INTRICON CORP
Form 10-Q
August 13, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission
File
Number:

1-5005

INTRICON CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(651) 636-9770
(Registrant's telephone number, including area code)

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Yes No

The number of outstanding shares of the registrant's common stock, $1.00 par value, on July 31, 2015 was 5,966,311.

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PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	June 30, 2015 **(Unaudited)**	December 31, 2014
Current assets:		
Cash	$ 273	$ 328
Restricted cash	612	640
Accounts receivable, less allowance for doubtful accounts of $115 at June 30, 2015 and $105 at December 31, 2014	7,785	7,673
Inventories	11,298	9,983
Other current assets	859	1,013
Total current assets	20,827	19,637
Machinery and equipment	36,768	35,104
Less: Accumulated depreciation	31,559	30,859
Net machinery and equipment	5,209	4,245
Goodwill	9,194	9,194
Investment in partnerships	332	387
Other assets, net	430	498
Total assets	$ 35,992	$ 33,961
Current liabilities:		
Checks written in excess of cash	$ 12	$ 516
Current maturities of long-term debt	1,894	1,886
Accounts payable	6,694	5,438
Accrued salaries, wages and commissions	2,294	2,519
Deferred gain	110	110

Other accrued liabilities	1,475	1,364
Total current liabilities	12,479	11,833
Long-term debt, less current maturities	5,076	4,627
Other postretirement benefit obligations	482	485
Accrued pension liabilities	685	741
Deferred gain	—	55
Other long-term liabilities	94	113
Total liabilities	18,816	17,854
Commitments and contingencies (note 11)		
Shareholders' equity:		
Common stock, $1.00 par value per share; 20,000 shares authorized; 5,864 and 5,844 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	5,864	5,844
Additional paid-in capital	17,303	16,939
Accumulated deficit	(5,484)	(6,274)
Accumulated other comprehensive loss	(507)	(402)
Total shareholders' equity	17,176	16,107
Total liabilities and shareholders' equity	$ 35,992	$ 33,961

(See accompanying notes to the consolidated condensed financial statements)

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

	Three Months Ended		Six Months Ended	
	June 30, 2015 (Unaudited)	June 30, 2014 (Unaudited)	June 30, 2015 (Unaudited)	June 30, 2014 (Unaudited)
Sales, net	$17,120	$ 17,507	$33,722	$ 34,817
Cost of sales	12,535	12,735	24,809	25,272
Gross profit	4,585	4,772	8,913	9,545
Operating expenses:				
Sales and marketing	898	891	1,885	1,898
General and administrative	1,733	1,616	3,442	3,240
Research and development	1,294	1,148	2,520	2,316
Restructuring charges (note 3)	—	—	—	83
Total operating expenses	3,925	3,655	7,847	7,537
Operating income	660	1,117	1,066	2,008
Interest expense	(89)	(125)	(192)	(263)
Other income (expense)	12	(122)	148	(62)
Income from continuing operations before income taxes and discontinued operations	583	870	1,022	1,683
Income tax expense	77	57	232	83
Income before discontinued operations	506	813	790	1,600
Loss on sale of discontinued operations (note 4)	—	—	—	(120)
Loss from discontinued operations, net of income taxes	—	—	—	(150)
Net income	$506	$ 813	$790	$ 1,330
Basic income (loss) per share:				
Continuing operations	$0.09	$ 0.14	$0.14	$ 0.28
Discontinued operations	—	—	—	(0.05)
Net income per share:	$0.09	$ 0.14	$0.14	$ 0.23
Diluted income (loss) per share:				

Continuing operations	$0.08	$ 0.13	$0.13	$ 0.27
Discontinued operations	—	—	—	(0.05)
Net income per share:	$0.08	$ 0.13	$0.13	$ 0.22
Average shares outstanding:				
Basic	5,856	5,780	5,848	5,754
Diluted	6,242	6,081	6,229	5,973

(See accompanying notes to the consolidated condensed financial statements)

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	**June 30, 2014**	**June 30, 2015**	**June 30, 2014**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Net income	$506	$ 813	$790	$ 1,330
Change in fair value of interest rate swap	(31)	9	(33)	19
Gain (loss) on foreign currency translation adjustment	36	(2)	(72)	8
Comprehensive income	$511	$ 820	$685	$ 1,357

(See accompanying notes to the consolidated condensed financial statements)

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

	Six Months Ended June 30, 2015 (Unaudited)	June 30, 2014 (Unaudited)
Cash flows from operating activities:		
Net income	$790	$ 1,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	841	1,109
Stock-based compensation	314	244
Change in deferred gain	(55)	(55)
Change in allowance for doubtful accounts	(5)	(2)
Equity in loss of partnerships	99	108
Loss on sale of discontinued operations	—	120
Changes in operating assets and liabilities:		
Accounts receivable	(51)	(1,914)
Inventories	(1,311)	(1,074)
Other assets	113	183
Accounts payable	1,249	1,012
Accrued expenses	(263)	240
Other liabilities	24	(8)
Net cash provided by operating activities	1,745	1,293
Cash flows from investing activities:		
Proceeds from sale of property, plant and equipment	—	29
Proceeds of sale of discontinued operations	—	500
Purchases of property, plant and equipment	(1,670)	(668)
Other	(45)	—
Net cash used in investing activities	(1,715)	(139)
Cash flows from financing activities:		
Proceeds from long-term borrowings	8,456	6,998
Repayments of long-term borrowings	(8,031)	(8,301)
Proceeds from employee stock purchases and exercise of stock options	71	76
Change in restricted cash	50	(128)
Change in checks written in excess of cash	(505)	138
Net cash provided by (used in) financing activities	41	(1,217)

Effect of exchange rate changes on cash	(126)	7
Net decrease in cash	(55)	(56)
Cash, beginning of period	328	217
Cash, end of period	$ 273	$ 161

(See accompanying notes to the consolidated condensed financial statements)

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INTRICON CORPORATION

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

1. General

In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly IntriCon Corporation's ("IntriCon" or the "Company") consolidated financial position as of June 30, 2015 and December 31, 2014, the consolidated results of its operations for the three and six months ended June 30, 2015 and 2014 and for the cash flows for the six month ended June 30, 2015 and 2014. Results of operations for the interim periods are not necessarily indicative of the results of operations expected for the full year or any other interim period.

On June 13, 2013, the Company announced a global restructuring plan to accelerate future growth and reduce costs. As part of the restructuring, the Company sold its security and certain microphone and receiver operations on January 27, 2014 to Sierra Peaks Corporation. For all periods presented, the Company classified these businesses as discontinued operations (Note 4).

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

2. New Accounting Pronouncements

In February 2015, the FASB issued Accounting Standards Update No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*, or ASU 2015-02. ASU 2015-02 amends current consolidation guidance by modifying the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities, eliminating the presumption that a general partner should consolidate a limited partnership, and affects the consolidation analysis of reporting entities that are involved with variable interest entities. ASU No. 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. All legal entities are subject to reevaluation under the revised consolidation model. The adoption of ASU 2015-02 is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2014, the Financial Accounting Standards Board issued new accounting guidance related to revenue recognition. This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The new revenue recognition standard provides a unified model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration for which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for the Company beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are currently assessing the impact on the Company's consolidated financial statements

3. Restructuring Charges

On June 13, 2013 the Company announced a global strategic restructuring plan designed to accelerate the Company's future growth by focusing resources on the highest potential growth areas and reduce costs. The plan was approved by the Company's Board of Directors on June 12, 2013. As part of this plan, the Company: reduced investment in certain non-core professional audio communications product lines; transferred specific product lines from Singapore to the Company's lower-cost manufacturing facility in Batam, Indonesia; reduced global administrative and support workforce; transferred the medical coil operations from the Company's Maine facility to Minnesota to better leverage existing manufacturing capacity; sold its remaining security, microphone and receiver operations; added experienced professionals in value hearing health; and focused more resources in medical biotelemetry. During the six months ended June 30, 2014, the Company incurred restructuring charges of $83, primarily related to employee termination benefits, from the restructuring of its continuing operations. The Company does not expect to incur any additional cash charges related to this restructuring.