Inc. doing business as Datrix (Datrix) and replace the Company s existing credit facilities with Bank of America, including capital leases, the Company and its domestic subsidiaries entered into a credit facility with The PrivateBank and Trust Company on August 13, 2009. The credit facility, as amended, provides for:

§ an $8,000 revolving credit facility, with a $200 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 term loan in the original amount of $3,500.

In August 2011, the Company amended the credit facility with The PrivateBank. Per the terms of the amended agreement, the maturity of both the term loan and the revolving credit facility was extended to expire on August 13, 2014. Further, the term loan was increased from its then current balance of $2,225 to $4,000. In addition, the amendment reset certain financial covenants.

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 the Company s leverage ratio 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) 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 3.93%, 5.06% and 4.07% for 2011, 2010 and 2009, respectively.

The outstanding balance of the revolving credit facility was $5,369 and $3,920 at December 31, 2011 and 2010, respectively. The total remaining availability on the revolving credit facility was approximately $1,935 and $2,072 at December 31, 2011 and 2010, respectively. The credit facility expires on August 13, 2014 and all outstanding borrowings will become due and payable.

The outstanding principal balance of the term loan, as amended, is payable in quarterly installments of $250, commencing with the calendar quarter ended September 30, 2011. Any remaining principal and accrued interest is payable on August 13, 2014. 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.

During 2011, the Company entered into interest rate swaps with The PrivateBank which are accounted for as effective cash flow hedges. The interest rate swaps had a combined initial notional amount of $5,500, with a portion of the swap amortizing on a basis consistent with the $250 quarterly installments required under the term loan. The interest rate swaps fix the Company s one month LIBOR interest rate on the notional amounts at rates ranging from 4.33% - 4.62%. The interest rate swaps expire on August 13, 2014. Interest rate swaps, which are considered derivative instruments, of $93 are reported in the balance sheets at fair value in other current liabilities at December 31, 2011. The impact of the interest rate swaps and related additional disclosure is not considered material to the financial statements for 2011.

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 2012, the Company entered into an amendment with The PrivateBank to waive certain covenant violations at December 31, 2011 and reset certain covenant thresholds defined in the agreement. After giving effect to the waiver, the Company was in compliance with all applicable covenants under the credit facility as of December 31, 2011.

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, 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, 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).

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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 $1,977 line of credit. The international credit agreement was modified in August 2010 and again in August 2011 to allow for an additional total of $736 in borrowing under the existing base to fund the Singapore facility relocation, Batam facility construction and various other capital needs. 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 4.28% and 4.14% for the years ended December 31, 2011 and 2010. The outstanding balance was $1,881 and $1,377 at December 31, 2011 and 2010, respectively. The total remaining availability on the international senior secured credit agreement was approximately $832 and $600 at December 31, 2011 and 2010, respectively.

8. OTHER ACCRUED LIABILITIES

Other accrued liabilities at December 31:

		2011		2010
Taxes, including payroll withholdings and excluding income taxes	$	27	$	4
Accrued professional fees		223		294
Pension		91		90
Postretirement benefit obligations		165		165
Other		1,401		944
	$	1,907	$	1,497

9. DOMESTIC AND FOREIGN INCOME TAXES

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

	Years ended December 31,					
		2011		2010		2009
Current						
Federal	$		$		$	
State		(33)		6		
Foreign		42		99		(7)
		9		105		(7)
Deferred						
Federal						
State						
Foreign		(169)		40		(27)
		(169)		40		(27)
Income taxes (benefit)	$	(160)	$	145	$	(34)
Income (loss) from continuing operations before income taxes is as follows:						
Foreign	$	(636)	$	634	$	12
Domestic		(949)		166		(1,848)
	$	(1,585)	$	800	$	(1,836)

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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, 2011	2010	2009
Tax provision at statutory rate	(34.0)%	34.0%	(34.0)%
Change in valuation allowance	39.9	(53.03)	31.2
Impact of permanent items, including stock based compensation expense	6.32	22.73	3.0
Effect of foreign tax rates	5.21	(2.97)	(0.0)
State taxes net of federal benefit	(2.12)	1.21	(0.4)
Effect of dividend of foreign subsidiary in prior year	0.0	30.61	0.0
Prior year provision to return true-up	(23.12)	0.0	0.0
Other	(2.28)	(10.12)	(1.6)
Domestic and foreign income tax rate	(10.09)%	22.43%	(1.8)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2011, and 2010 are presented below:

	2011	2010
Deferred tax assets:		
Net operating loss carry forwards and credits United States	$ 7,071	$ 6,353
Depreciation and amortization	132	197
Inventory related timing differences	475	478
Compensation accruals	963	702
Accruals and reserves	159	430
Other	210	201
Total deferred tax assets	9,010	8,361
Less: valuation allowance	9,010	8,361
Deferred tax assets net of valuation allowance	$	$
Deferred tax liabilities:		
Plant and equipment, due to differences in depreciation and capitalized interest- Foreign	$	$ (169)
Total deferred tax liabilities		(169)
Net deferred tax	$	$ (169)

Domestic and foreign deferred taxes were comprised as follows:

December 31, 2011	**Federal**	**State**	**Foreign**	**Total**
Current deferred asset	$	$	$	$
Non-current deferred liability				
Net deferred tax liability	$	$	$	$

December 31, 2010	**Federal**	**State**	**Foreign**	**Total**
Current deferred asset	$	$	$	$
Non-current deferred liability			(169)	(169)
Net deferred tax liability	$	$	$ (169)	$ (169)

The valuation allowance is maintained against deferred tax assets which the Company has determined are more likely than not unable to be realized. The change in valuation allowance was $649, $(399) and $1,493 for the years ended December 31, 2011, 2010 and 2009, respectively. In addition as of December 31, 2011, the Company has net operating loss carryforwards for Federal tax purposes of approximately $19,800.

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.

Excluded from the Company s net operating loss carryforwards is $105 in tax deductions resulting from the exercise of non-qualified stock options during the year. Because the Company is currently in an NOL position, the $105 windfall is not recorded through additional paid-in capital until the tax benefit is recognized through a reduction in actual tax payments. For tax reporting purposes, the Company has actual federal and state net operating loss carryforwards of $19,905 and $5,937, respectively. These net operating loss carryforwards begin to expire in 2022 for federal tax purposes and 2017 for state tax purposes.

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 unable 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, 2011 and 2010.

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 2008 and state for the years starting before 2007. 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, 2011, 2010, and 2009 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 2011, 2010, and 2009 was $0, $0, and $74, 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 $1,100 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 sheets at December 31, 2011 and 2010 for post-retirement medical benefits:

	2011	2010
Change in Projected Benefit Obligation		
Projected benefit obligation at January 1	$ 875	$ 889
Interest cost	47	49
Actuarial loss	130	109
Participant contributions	85	77
Benefits paid	(287)	(249)
Projected benefit obligation at December 31	850	875
Change in fair value of plan assets		
Employer contributions	202	172
Participant contributions	85	77
Benefits paid	(287)	(249)
Funded status	(850)	(875)
Amount recognized in consolidated balance sheets		
Current liabilities	165	165
Noncurrent liabilities	685	710
Net amount recognized	$ 850	$ 875
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, 2011 and 2010.

Net periodic post-retirement medical benefit costs for 2011, 2010, and 2009 included the following components:

	2011	2010	2009
Service cost	$	$	$
Interest cost	47	49	58
Net periodic post-retirement medical benefit cost	$ 47	$ 49	$ 58

For measurement purposes, an 8.0% annual rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) was assumed for 2011; the rate was assumed to decrease gradually to 3.5% by the year 2018 and remain at that level thereafter. The difference in 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, 2011 by $11 and the aggregate of the service and interest cost components of net periodic post-retirement medical benefit cost for the year ended December 31, 2011 by $1. Employer contributions for 2012 are expected to be approximately $122.

The assumptions used for the years ended December 31 were as follows:

	2011	2010	2009
Annual increase in cost of benefits	8.0%	8.0%	9.0%
Discount rate used to determine year-end obligations	5.5%	6.0%	6.0%
Discount rate used to determine year-end expense	6.0%	6.0%	7.0%

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

2012	$	122
2013	$	113
2014	$	103
2015	$	93
2016	$	83
Years 2017 2021	$	275

The Company provides retirement related benefits to former executive employees and to certain employees of foreign subsidiaries. The Company has consistently applied various assumptions in determining the fair market value of these liabilities including discount rates, and mortality tables. The liabilities established for these benefits at December 31, 2011 and 2010 are illustrated below.

	2011	2010
Current portion	$ 91	$ 90
Long-term portion	431	464
Total liability at December 31	$ 522	$ 554

11. CURRENCY TRANSLATION AND TRANSACTION ADJUSTMENTS

All assets and liabilities of foreign operations in which the functional currency is not the U.S. dollar 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 consolidated statements of operations include a loss of $17, $134, and $13 in 2011, 2010, and 2009.

12. COMMON STOCK AND STOCK OPTIONS

The Company has 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 or the non-employee directors stock option plans; however, certain option grants under these plans remain exercisable as of December 31, 2011. 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 699 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. On April 21, 2010, the Company s shareholders approved an amendment to the 2006 Equity Incentive Plan to increase (i) the authorized number of shares of the Company s common stock reserved and issuable under the plan by an additional 250 shares and (ii) the maximum number of incentive stock options that may be granted under the plan to be the same as the maximum number of shares that may be granted under the 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, 2011. 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.

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 shares issued in lieu of cash for director fees under the director program for each of the years ended December 31, 2011, 2010 and 2009, 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 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 0, 0 and 20 shares purchased under the management purchase program during the years ended December 31, 2011, 2010 and 2009, respectively.

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Stock option activity during the periods indicated is as follows:

	Number of Shares	Weighted-average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2008	982	5.93	
Options forfeited	(11)	10.69	
Options granted	83	3.29	
Options exercised			
Outstanding at December 31, 2009	1,054	5.67	
Options forfeited	(40)	4.97	
Options granted	127	3.44	
Options exercised	(69)	3.11	
Outstanding at December 31, 2010	1,072	5.60	
Options forfeited	(95)	3.07	
Options granted	177	4.43	
Options exercised	(69)	2.30	
Outstanding at December 31, 2011	1,085	$ 5.84	$ 1,933
Exercisable at December 31, 2010	829	$ 5.93	$ 501
Exercisable at December 31, 2011	840	$ 6.32	$ 1,422
Available for future grant at January 1, 2011	323		
Available for future grant at December 31, 2011	239		

The number of shares available for future grant at December 31, 2011, does not include a total of up to 285 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.

The weighted-average remaining contractual term of options exercisable at December 31, 2011, was 5.03 years. The total intrinsic value of options exercised during fiscal 2011, 2010, and 2009, was $163, $55, and $0, respectively.

The weighted-average per share fair value of options granted was $2.57, $1.86, and $1.71, in 2011, 2010, and 2009, 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:

	2011	2010	2009
Dividend yield	0.0%	0.0%	0.0%
Expected volatility	68.68 69.22%	62.03 62.16%	58.8 62.4%
Risk-free interest rate	2.06 - 2.22%	2.35 - 2.52%	1.27 - 2.58%
Expected life (years)	5.0	5.0	5.0

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 the Company s historical volatility.

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 and continually reviews this estimate.

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 $214, $474 and $561 of non-cash stock option expense for the years ended December 31, 2011, 2010 and 2009, respectively. As of December 31, 2011, there was $417 of total unrecognized compensation costs related to non-vested awards that is expected to be recognized over a weighted-average period of 1.9 years.

The Company also has an Employee Stock Purchase Plan (the Purchase Plan). The Purchase Plan initially provided that a maximum of 100 shares may be sold under the Purchase Plan as of the date of adoption. On April 27, 2011, the Company s shareholders approved an amendment to the Purchase Plan to increase the number of shares which may be purchased under the plan by an additional 100 shares. There were 17, 15 and 30 shares purchased under the plan for the years ended December 31, 2011, 2010 and 2009, 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:

	Twelve months ended December 31, 2011	2010	2009
Numerators:			
Income (loss) before discontinued operations	$ (1,425)	$ 655	$ (1,802)
Loss from discontinued operations, net of taxes and gain on sale		(294)	(2,119)
Net income (loss)	$ (1,425)	$ 361	$ (3.921)
Denominator:			
Basic weighted shares outstanding	5,599	5,484	5,394
Weighted shares assumed upon exercise of stock options		51	
Diluted weighted shares outstanding	5,599	5,535	5,394
Basic earnings (loss) per share:			
Continuing operations	$ (.25)	$ 0.12	$ (0.34)
Discontinued operations		(0.05)	(0.39)
Basic earnings (loss) per share:	$ (.25)	$ 0.07	$ (0.73)
Diluted earnings (loss) per share:			
Continuing operations	$ (.25)	$ 0.12	$ (0.34)
Discontinued operations		(0.05)	(0.39)
Diluted earnings (loss) per share:	$ (.25)	$ 0.07	$ (0.73)

The Company excluded stock options of 1,085, 575, and 1,247, in 2011, 2010, and 2009, 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 lawsuits alleging that plaintiffs have or may have contracted asbestos-related diseases as a result of exposure to asbestos products or equipment containing asbestos sold by one or more named defendants. Due to the noninformative nature of the complaints, the Company 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. 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, it 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 the 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 us, make the ultimate disposition of these lawsuits not material to our consolidated financial position or results of operations.

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

The Company is also involved in other lawsuits arising in the normal course of business. 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 our consolidated financial position, liquidity or results of operations.

Total rent expense for 2011, 2010, and 2009 under leases pertaining primarily to engineering, manufacturing, sales and administrative facilities, with an initial term of one year or more, aggregated $1,497, $1,365, and $1,211, respectively. Remaining rentals payable under such leases are as follows: 2012 - $1,432; 2013- $1,266; 2014 - $848; 2015 - $798; 2016 - $329, which includes two leased facilities in Minnesota that expire in 2013 and 2016, two leased facilities in Maine that expire in 2012 and 2017, one leased facility in California that expires in 2012, one leased facility in Singapore that expires in 2015, one leased facility in Indonesia that expires in 2016 and one leased facility in Germany that expires in 2012. Certain leases contain renewal options as defined in the lease agreements.

On October 5, 2007, the Company entered into employment agreements with its executive officers. The agreements call for payments ranging from six months to two years base salary and unpaid bonus, if any, to the executives should there be a change of control as defined in the agreement and the executives are not retained for a period of at least one year following such change of control. Under the agreements, all stock options granted to the executives would vest immediately and be exercisable in accordance with the terms of such stock options. The Company also agreed that if it enters into an agreement to sell substantially all of its assets, it will obligate the buyer to fulfill its obligations pursuant to the agreements. The agreements terminate, except to the extent that any obligation remains unpaid, upon the earlier of termination of the executive s employment prior to a change of control or asset sale for any reason or the termination of the executive after a change of control for any reason other than by involuntary termination as defined in the agreements.

On July 20, 2008, the Company entered into a strategic alliance agreement with Dynamic Hearing Pty Ltd (Dynamic Hearing). Effective October 1, 2008, Dynamic Hearing granted a license to the Company to use certain of Dynamic Hearing s technology. The initial term of the agreement was five years from the date of execution with an extension available upon agreement of the parties within two months of the expiration of the initial term; however, either party had ability to 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. Minimal royalty payments were made for the years ended December 31, 2011 and 2010. The Company recorded $1,000 payable to Dynamic Hearing for the first two years of exclusive license fees described above which was paid during 2010. In January of 2011, the strategic alliance agreement was amended to, among other things, remove the second component fee for the remainder of the term and extend the date after which either party can terminate the agreement through December 2012. Exclusive rights and engineering and other services were amortized through September 2010. The technology access fee will be amortized through September 2017, the estimated useful life and is included in other assets, net on the balance sheet. The technology access fee asset was $312 and $206 as of December 31, 2011 and 2010, respectively.

15. RELATED-PARTY TRANSACTIONS

One of the Company s subsidiaries leases office and factory space from a partnership consisting of three present or former officers of the subsidiary, including Mark Gorder, a member of the Company s Board of Directors and the President and Chief Executive Officer of the Company. The subsidiary is required to pay all real estate taxes and operating expenses. The total base rent expense, real estate taxes and other charges incurred under the lease was approximately $486, $477 and $477 for each of the years ended 2011, 2010 and 2009. On October 31, 2011 the subsidiary executed a lease amendment with the partnership to extend the term of the lease for two years. The total annual base rent expense, real estate taxes and other charges under the newly executed lease amendment are expected to be approximately $481.

The Company uses the law firm of Blank Rome LLP for legal services. A partner of that firm is the son-in-law of the Chairman of our Board of Directors. The Company paid approximately $217, $205, and $345 to Blank Rome LLP for legal services and costs in 2011, 2010 and 2009, respectively. The Chairman of our Board of Directors is considered independent under applicable Nasdaq and SEC rules because (i) no payments were made to the Chairman or the partner directly in exchange for the services provided by the law firm and (ii) the amounts paid to the law firm did not exceed the thresholds contained in the Nasdaq standards. Furthermore, the aforementioned partner does not provide any legal services to the Company and is not involved in billing matters.

16. STATEMENTS OF CASH FLOWS

Supplemental disclosures of cash flow information:

	Years ended December 31, 2011	2010	2009
Interest received	$ 1	$ 2	$ 3
Interest paid	461	531	469
Income taxes paid	4	7	35
Shares issued for services	10	10	10
Retirement of treasury shares	1,265		
License agreement financed through licensor			
Fair value of assets acquired in the acquisition of Datrix			2,788
Issuance of stock consideration for acquisition of Datrix			(270)
Note payable issued for acquisition of Datrix			(1,050)

Liabilities assumed in the acquisition of Datrix	(113)

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17. INVESTMENT IN PARTNERSHIPS

In December 2006, the Company joined the Hearing Instrument Manufacturers Patent Partnership (K/S HIMPP). Members of the partnership include the largest six hearing aid manufacturers as well as several other smaller manufacturers. The purchase price of $1,800 included a 9% equity interest in K/S HIMPP as well as a license agreement that grants the Company access to over 45 US registered patents. The Company accounted for the K/S HIMPP investment using the equity method of accounting for common stock, as the equity interest is deemed to be more than minor . The unpaid balance of $240 at December 31, 2011 will be paid in one annual principal installment in 2012. The unpaid balance is unsecured and bears interest at an annual rate of 4%, which is payable annually with each installment. The investment in the partnership exceeded underlying net assets by approximately $1,475 at the time of the agreement. Based on the final assessment of the partnership, the Company determined that approximately $345 of the excess of the investment over the underlying partnership net assets relates to underlying patents (amortized on a straight-line basis over ten years). The remaining $1,130 of the excess of the investment over the underlying partnership net assets was assigned to the non-exclusive patent license agreement (amortized on a straight-line basis over ten years). The Company recorded a $34, $191 and $202 decrease in the carrying amount of the investment, reflecting amortization of the patents, patent license agreement and the Company s portion of the partnership s operating results for the years ended December 31, 2011, 2010 and 2009, respectively. The carrying amount of the K/S HIMPP partnership is $903 and $937 at December 31, 2011 and 2010, respectively. The remaining amount to amortize at December 31, 2011 is $148, for each of the years ending December 31, 2012 through 2016, respectively.

The Company owns a 50% interest in a joint venture with a Swiss company to market, design, manufacture, and sell audio coils to the hearing health industry. The Company recorded a $208 increase in the carrying amount of the investment, reflecting the Company s portion of the joint venture s operating results for the year ended December 31, 2011. The Company recorded an increase of approximately $56 and $53 in the carrying amount of the investment for the years ended December 31, 2010 and 2009. The carrying amount of the investment was $380 and $172 at December 31, 2011 and 2010, respectively. The Company had a receivable of approximately $376 and $285 related to management fees as of December 31, 2011 and 2010, respectively.

Condensed financial information of the joint venture at and for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Balance Sheet:		
Current assets	$ 1,594	$ 1,424
Non-current assets	124	202
Total assets	$ 1,718	$ 1,626
Current liabilities	737	1,061
Stockholders equity	981	565
Total liabilities and stockholders equity	$ 1,718	$ 1,626
Income Statement:		
Net revenues	$ 4,900	$ 3,953
Net income	$ 416	$ 112

18. REVENUE BY MARKET

The following table set forth, for the periods indicated, net revenue by market:

	Years Ended December 31, 2011	2010	2009
Body-Worn Device Segment			
Medical	$ 22,923	$ 24,594	$ 23,005
Hearing Health	21,032	21,007	18,432
Professional Audio Communications	12,103	13,096	10,239
Total Net Sales	$ 56,058	$ 58,697	$ 51,676

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ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report (the Evaluation Date), the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer (principal executive officer) and the Chief Financial Officer (principal financial officer), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in applicable rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management s Annual Report on Internal Control Over Financial Reporting. The report of management required under this Item 9A is contained in Item 8 of this Annual Report on Form 10-K under the caption Management s Report on Internal Control Over Financial Reporting.

Changes in Internal Controls over Financial Reporting. 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.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9B. Other Information

Annual Incentive Plan

On March 12, 2012, the Compensation Committee of the Board of Directors of IntriCon adopted the Annual Incentive Plan for Executives and Key Employees, referred to as the Annual Incentive Plan, and the targets under such plan for 2012. Under the Annual Incentive Plan, IntriCon’s executive officers and key employees are eligible to receive incentive compensation based on (i) IntriCon achieving a designated level of financial results, referred to as the “plan target,” for a designated calendar year, referred to as a “plan year,” and (ii) if applicable, achievement of designated strategic objectives. The plan targets and strategic objectives, if any, will be determined each year by the Compensation Committee.

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A participant will receive incentive compensation only if the minimum plan target is achieved. Based on IntriCon achieving from 80% to 150% of the plan target, IntriCon's president and chief executive officer, Mark S. Gorder will be eligible to receive incentive compensation ranging from 25% to 75%, respectively, of his plan year base salary and each of the other executive officers named below will be eligible to receive incentive compensation ranging from 20% to 60%, respectively, of their plan year base salary. Key employees are eligible to receive from 5% to 37.5% of their plan year base salaries. Between these points, the amount of the incentive compensation available will increase or decrease proportionately based upon IntriCon achieving more or less than the plan target; however, no incentive compensation will be paid if IntriCon achieves less than 80% of the plan target and the maximum incentive compensation payable is capped at IntriCon achieving 150% of the plan target. The Committee has the discretion to determine whether (and at what level) the plan target and strategic objectives have been satisfied and to adjust the plan target and strategic objectives as circumstances warrant. The Committee also has the authority to weight the importance of the strategic objectives and to determine the amount of the awards if less than all of the strategic objectives are achieved.

For 2012, the plan target is based on 2012 net income; provided, that the plan target will not be achieved unless IntriCon's 401(k) matching contribution for all employees has been restored retroactively to January 1, 2012 (and therefore reflected in net income). Further, the plan target must be achieved after accruing any incentive compensation payable under the Annual Incentive Plan. The Committee did not impose any strategic objectives for 2012 because the Committee believed that reaching the plan targets would necessitate meeting any strategic objectives they would otherwise have imposed.

The following table shows the potential amounts payable to the executive officers named below under the Annual Incentive Plan at different levels of the 2012 plan target.

Name	Potential incentive compensation payable under the Annual Incentive Plan at the following levels of the 2012 Plan Target:		
	Minimum (80% of Plan Target)	Target (100% of Plan Target)	Maximum (150% of Plan Target)
	Potential Incentive Compensation		
Mark S. Gorder	$93,750	$187,500	$281,250
Scott Longval	38,000	76,000	114,000
Christopher D. Conger	41,000	82,000	123,000
Michael P. Geraci	44,000	88,000	132,000
Dennis L. Gonsior	40,000	80,000	120,000
Greg Gruenhagen	35,000	70,000	105,000

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Explanation of Responses:

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information called for by Item 10 is incorporated by reference from the Company s definitive proxy statement relating to its 2012 annual meeting of shareholders, including but not necessarily limited to the sections of the 2012 proxy statement entitled Proposal 1 Election of Directors and Section 16(a) Beneficial Ownership Reporting Compliance.

The information concerning executive officers contained in Item 4A hereof is incorporated by reference into this Item 10.

Code of Ethics

The Company has adopted a code of ethics that applies to its directors, officers and employees, including its principal executive officer, principal financial and accounting officer, controller and persons performing similar functions. Copies of the Company s code of ethics are available without charge upon written request directed to Cari Sather, Director of Human Resources, IntriCon Corporation, 1260 Red Fox Road, Arden Hills, MN 55112. The Company intends to satisfy the disclosure requirement under Item 10 of Form 8-K regarding any future amendments to a provision of its code of ethics by posting such information on the Company s website: www.intricon.com.

ITEM 11. Executive Compensation

The information called for by Item 11 is incorporated by reference from the Company s definitive proxy statement relating to its 2012 annual meeting of shareholders, including but not necessarily limited to the sections of the 2012 proxy statement entitled Director Compensation for 2011, and Executive Compensation .

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information called for by Item 12 is incorporated by reference from the Company s definitive proxy statement relating to its 2012 annual meeting of shareholders, including but not necessarily limited to the section of the 2012 proxy statement entitled Share Ownership of Certain Beneficial Owners, Directors and Certain Officers.

Equity Compensation Plan Information

The following table details information regarding the Company s existing equity compensation plans as of December 31, 2011:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders(1)	980	$ 6.07	342
Equity compensation plans not approved by security holders(2)	105	$ 3.68	
Total	1,085	$ 5.84	342

(1) The amount shown in column (c) includes 239 shares issuable under the Company s 2006 Equity Incentive Plan (the 2006 Plan) and 104 shares available for purchase under the Company s Employee Stock Purchase Plan. Under the terms of the 2006 Plan, as outstanding options under the Company s 2001 Stock Option Plan and Non-Employee Directors Stock Option Plan expire, the shares of common stock subject to the expired options will become available for issuance under the 2006 Plan. As of December 31, 2011, 285 shares of common stock were subject to outstanding options under the 2001 Stock Option Plan and Non-Employee Directors Stock Option Plan. Accordingly, if any of these options expire, the shares of common stock subject to expired options also will be available for issuance under the 2006 Plan.

(2) Represents shares issuable under the Non-Employee Directors Stock Option Plan, the (Non-Employee Directors Plan), pursuant to which directors who are not employees of the Company or any of its subsidiaries were eligible to receive options. The exercise price of the option was the fair market value of the stock on the date of grant. Options become exercisable in equal one-third annual installments beginning one year from the date of grant, except that the vesting schedule for discretionary grants is determined by the Compensation Committee. As a result of the approval of the 2006 Plan by the shareholders at the 2006 annual meeting of shareholders, no further grants will be made pursuant to the Non-Employee Directors Plan.

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ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information called for by Item 13 is incorporated by reference from the Company s definitive proxy statement relating to its 2012 annual meeting of shareholders, including but not necessarily limited to the sections of the 2012 proxy statement entitled Certain Relationships and Related Party Transactions and Independence of the Board of Directors.

ITEM 14. Principal Accounting Fees and Services

The information called for by Item 14 is incorporated by reference from the Company s definitive proxy statement relating to its 2012 annual meeting of shareholders, including but not necessarily limited to the sections of the 2012 proxy statement entitled Independent Registered Public Accounting Fee Information.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as a part of this report:

1) Financial Statements The consolidated financial statements of the Registrant are set forth in Item 8 of Part II of this report.

Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009.

Consolidated Balance Sheets at December 31, 2011 and 2010.

Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009.

Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss) for the years ended December 31, 2011, 2010 and 2009.

Notes to Consolidated Financial Statements.

2) Financial Statement Schedules

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON
SUPPLEMENTARY INFORMATION

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

Our audits were made for the purpose of forming an opinion on the basic 2011, 2010 and 2009 consolidated financial statements of IntriCon Corporation and Subsidiaries taken as a whole. The consolidated supplemental schedule II is presented for purposes of complying with the Securities Exchange Commission s rules and is not a part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the 2011, 2010 and 2009 basic consolidated financial statements and, in our opinion, is fairly stated in all materials respects in relation to the basic consolidated financial statements taken as a whole.

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP

Minneapolis, Minnesota
March 14, 2012

Schedule II - Valuation and Qualifying Accounts

INTRICON CORPORATION AND SUBSIDIARY COMPANIES

Valuation and Qualifying Accounts
December 31, 2011, 2010 and 2009.

Description	**Balance at beginning of Year**	**Addition charged to costs and expense**	**Less deductions**	**Balance at end of year**
Year ended December 31, 2011				
Allowance for doubtful accounts	$ 219	$ 5	$ 1(a)	$ 223
Deferred tax asset valuation allowance	$ 8,361	$ 649	$	$ 9,010
Year ended December 31, 2010				
Allowance for doubtful accounts	$ 226	$ 50	$ 57(a)	$ 219
Deferred tax asset valuation allowance	$ 8,760	$ 1,069	$ 1,468	$ 8,361
Year ended December 31, 2009				
Allowance for doubtful accounts	$ 332	$ 67	$ 173(a)	$ 226
Deferred tax asset valuation allowance	$ 7,267	$ 1,493	$	$ 8,760

a) Uncollectible accounts written off.

All other schedules are omitted because they are not applicable, or because the required information is included in the consolidated financial statements or notes thereto.

3) Exhibits

2.1 Asset purchase agreement dated March 31, 2005 among the Company and Selas Heat Technology, LLP (Schedules and exhibits are omitted pursuant to Regulation S-K, Item 601(b)(2); IntriCon Corporation agrees to furnish a copy of such schedules and/or exhibits to the Securities and Exchange Commission upon request) (Incorporated by reference from the Company s quarterly report on Form 10-Q for the quarter ended March 31, 2005.)

2.2	Asset Purchase Agreement by and among IntriCon Corporation, TI Acquisition Corporation, Tibbetts Industries, Inc. and certain shareholders of Tibbetts Industries, Inc. dated April 19, 2007. (Incorporated by reference from the Company s current report on Form 8-K filed with the Commission on April 23, 2007.)

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2.3	Asset Purchase Agreement dated as of May 28, 2010 among RTIE Holdings LLC, RTI Electronics, Inc., and IntriCon Corporation. (Schedules and exhibits are omitted pursuant to Regulation S-K, Item 601(b)(2); IntriCon Corporation agrees to furnish a copy of such schedules and/or exhibits to the Securities and Exchange Commission upon request.) (Incorporated by reference from the Company s Current Report on Form 8-K filed with the Commission on June 3, 2010).
3.1	The Company s Amended and Restated Articles of Incorporation, as amended. (Incorporated by reference from the Company s current report on Form 8-K filed with the Commission on April 24, 2008.)
3.2	The Company s Amended and Restated By-Laws. (Incorporated by reference from the Company s annual report on Form 8-K filed with the Commission October 12, 2007.)
+ 10.1.1	Amended and Restated 1994 Stock Option Plan. (Incorporated by reference from the Company s annual report on Form 10-K for the year ended December 31, 1997.)
+ 10.1.2	Form of Stock Option Agreements granted under the Amended and Restated 1994 Stock Option Plan. (Incorporated by reference from the Company s annual report on Form 10-K for the year ended December 31, 1995.)
+ 10.1.3	Amendment No. 1 to Amended and Restated 1994 Stock Option Plan (Incorporated by reference from the Company s annual report on Form 10-K for the year ended December 31, 2010.)
+ 10.1.4	Amendment No. 1 to Form of Stock Option Agreements granted under the Amended and Restated 1994 Stock Option Plan, as amended. (Included in Exhibit 10.1.3.)
+ 10.2.1	2001 Stock Option Plan. (Incorporated by reference from the Company s annual report on Form 10-K for the year ended December 31, 2000.)
+ 10.2.2	Form of Stock Option Agreement issued to executive officers pursuant to the 2001 Stock Option Plan. (Incorporated by reference from the Company s current report on Form 8-K filed with the Commission on April 26, 2005.)
+ 10.3	Supplemental Retirement Plan (amended and restated effective January 1, 1995). (Incorporated by reference from the Company s annual report on Form 10-K for the year ended December 31, 1995.).
10.4.1	Amended and Restated Office/Warehouse Lease, between Resistance Technology, Inc. and Arden Partners I. L.L.P. (of which Mark S. Gorder is one of the principal owners) dated November 1, 1996. (Incorporated by reference from the Company s annual report on Form 10-K for the year ended December 31, 1996.)
10.4.2	Amended and Restated Office/Warehouse Lease Second Extension Agreement dated as of October 20, 2011 between IntriCon Inc. and Arden Partners I, L.L.P. (Incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 filed with the Commission on November 14, 2011.)
+ 10.5.1	Amended and Restated Non-Employee Directors Stock Option Plan. (Incorporated by reference from the Company s annual report on Form 10-K for the year ended December 31, 2001.)
+10.5.2	Form of Non-employee director Option Agreement for options issued pursuant to the Amended and Restated Non-Employee Directors Stock Option Plan. (Incorporated by reference from the Company s current report on Form 8-K filed with the Commission on October 3, 2005.)
+ 10.6	2006 Equity Incentive Plan. (Incorporated by reference from Appendix A to the Company s proxy statement filed with the SEC on March 15, 2010.)
+ 10.7	Form of Stock Option Agreement issued to executive officers pursuant to the 2006 Equity Incentive Plan. (Incorporated by reference from the Company s quarterly report on Form 10-Q for the quarter ended March 31, 2006.)
+ 10.8	Form of Stock Option Agreement issued to directors pursuant to the 2006 Equity Incentive Plan. (Incorporated by reference from the Company s quarterly report on Form 10-Q for the quarter ended March 31, 2006.)

+ 10.9	Non-Employee Directors Stock Fee Election Program. (Incorporated by reference from the Company s annual report on Form 10-K for the year ended December 31, 2006.)

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+10.10	Non-Employee Director and Executive Officer Stock Purchase Program, as amended. (Incorporated by reference from the Company s quarterly report on Form 10-Q filed with the Commission on November 14, 2008.)
+ 10.11	Deferred Compensation Plan. (Incorporated by reference from the Company s current report on Form 8-K filed with the Commission on May 17, 2006.)
10.12	Purchase Agreement between Resistance Technology, Inc. and MDSC Partners, LLP dated May 5, 2006. (Incorporated by reference from the Company s current report on Form 8-K filed with the Commission on June 21, 2006.)
10.13	Land and Building Lease Agreement between Resistance Technology, Inc. and MDSC Partners, LLP dated June 15, 2006. (Incorporated by reference from the Company s current report on Form 8-K filed with the Commission on June 21, 2006.)
10.14	Agreement by and between K/S HIMPP and IntriCon Corporation dated December 1, 2006 and the schedules thereto. (Incorporated by reference from the Company s annual report on Form 10-K for the year ended December 31, 2006.)
+ 10.15	Employment Agreement with Mark S. Gorder. (Incorporated by reference from the Company s annual report on Form 8-K filed with the Commission October 12, 2007.)
+ 10.16	Form of Employment Agreement with executive officers. (Incorporated by reference from the Company s annual report on Form 8-K filed with the Commission October 12, 2007.)
10.17	Strategic Alliance Agreement among IntriCon Corporation and Dynamic Hearing Pty Ltd effective as of October 1, 2008 (Incorporated by reference from the Company s annual report on Form 10-K for the year ended December 31, 2008.)
10.18	First Amendment to Strategic Alliance Agreement among IntriCon Corporation and Dynamic Hearing Pty Ltd effective as of January 1, 2011 (Incorporated by reference from the Company s annual report on Form 10-K for the year ended December 31, 2010.)
10.19.1	Loan and Security Agreement dated as of August 13, 2009 by and among IntriCon Corporation, RTI Electronics, Inc., IntriCon Tibbetts Corporation, IntriCon Datrix Corporation (f/k/a Jon Barron, Inc.) and The PrivateBank and Trust Company (Incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 filed with the Commission on November 16, 2009.)
10.19.2	First Amendment and Waiver dated March 12, 2010 to Loan and Security Agreement dated as of August 13, 2009 by and among IntriCon Corporation, RTI Electronics, Inc., IntriCon Tibbetts Corporation, IntriCon Datrix Corporation and The PrivateBank and Trust Company. (Incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 filed with the Commission on May 17, 2010.)
10.19.3	Second Amendment to Loan and Security Agreement and Limited Consent dated as of August 12, 2011 to Loan and Security Agreement dated as of August 13, 2009 by and among IntriCon Corporation, IntriCon, Inc., IntriCon Tibbetts Corporation, IntriCon Datrix Corporation and The PrivateBank and Trust Company (Incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 filed with the Commission on November 14, 2011.)
10.19.4*	Third Amendment to Loan and Security Agreement and Waiver dated as of March 1, 2012 to Loan and Security Agreement dated as of August 13, 2009 by and among IntriCon Corporation, IntriCon, Inc., IntriCon Tibbetts Corporation, IntriCon Datrix Corporation and The PrivateBank and Trust Company
10.20	Revolving Credit Note issued to The PrivateBank and Trust Company dated August 13, 2009 (Incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 filed with the Commission on November 16, 2009.)

10.21.1	Term Note issued to The PrivateBank and Trust Company dated August 13, 2009 (Incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 filed with the Commission on November 16, 2009.)

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10.21.2	Term Note dated August 12, 2011 from IntriCon Corporation, IntriCon, Inc., IntriCon Tibbetts Corporation and IntriCon Datrix Corporation to The PrivateBank and Trust Company (Incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 filed with the Commission on November 14, 2011.)
10.22	Subordinated Non-Negotiable Promissory Note issued to Jon V. Barron dated August 13, 2009 (Incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2009 filed with the Commission on November 16, 2009.)
10.23	Amended and Restated Sale or Change of Control, Exclusivity and Noncompete Agreement dated November 12, 2011 between IntriCon Corporation and United Healthcare Services, Inc. (Incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 filed with the Commission on November 14, 2011.)
21*	List of significant subsidiaries of the Company.
23.1*	Consent of Independent Registered Public Accounting Firm (Baker Tilly Virchow Krause, LLP).
31.1*	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of principal executive officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of principal financial officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Shareholders Agreement dated October 10, 2011 by and among the Company, United Healthcare Services, Inc., Mark S. Gorder, Michael J. McKenna, Robert N. Masucci, Nicolas A. Giordano, Philip N. Seamon, Christopher D. Conger, Michael P. Geraci, Scott Longval, Dennis L. Gonsior, and Greg Gruenhagen (Incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 filed with the Commission on November 14, 2011.)
101	The following materials from IntriCon Corporation s Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009; (ii) Consolidated Balance Sheets as of December 31, 2011 and 2010; (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009; (iv) Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss) for the years ended December 31, 2011, 2010 and 2009; and (v) Notes to Consolidated Financial Statements

*	Filed herewith.
+	Denotes management contract, compensatory plan or arrangement.
	Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Exchange Act and otherwise are not subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTRICON CORPORATION
(Registrant)

By: /s/ Scott Longval
Scott Longval
Chief Financial Officer,
Treasurer and Secretary

Dated: March 14, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Mark S. Gorder
Mark S. Gorder
President and Chief Executive
Officer and Director (principal executive officer)
March 14, 2012

/s/ Scott Longval
Scott Longval
Chief Financial Officer
Treasurer and Secretary
(principal accounting and financial officer)
March 14, 2012

/s/Nicholas A. Giordano
Nicholas A. Giordano
Director
March 14, 2012

/s/Robert N. Masucci
Robert N. Masucci
Director
March 14, 2012

/s/ Michael J. McKenna
Michael J. McKenna
Director
March 14, 2012

/s/ Philip N. Seamon
Philip N. Seamon
Director
March 14, 2012

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EXHIBIT INDEX

EXHIBITS:

10.19.4	Third Amendment to Loan and Security Agreement and Waiver dated as of March 1, 2012 to Loan and Security Agreement dated as of August 13, 2009 by and among IntriCon Corporation, IntriCon, Inc., IntriCon Tibbetts Corporation, IntriCon Datrix Corporation and The PrivateBank and Trust Company
21	List of significant subsidiaries of the Company.
23.1	Consent of Independent Registered Public Accounting Firm (Baker Tilly Virchow Krause, LLP).
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
32.2	Certification of principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
101	The following materials from IntriCon Corporation s Annual Report on Form 10-K for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009; (ii) Consolidated Balance Sheets as of December 31, 2011 and 2010; (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009; (iv) Consolidated Statements of Shareholders Equity and Comprehensive Income (Loss) for the years ended December 31, 2011, 2010 and 2009; and (v) Notes to Consolidated Financial Statements

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Exchange Act and otherwise are not subject to liability under those sections.