AMERICAN APPAREL, INC
Form 4
June 27, 2013

FORM 4

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
Estimated average burden hours per response...	0.5

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

(Print or Type Responses)

1. Name and Address of Reporting Person *
Charney Dov

(Last) (First) (Middle)

747 WAREHOUSE STREET

(Street)

LOS ANGELES, CA 90021

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
AMERICAN APPAREL, INC [APP]

3. Date of Earliest Transaction (Month/Day/Year)
06/25/2013

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

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director __X__ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Executive Officer

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, $0.0001 par value	06/25/2013		A		2,500,000 (1)	A	$ 0 (1)	48,305,866	D	

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

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

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 A Underlying Se (Instr. 3 and 4
								Date Exercisable	Expiration Date	Title
				Code	V	(A)	(D)			
Option (right to buy)	(2) (3) (4)	06/25/2013		D(5)			12,659,994	(4)	(4)	Common Stock
Option (right to buy)	(2) (3) (4)	06/25/2013		D(5)			6,150,889	(4)	(4)	Common Stock
Option (right to buy)	(2) (3) (4)	06/25/2013		D(5)			1,604,917	(4)	(4)	Common Stock
Option (right to buy)	(6) (7)	06/25/2013		A(5)		20,415,800		(6)(7)	(6)(7)	Common Stock

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Charney Dov 747 WAREHOUSE STREET LOS ANGELES, CA 90021	X	X	Chief Executive Officer	

Signatures

/s/ Dov Charney	06/27/2013
**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).

(1) These shares were awarded in connection with the achievement of certain performance goals in accordance with the terms set forth in the reporting person's employment agreement dated March 22, 2012 with the Issuer.

(2) Pursuant to a Purchase Agreement dated as of April 27, 2011 (the "Purchase Agreement") between the Issuer and the reporting person, the reporting person received the right to receive (i) up to approximately 12,659,994 shares of common stock of the Issuer (the "Initial Anti-Dilution Shares") as anti-dilution protection with respect to the issuance of shares of common stock to certain other investors in the Issuer and (ii) up to an additional 25,319,988 shares of common stock as anti-dilution protection with respect to the issuance of shares of common stock to certain other investors in the Issuer in proportion to the exercise by such investors of their right to purchase certain shares of common stock of the Issuer.

(3) On July 7, 2011 and July 12, 2011, the reporting person received a right to purchase an additional 6,150,889 and 1,604,917 shares of common stock of the Issuer (these shares together with the "Initial Anti-Dilution Shares are collectively referred to herein as the "Anti-Dilution Shares"), respectively, as a result of such investors exercising their right to purchase certain shares of common stock of the Issuer. The remaining right to purchase an additional 17,564,182 shares of common stock issuable as anti-dilution protection with respect to the issuance of shares of common stock to certain other investors expired on October 23, 2011 without the reporting person having the right to such shares.

(4) The Anti-Dilution Shares were issuable in three equal installments, one per measurement period set forth below, subject to meeting the applicable average volume weighted closing price for 60 consecutive trading days, calculated as set forth in the Purchase Agreement ("VWAP") as follows: (i) for the measurement period from April 16, 2012 to and including April 15, 2013, if the VWAP of the common stock during a period of 60 consecutive trading days exceeds $3.25 per share; (ii) for the measurement period from but not including April 16, 2013 to and including April 15, 2014 if the VWAP of the common stock during a period of 60 consecutive trading days exceeds $4.25 per share; and (iii) for the measurement period from but not including April 16, 2014 to and including April 15, 2015, if the VWAP of the common stock during a period of 60 consecutive trading days exceeds $5.25 per share.

(5) On June 25, 2013, the stockholders of the Issuer approved an amendment to the Purchase Agreement resulting in an amendment to the terms of the Anti-Dilution Shares, resulting in the deemed cancellation of the "old" options to purchase the Anti-Dilution Shares and the grant of a replacement option to purchase the aggregate number of Anti-Dilution Shares.

(6) The amendment to the Purchase Agreement (i) extends by one year the measurement periods for the Anti-Dilution Shares and (ii) reduces the length of the corresponding stock price target periods from 60 days to 30 days.

(7) The amendment gives effect to the extensions of the measurement periods on a retroactive basis so that the reporting person has the right to receive the Anti-Dilution Shares as follows: (i) for the first measurement period from April 16, 2012 to and including April 15, 2014, if the VWAP of the common stock during a period of 30 consecutive trading days exceeds $3.25 per share; (ii) for the measurement period from but not including April 16, 2014 to and including April 15, 2015, if the VWAP of the common stock during a period of 30 consecutive trading days exceeds $4.25 per share; and (iii) for the measurement period from but not including April 16, 2015 to and including April 15, 2016, if the VWAP of the common stock during a period of 30 consecutive trading days exceeds $5.25 per share.

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. p"> Consolidated Condensed Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2016 and 2015 6 Notes to Consolidated Condensed Financial Statements (Unaudited) 7-13 Item 2.Management’s Discussion and Analysis of Financial Condition and Results of Operations 14-23 Item 3.Quantitative and Qualitative Disclosures About Market Risk 23 Item 4.Controls and Procedures 23 PART II: OTHER INFORMATION Item 1.Legal Proceedings 24 Item 1A.Risk Factors 24 Item 2.Unregistered Sales of Equity Securities and Use of Proceeds 24 Item 3.Defaults Upon Senior Securities 24 Item 4.Mine Safety Disclosures 24 Item 5.Other Information 24 Item 6.Exhibits 25 Signatures 26 Exhibit Index 27

PART I: FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	September 30, 2016 (Unaudited)	**December 31, 2015**
Current assets:		
Cash	$ 604	$ 369
Restricted cash	633	610
Accounts receivable, less allowance for doubtful accounts of $67 at September 30, 2016 and $135 at December 31, 2015	6,324	8,578
Inventories	13,329	14,472
Other current assets	638	860
Total current assets	21,528	24,889
Machinery and equipment	39,959	38,653
Less: Accumulated depreciation	33,103	31,911
Net machinery and equipment	6,856	6,742
Goodwill	9,551	9,551
Investment in partnerships	212	224
Other assets, net	1,161	480
Total assets	$ 39,308	$ 41,886
Current liabilities:		
Current maturities of long-term debt	$ 2,002	$ 1,908
Accounts payable	5,966	7,785
Accrued salaries, wages and commissions	2,207	2,559
Deferred gain	—	55
Other accrued liabilities	725	1,279
Total current liabilities	10,900	13,586
Long-term debt, less current maturities	6,862	7,929
Other postretirement benefit obligations	508	542
Accrued pension liabilities	790	812
Other long-term liabilities	127	120
Total liabilities	19,187	22,989

Shareholders' equity:		
Common stock, $1.00 par value per share; 20,000 shares authorized; 6,801 and 5,981 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	6,801	5,981
Additional paid-in capital	21,168	17,721
Accumulated deficit	(6,825)	(4,046)
Accumulated other comprehensive loss	(879)	(721)
Total shareholders' equity	20,265	18,935
Non-controlling interest	(144)	(38)
Total equity	20,121	18,897
Total liabilities and equity	$ 39,308	$ 41,886

(See accompanying notes to the consolidated condensed financial statements)

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

	Three Months Ended		Nine Months Ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Sales, net	$16,012	$ 17,341	$51,246	$ 51,063
Cost of sales	12,347	12,706	38,597	37,515
Gross profit	3,665	4,635	12,649	13,548
Operating expenses:				
Sales and marketing	1,082	854	3,478	2,739
General and administrative	2,250	1,708	6,649	5,150
Research and development	1,323	1,344	4,297	3,864
Restructuring charges (note 3)	—	—	132	—
Total operating expenses	4,655	3,906	14,556	11,753
Operating income (loss)	(990)	729	(1,907)	1,795
Interest expense	(135)	(95)	(387)	(287)
Other income (expense)	(181)	(131)	(472)	17
Income (loss) before income taxes	(1,306)	503	(2,766)	1,525
Income tax expense (benefit)	33	(125)	119	107
Net income (loss)	(1,339)	628	(2,885)	1,418
Less: Loss allocated to non-controlling interest	(35)	—	(106)	—
Net income (loss) attributable to IntriCon shareholders	$(1,304)	$ 628	$(2,779)	$ 1,418
Net income (loss) per share attributable to IntriCon shareholders:				
Basic	$(0.19)	$ 0.11	$(0.44)	$ 0.24
Diluted	(0.19)	0.10	(0.44)	0.23
Average shares outstanding:				
Basic	6,796	5,943	6,287	5,873
Diluted	6,796	6,271	6,287	6,214

(See accompanying notes to the consolidated condensed financial statements)

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

	Three Months Ended		Nine Months Ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Net income (loss)	$(1,339)	$ 628	$(2,885)	$ 1,418
Interest rate swap, net of taxes of $0	26	(31)	(15)	(64)
Pension and postretirement obligations, net of taxes of $0	5	—	15	—
Foreign currency translation adjustment, net of taxes of $0	(33)	21	(158)	(51)
Comprehensive income (loss)	$(1,341)	$ 618	$(3,043)	$ 1,303

(See accompanying notes to the consolidated condensed financial statements)

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

	Nine Months Ended September 30, 2016 (Unaudited)	**September 30, 2015 (Unaudited)**
Cash flows from operating activities:		
Net income (loss)	$ (2,885)	$ 1,418
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,543	1,281
Stock-based compensation	506	445
Change in deferred gain	(55)	(83)
Change in allowance for doubtful accounts	(68)	(6)
Equity in loss of partnerships	175	154
Changes in operating assets and liabilities:		
Accounts receivable	2,346	248
Inventories	1,189	(3,150)
Other assets	(527)	(80)
Accounts payable	(1,856)	1,729
Accrued expenses	(954)	467
Other liabilities	12	(199)
Net cash (used in) provided by operating activities	(574)	2,224
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,557)	(2,868)
Other	(164)	(45)
Net cash used in investing activities	(1,721)	(2,913)

Cash flows from financing activities:		
Proceeds from long-term borrowings	14,923	12,903
Repayments of long-term borrowings	(15,921)	(12,422)
Proceeds from equity offering, net of offering costs	3,678	—
Proceeds from employee stock purchases and exercise of stock options	83	315
Change in restricted cash	(31)	71
Net cash provided by financing activities	2,732	867
Effect of exchange rate changes on cash	(202)	(109)
Net increase in cash	235	69
Cash, beginning of period	369	328
Cash, end of period	$ 604	$ 397

(See accompanying notes to the consolidated condensed financial statements)

INTRICON CORPORATION

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

1. General

In the opinion of management, the accompanying consolidated condensed financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly IntriCon Corporation's ("IntriCon" or the "Company") consolidated financial position as of September 30, 2016 and December 31, 2015, the consolidated results of its operations for the three and nine months ended September 30, 2016 and 2015 and for the cash flows for the nine month ended September 30, 2016 and 2015. 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.

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 2016, the Financial Accounting Standards Board ("FASB") issued its final standard on accounting for leases. This standard, issued as ASU 2016-02, requires that an entity that is a lessee recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements. This update is effective for financial statement periods beginning after December 15, 2018, with earlier application permitted. The Company has not yet determined the impact of this pronouncement on its financial statements and related disclosures.

In March 2016, the FASB issued its final standard on simplifying the accounting for share-based payment awards. This standard, issued as ASU 2016-09, simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification on the statement of cash flows, and accounting for forfeitures. This update is effective for financial statement periods beginning after December 15, 2016, with early adoption permitted. The Company has not yet determined the impact of this pronouncement on its financial statements and related disclosures

3. Restructuring Charges

During the three and nine months ended September 30, 2016, the Company incurred restructuring charges of $0 and $132, related to IntriCon UK facility moving costs. The Company does not expect to incur any additional cash charges related to this restructuring.

4. Geographic Information

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

	September 30, 2016	**December 31, 2015**
United States	$ 4,766	$ 5,125
Other – primarily Asia	2,090	1,617
Consolidated	$ 6,856	$ 6,742

Long-lived assets consist of property and equipment. 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.

The geographical distribution of net sales to geographical areas for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
United States	$11,645	$ 13,165	$36,138	$ 37,565
Europe	2,706	1,495	8,523	4,903
Asia	1,380	2,498	5,918	7,727
All other countries	281	183	667	868
Consolidated	$16,012	$ 17,341	$51,246	$ 51,063

Geographic net sales are allocated based on the location of the customer. For the three and nine months ended September 30, 2016, one customer accounted for 38% and 39% of the Company's consolidated net sales. For the three and nine months ended September 30, 2015, one customer accounted for 46% and 42% of the Company's consolidated net sales.

At September 30, 2016, two customers combined accounted for 33% of the Company's consolidated accounts receivable. At December 31, 2015, two customers combined accounted for 27% of the Company's consolidated accounts receivable. No countries had revenue that exceeded 10% of total except the United States.

5. Inventories

Inventories consisted of the following at:

	Raw materials	**Work-in process**	**Finished products and components**	**Total**
September 30, 2016				
United States	$ 5,847	$ 1,627	$ 2,992	$10,466
Foreign	1,677	520	666	2,863
Total	$ 7,524	$ 2,147	$ 3,658	$13,329
December 31, 2015				
United States	$ 6,514	$ 1,706	$ 2,801	$11,021
Foreign	2,472	636	343	3,451

Total	$ 8,986	$ 2,342	$ 3,144	$ 14,472

6. Short and Long-Term Debt

Short and long-term debt is summarized as follows:

	September 30, 2016	December 31, 2015
Domestic Asset-Based Revolving Credit Facility	$ 2,213	$ 4,674
Foreign Overdraft and Letter of Credit Facility	1,248	913
Domestic Term-Loan	5,500	4,250
Unamortized Finance Costs	(97)	—
Total Debt	8,864	9,837
Less: Current maturities	(2,002)	(1,908)
Total Long-Term Debt	$ 6,862	$ 7,929

Domestic Credit Facilities

The Company and its domestic subsidiaries are parties to a credit facility with The PrivateBank and Trust Company. The credit facility, as amended through September 30, 2016, provides for:

an $9,000 revolving credit facility, with a $200 sub facility 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 $6,000.

In August 2016, the Company and its domestic subsidiaries entered into an Ninth Amendment to the Loan and Security Agreement and Waiver with The PrivateBank and Trust Company. The amendment, among other things:

amended the definition of EBITDA to permit the add back of certain transactions expenses and expense reductions;

amended the funded debt to EBITDA and fixed charge coverage covenants; and

waived a default in the funded debt to EBITDA covenant as of June 30, 2016.

All of the borrowings under this agreement have been characterized as either a current or long-term liability on our balance sheet in accordance with the repayment terms described more fully below.

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 2.50% to 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 0.00% to 1.25% ; in each case, 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 the revolving credit facility was 4.79% for the nine months ended September 30, 2016 and 3.68% for the year ended December 31, 2015. The outstanding balance of the revolving credit facility was $2,213 and $4,674 at September 30, 2016 and December 31, 2015, respectively. The total availability on the revolving credit facility was approximately $5,429 and $3,326 at September 30, 2016 and December 31, 2015, respectively.

The outstanding principal balance of the term loan, as amended, is payable in quarterly installments of $250. Any remaining principal and accrued interest is payable on February 28, 2019. IntriCon is also required to use 100% of the net cash proceeds of certain asset sales (excluding inventory and certain other dispositions), sale of capital securities or issuance of debt to pay down the term loan.

The Company was in compliance with the financial covenants under the facility as of September 30, 2016.

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 an asset based line of credit. Borrowings bear interest at a rate of .75% to 2.5% over the lender's prevailing prime lending rate. Weighted average interest on the international credit facilities was 3.48% for the nine months ended September 30, 2016 and 3.37% for the year ended December 31, 2015. The outstanding balance was $1,248 and $913 at September 30, 2016 and December 31, 2015, respectively. The total remaining availability on the international senior secured credit agreement was approximately $525 and $817 at September 30, 2016 and December 31, 2015, respectively.

7. Income Taxes

Income tax expense (benefit) for the three and nine months ended September 30, 2016 was $33 and $119 compared to ($125) and $107 for the same periods in 2015. The expense (benefit) was primarily due to foreign operations. The Company has net operating loss carryforwards for U.S. federal income tax purposes and, consequently, minimal federal benefit or expense from the domestic operations was recognized as the deferred tax asset has a full valuation allowance.

The following was the income (loss) before income taxes for each jurisdiction in which the Company has operations for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
United States	$(1,444)	$ 82	$(3,423)	$ (198)
Singapore	212	267	779	1,211
Indonesia	18	18	54	57
United Kingdom	(191)	—	(490)	—
Germany	99	136	314	455
Income (loss) before income taxes and non-controlling interest	$(1,306)	$ 503	$(2,766)	$ 1,525

8. Shareholders' Equity and Stock-based Compensation

The Company has a 2006 Equity Incentive Plan and a 2015 Equity Incentive Plan. The 2015 Equity Incentive Plan, which was approved by the shareholders on April 24, 2015, replaced the 2006 Equity Incentive Plan. New grants may not be made under the 2006 plan; however certain option grants under the 2006 plan remain exercisable as of September 30, 2016. The aggregate number of shares of common stock for which awards could be granted under the 2015 Equity Incentive Plan as of the date of adoption was 500 shares. Additionally, as outstanding options under the 2006 plan expire, the shares of the Company's common stock subject to the expired options will become available for issuance under the 2015 Equity Incentive Plan.

Under the 2015 Equity Incentive Plan, executives, employees and outside directors receive awards of options to purchase common stock. In addition, 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 September 30, 2016. Under all awards, the terms are fixed on the grant date. Generally, the exercise price of stock options 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 2015 Equity Incentive Plan. The director program gives each non-employee director the right under the 2015 Equity Incentive Plan to elect to have some or all of his quarterly director fees paid in common shares rather than cash. No shares were issued in lieu of cash for director fees under the director program for the nine months ended September 30, 2016 and 2015, 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 2015 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 no shares purchased under the management purchase program during the nine months ended September 30, 2016 and 2015, respectively.

Stock option activity as of and during the nine months ended September 30, 2016 was as follows:

	Number of Shares	**Weighted-average Exercise Price**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2015	1,324	$ 6.36	
Options forfeited or cancelled	—	—	
Options expired	(60)	5.81	
Options granted	180	7.08	
Options exercised	(1)	3.16	
Outstanding at September 30, 2016	1,443	$ 6.47	$ 988
Exercisable at September 30, 2016	1,083	$ 6.38	$ 933
Available for future grant at December 31, 2015	490		
Available for future grant at September 30, 2016	371		

The number of shares available for future grants at September 30, 2016 does not include a total of up to 1,221 shares subject to options outstanding at September 30, 2016 under the 2006 plan which will become available for grant under the 2015 Equity Incentive Plan in the event of the expiration of such options.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model. 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 weighted average fair value of options granted was $4.15 for options granted during the nine months ended September 30, 2016. The weighted average fair value of options granted was $7.14 for options granted during the nine months ended September 30, 2015.

The Company calculates expected volatility for stock options and awards using the Company’s historical volatility.

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

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

The weighted average remaining contractual life of options exercisable at September 30, 2016 was 4.16 years.

The Company recorded $159 and $506 of non-cash stock option expense for the three and nine months ended September 30, 2016. The Company recorded $131 and $445 of non-cash stock option expense for the three and nine months ended September 30, 2015. As of September 30, 2016, there was $1,002 of total unrecognized compensation costs related to non-vested awards that are expected to be recognized over a weighted-average period of 1.0 years.

The Company also has an Employee Stock Purchase Plan (the “Purchase Plan”). The Purchase Plan, as amended in September 30 of 2016, provides that a maximum of 300 shares may be sold under the Purchase Plan. There were 5 and 14 shares purchased under the plan for the three and nine months ended September 30, 2016 and a total of 3 and 10 shares purchased for the three and nine months ended September 30, 2015.

On May 18, 2016, the Company completed a public offering and sale of 805 shares of common stock at a price to the public of $5.25 per share less an underwriting discount of $0.3675 per share. The net proceeds from this offering, after deducting underwriting discounts and offering expenses, totaled approximately $3,678 and were used for working capital and general corporate purposes.

9. Income Per Share

The following table presents a reconciliation between basic and diluted earnings per share:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Numerator:				
Net income attributable to IntriCon shareholders	$(1,304)	$ 628	$(2,779)	$ 1,418
Denominator:				
Basic – weighted shares outstanding	6,796	5,943	6,287	5,873
Weighted shares assumed upon exercise of stock options	—	328	—	341
Diluted – weighted shares outstanding	6,796	6,271	6,287	6,214
Net income (loss) per share attributable to IntriCon shareholders:				
Basic	$(0.19)	$ 0.11	$(0.44)	$ 0.24
Diluted	(0.19)	0.10	(0.44)	0.23

The dilutive impact summarized above relates to the periods when the average market price of Company stock exceeded the exercise price of the potentially dilutive option securities granted. Earnings per common share was based on the weighted average number of common shares outstanding during the periods when computing the basic earnings per share. When dilutive, stock options are included as equivalents using the treasury stock method when computing the diluted earnings per share. Individual components of basic and diluted income (loss) per share may not sum to the total income (loss) per share due to rounding.

Excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2016 were outstanding in the money options to purchase approximately 73 and 161 common shares, respectively, because the effect would have been anti-dilutive due to the Company’s net loss in the period.

10. Legal Proceedings

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. These lawsuits relate to the discontinued heat technologies segment which was sold in March 2005. Due to the non-informative nature of the complaints, the Company does not know whether any of the complaints state valid claims against the Company. Certain insurance carriers have informed the Company that the primary policies for the period August 1, 1970-1978 have been exhausted and that the carriers will no longer provide defense and insurance coverage under those policies. However, the Company has other primary and excess insurance policies that the Company believes afford coverage for later years. Some of these other primary insurers have accepted defense and insurance coverage for these suits, and some of them have either ignored the Company's tender of defense of these cases, or have denied coverage, or have accepted the tenders but asserted a reservation of rights and/or advised the Company that they need to investigate further. Because settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, the Company believes that it will have funds available for defense and insurance coverage under the non-exhausted primary and excess insurance policies. However, unlike the older policies, the more recent policies have deductible amounts for defense and settlements costs that the Company will be required to pay; accordingly, the Company expects that its litigation costs will increase in the future. Further, many of the policies covering later years (approximately 1984 and thereafter) have exclusions for any asbestos products or operations, and thus do not provide insurance coverage for asbestos-related lawsuits. The Company does not believe that the asserted exhaustion of some of the primary insurance coverage for the 1970-1978 period will have a material adverse effect on its financial condition, liquidity, or results of operations. Management believes that the number of insurance carriers involved in the defense of the suits, and the significant number of policy years and policy limits under which these insurance carriers are insuring the Company, make the ultimate disposition of these lawsuits not material to the Company's consolidated financial position or results of operations.

The Company's former French subsidiary, Selas SAS, filed for insolvency in France. The Company may be subject to additional litigation or liabilities as a result of the French insolvency proceeding, including liabilities under guarantees aggregating approximately $438.

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.

11. 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 were

approximately $121 and $364 for the three and nine months ended September 30, 2016 and approximately $121 and $365 for the three and nine months ended September 30, 2015.

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 the Company's Board of Directors. For the three and nine months ended September 30, 2016, the Company paid that firm approximately $50 and $183 for legal services and costs. For the three and nine months ended September 30, 2015, the Company paid that firm approximately $26 and $145 for legal services and costs. The Chairman of our Board of Directors is considered independent under applicable Nasdaq and Securities Exchange Commission 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.

12. Revenue by Market

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

	Three Months Ended		**Nine Months Ended**	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Medical	$9,256	$ 11,122	$28,816	$ 30,018
Hearing Health	4,927	4,594	16,722	15,114
Professional Audio Communications	1,829	1,625	5,708	5,931
Total Revenue	$16,012	$ 17,341	$51,246	$ 51,063

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

Headquartered in Arden Hills, Minnesota, IntriCon Corporation (together with its subsidiaries referred to as the "Company", "IntriCon," "we", "us" or "our") is an international company engaged in designing, developing, engineering and manufacturing body-worn devices. In addition to its operations in Minnesota, the Company has facilities in California, Singapore, Indonesia, Germany and England.

Information contained in this section of this Quarterly Report on Form 10-Q and expressed in U.S. dollars is presented in thousands (000s), except for per share data and as otherwise noted.

Market Overview

IntriCon serves the body-worn device market by designing, developing, engineering and manufacturing micro-miniature products, microelectronics, micro-mechanical assemblies, complete assemblies and software solutions, primarily for value hearing health devices, medical bio-telemetry devices and professional audio communication devices. Revenue from the medical bio-telemetry and value hearing health markets is reported on the respective hearing health and medical lines in the discussion of our results of operation in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 12 "Revenue by Market" to the Company's consolidated condensed financial statements included herein.

Value Hearing Health Market

The Company believes the value hearing health (VHH) market offers significant growth opportunities. In the United States alone, there are approximately 37.5 million adults that report some degree of hearing loss. In adults the most common cause of hearing loss is aging and noise. In fact, by the age of 65 year old, one out of three people have hearing loss. The hearing impaired population is expected to grow significantly over the next decade due to an aging population and more frequent exposure to loud sounds that can cause noise-induced hearing loss. It is estimated that hearing aids can help more than 90 percent of people with hearing loss, however the current market penetration into the U.S. hearing impaired population is approximately 20 percent, a percentage that has remained essentially unchanged for the last four decades. In early January, the U.S. Food and Drug Administration (FDA) weighed in on low hearing aid penetration rates with an announcement that highlighted statistics from the National Institute on Deafness and Other Communication Disorders. They found that 37.5 million U.S. adults aged 18 and older report some form of hearing loss. However, only 30 percent of adults over 70, and 16 percent of those aged 20 to 69, who

could benefit from wearing hearing aids, have ever used them. Based on these statistics, the FDA has reopened the public comment period on draft guidance related to the agency's premarket requirements for hearing aids and PSAPs. The FDA's intent is to consider ways in which regulation can support further penetration into the hearing market. In April 2016, the U.S. Food and Drug Administration (FDA) hosted a public workshop to gather stakeholder and public input on draft guidance related to the agency's premarket requirements for hearing aids and PSAPs. The FDA's intent is to consider ways in which regulation can support further device penetration into the hearing market.

The Company is in the final stages of commercializing its PhysioLink™ 2 wireless technology, which will be incorporated into product platforms serving the traditional and value hearing health markets. This technology is an integrated platform that incorporates IntriCon's Audion™ 8 amplifier and Bluetooth® low energy, enabling wireless connectivity from any Bluetooth® enabled device over distances up to five meters.

We are also currently developing our third generation PhysioLink™ technology, leveraging industry leading wireless IC technology to enable concurrent audio streaming and data transmission over Bluetooth® low energy. This technology will be incorporated into product platforms serving traditional and value hearing health markets, providing end users with an unprecedented experience through breakthrough audio and wireless performance.

We believe the U.S. market penetration is low primarily due to the high costs to purchase hearing aids, consolidation at the retail level and inconveniences in the distribution channel. These factors have created the opportunity for alternative care models, such as the value hearing aid (VHA) channel and personal sound amplifier (PSAP) channel. The VHA channel is outcome based focused and requires the best device and software technology, to provide the most efficient, lowest cost solution to the consumer. We believe IntriCon has positioned itself as a leader in these channels through significant, on-going investments in sales and marketing and research and development. The Company is aggressively pursuing prospective partnerships and customers who can benefit from our value proposition and the VHA and PSAP channels.

In the VHA channel, the Company entered into a manufacturing agreement with hi HealthInnovations, a UnitedHealth Group company, to become their supplier of hearing aids. At the beginning of 2012, hi HealthInnovations launched a suite of high-tech, lower-cost hearing devices for their Medicare and Part D participants and later in the year announced they were increasing this offering to the over 26 million people enrolled in their employer-sponsored and individual health benefit plans. In 2012, they expanded their offering to include a hearing aid discount program for health plans. This program is available nationwide to all health insurers, including employer-sponsored, individual and Medicare plans. The insurance model has been successfully demonstrated internationally, where several countries providing a full insurance program are serving 40 to 70 percent of the hearing impaired population. Further, research in the U.S. has shown a fully insured model will encourage an individual to seek treatment at an earlier stage of hearing loss, greatly increasing the market size and penetration. The Company also has various international VHA initiatives. On November 3, 2015, the Company acquired the assets of PC Werth to gain direct access to the NHS and to have greater control over its efforts to accelerate new market penetration into the United Kingdom. PC Werth, through its partnership with IntriCon, has been appointed as one of the main suppliers to the National Health Service (NHS) Supply Chain's National Framework. The NHS is widely seen as the most efficient hearing aid delivery system in the world, supplying an estimated 1.4 million hearing aids annually. We believe IntriCon is well positioned to serve their needs, and we are developing new technologies to further enhance delivery efficiencies and product standards in the future.

We also believe there are niches in the conventional hearing health channel that will embrace our VHA proposition in the United States and Europe. High costs of conventional devices and retail consolidation have constrained the growth potential of the independent audiologist and dispenser. We believe our software and product offering can provide independent audiologists and dispensers the ability to compete with larger retailers, such as Costco, and manufacturer owned retail distributors. In the third quarter of 2015, we announced a joint venture with The Academy of Doctors of Audiology (ADA) to provide hearing instruments and educational resources to audiologists and their patients. The joint venture operates as a limited liability company under the name "earVenture LLC". earVenture was officially launched in November 2015 at the ADA conference. We expect that this joint venture will capitalize on our established reputation as a leading provider of high quality, low-cost hearing aids and the ADA's respected position as the only national membership association focused on ownership of the audiology profession through autonomous practice and clinical excellence. To date, more than 400 of the 1,200 ADA members have registered to join the earVenture program and we have delivered initial units. In 2016, earVenture began rolling-out a comprehensive marketing and sales plan to convert those registered members to consistent customers, as well as solicit non-registered ADA members to join the program.

In the past few years the PSAP channel, which includes ear worn devices that provide cost effective sound amplification, has begun to emerge. These sound amplification devices are not regulated by the FDA, as they are not hearing aids and make no claims of compensating for hearing loss. They can be purchased "off-the-shelf" and are not fit or prescribed to meet a specific individual's needs; rather these devices amplify sound and tend to be used in noisy or challenging environments. They have a significantly lower retail price to the consumer than traditional hearing aids.

Additionally, the Company believes there is great potential to market its situational listening devices (SLD's). Similar to the PSAP devices, the Company's SLD's are intended to help people hear in noisy environments, like restaurants and

automobiles, and listen to television, music, and direct broadcasts by wireless connection. Such devices are intended to be supplements to conventional hearing aids, which do not handle those situations well. The product line consists of an earpiece, TV transmitter, companion microphone, iPod/iPhone transmitter, and USB transmitter.

Medical Bio-Telemetry

In the medical bio-telemetry market, the Company is focused on sales of bio-telemetry devices for life-critical diagnostic monitoring. Using our nanoDSP and BodyNet™ technology platforms, the Company manufactures microelectronics, micro-mechanical assemblies, high-precision injection-molded plastic components and complete bio-telemetry devices for emerging and leading medical device manufacturers. The medical industry is faced with pressures to reduce the cost of healthcare. Driven by core technologies, such as the IntriCon Physiolink™ that wirelessly connects patients and care givers in non-traditional ways, IntriCon helps shift the point of care from expensive traditional settings, such as hospitals, to less expensive non-traditional settings like the home. IntriCon currently serves this market by offering medical manufacturers the capabilities to design, develop, manufacture and distribute medical devices that are easier to use, are more miniature, use less power, and are lighter. Increasingly, the medical industry is looking for wireless, low-power capabilities in their devices.

IntriCon currently has a strong presence in both the diabetes and cardiac diagnostic monitoring bio-telemetry markets. For diabetes, IntriCon has partnered with Medtronic to manufacture their wireless continuous glucose monitors, sensors, and related accessories that measure glucose levels and deliver real-time blood glucose trend information. Our Medtronic business posted record revenue in 2015, led by the MiniLink REAL-Time Transmitter and related accessories sales, which are incorporated in Medtronic's MiniMed 530G insulin pump and continuous glucose monitoring, or CGM, system. The FDA recently approved the MiniMed 630G system which will replace the 530G system. We also manufacture various accessories associated with Medtronic's CGM system, including the recently announced MiniMed Connect, which links the MiniMed pump and CGM to certain smart devices providing users with a discrete and real-time view of their blood sugar information. In addition to the MiniMed 630G system, IntriCon is also designed into the MiniMed 670G system which was also recently approved by the FDA, and scheduled to be launched in the spring of 2017. The MiniMed 670G is the world's first hybrid closed loop insulin delivery system and we are enthused to be designed into and supporting such a revolutionary diabetes management system. Looking ahead, we believe there are opportunities to expand our diabetes product offering with Medtronic, as well as move into new markets outside of the diabetes market.

In the cardiac diagnostic monitoring market, we provide solutions for ambulatory cardiac monitoring. Our first two product platforms, Sirona and Centauri, received FDA 510(k) approval in late 2011. The Sirona platform, which incorporates the PhysioLink technology, is essentially two products in one design: it can be used as an event recorder, a holter monitor or both. This platform is very small, rechargeable, and water spray proof. IntriCon is receiving feedback from its customers about the treatment flexibility and economic benefits of remote patient monitoring. The Company has contracts in place with lead customers for the Sirona platform and anticipates expanding that customer base during the end of 2016.

IntriCon has a suite of medical coils and micro coils that it offers to various original equipment manufacturing (OEM) customers. These products are currently used in pacemaker programming and interventional catheter positioning applications.

IntriCon manufactures bubble sensors and flow restrictors that monitor and control the flow of fluid in an intravenous infusion system as well as a family of safety needle products for an OEM customer that utilizes IntriCon's insert and straight molding capabilities. These products are assembled using full automation, including built-in quality checks within the production lines.

Lastly, IntriCon is targeting other emerging biotelemetry and home care markets, that could benefit from its capabilities to develop devices that are more technologically advanced, smaller and lightweight. To do so, IntriCon is leveraging its resources in sales and marketing and research and development to expand its reach to other large medical device and health care companies.

Professional Audio Communications

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

Core Technologies Overview

Our core technologies expertise is focused on three main markets: medical bio-telemetry, value hearing health and professional audio communications. Over the past several years, the Company has increased investments in the continued development of four critical core technologies: Ultra-Low-Power (ULP) Digital Signal Processing (DSP), ULP Wireless, Microminiaturization, and Miniature Transducers. These four core technologies serve as the foundation of current and future product platform development, designed to meet the rising demand for smaller, portable more advanced devices and the need for greater efficiencies in the delivery models. The continued advancements in this area have allowed the Company to further enhance the mobility and effectiveness of miniature body-worn devices.

ULP DSP

DSP converts real-world analog signals into a digital format. Through our nanoDSP™ technology, IntriCon offers an extensive range of ULP DSP amplifiers for hearing, medical and professional audio applications. Our proprietary nanoDSP incorporates advanced ultra-miniature hardware with sophisticated signal processing algorithms to produce devices that are smaller and more effective.

The Company further expanded its DSP portfolio including improvements to its Reliant CLEAR™ feedback canceller, offering increased added stable gain and faster reaction time. Additionally, the newly developed DSP technologies are utilized in our recently unveiled Audion8™ and Audion16™, our new eight-channel and wide dynamic range compression sixteen-channel hearing aid amplifiers. The amplifiers are feature-rich and are designed to fit a wide array of applications. In addition to multiple compression channels, the amplifiers have a complete set of proven adaptive features which greatly improve the user experience.

ULP Wireless

Wireless connectivity is fast becoming a required technology, and wireless capabilities are especially critical in new body-worn devices. IntriCon's BodyNet™ ULP technology, including the nanoLink™ and PhysioLink™ wireless systems, offers solutions for transmitting the body's activities to caregivers, and wireless audio links for professional communications and surveillance products include electrocardiogram (ECG) diagnostics and monitoring, diabetes monitoring, sleep apnea studies and audio streaming for hearing devices.

IntriCon is in the final stages of commercializing its PhysioLink2 and Physiolink3 wireless technology, which will be incorporated into product platforms serving the medical, hearing health and professional audio communication markets. This system is based on 2.4GHz proprietary digital radio protocol in the industrial-scientific-medical (ISM) frequency band and enables audio and data streaming and command and control to ear-worn and body-worn applications over distances of up to five meters. The Physiolink2 technology can be used to increase productivity in the emerging VHA channels through in office wireless programming and remote cloud based fitting and consumer directed self-fitting of hearing aids. This provides both greater access and lower costs for patients. In addition, remote control functions will improve the patient experience while using the device especially for those with diminished dexterity. The Physiolink3 technology builds on the Physiolink2 capabilities by adding wireless streaming at much lower power levels than any technology currently on the market. This will allow for accessories to enhance the user experience in noisy environments by allowing audio streaming direct to the hearing aid.

Microminiaturization

IntriCon excels at miniaturizing body-worn devices. We began honing our microminiaturization skills over 30 years ago, supplying components to the hearing health industry. Our core miniaturization technology allows us to make devices for our markets that are one cubic inch and smaller. We also are specialists in devices that run on very low

power, as evidenced by our ULP wireless and DSP. Less power means a smaller battery, which enables us to reduce size even further, and develop devices that fit into the palm of one's hand.

Miniature Transducers

IntriCon's advanced transducer technology has been pushing the limits of size and performance for over a decade. Included in our transducer line are our miniature medical coils and micro coils used in pacemaker programming and interventional catheter positioning applications. We believe with the increase of greater interventional care that our coil technology harbors significant value.

Forward-Looking and Cautionary Statements

Certain statements included in this Quarterly Report on Form 10-Q or documents the Company files with the Securities and Exchange Commission, which are not historical facts, or that include forward-looking terminology such as "may", "will", "believe", "anticipate", "expect", "should", "optimistic" "continue", "estimate", "intend", "plan", "would", "
"potential", "opportunity", "project", "forecast", "confident", "projections", "schedule", "designed", "future", "discussion", "if
negative thereof or other variations thereof, are forward-looking statements (as such term is defined in Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, and the regulations thereunder), which are intended to be covered by the safe harbors created thereby. These statements may include, but are not limited to statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to the Company's Condensed Consolidated Financial Statements" such as net operating loss carryforwards, the ability to meet cash requirements for operating needs, the ability to meet liquidity needs, assumptions used to calculate future level of funding of employee benefit plans, the adequacy of insurance coverage and the impact of new accounting pronouncements and litigation. Forward-looking statements also include, without limitation, statements as to the Company's expected future results of operations and growth, the Company's ability to meet working capital requirements, the Company's business strategy, the expected increases in operating efficiencies, anticipated trends in the Company's markets, estimates of goodwill impairments and amortization expense of other intangible assets, the effects of changes in accounting pronouncements, the effects of litigation and the amount of insurance coverage and statements as to trends or the Company's or management's beliefs, expectations and opinions.

Forward-looking statements are subject to risks and uncertainties and may be affected by various factors that may cause actual results to differ materially from those in the forward-looking statements. In addition to the factors discussed in this Quarterly Report on Form 10-Q, certain risks, uncertainties and other factors can cause actual results and developments to be materially different from those expressed or implied by such forward-looking statements, including, without limitation, the following:

our ability to successfully implement our business and growth strategy;

risks arising in connection with the insolvency of our former subsidiary, Selas SAS, and potential liabilities and actions arising in connection with the insolvency;

the volume and timing of orders received by the Company, particularly from Medtronic and hi HealthInnovations;

changes in estimated future cash flows;

our ability to collect our accounts receivable;

foreign currency movements in markets that we serve;

changes in the global economy and financial markets;

weakening demand for our products due to general economic conditions;

changes in the mix of products sold;

our ability to meet demand;

changes in customer requirements;

timing and extent of research and development expenses;

FDA approval, timely release and acceptance of our products and those of our customers;

competitive pricing pressures;

pending and potential future litigation;

cost and availability of electronic components and commodities for our products;

our ability to create and market products in a timely manner and develop products that are inexpensive to manufacture;

our ability to comply with covenants in our debt agreements or to obtain waivers if we do not comply;

our ability to repay debt when it comes due;

our ability to obtain extensions of our current credit facility or a new credit facility;

the loss of one or more of our major customers;

our ability to identify, complete and integrate acquisitions;

effects of legislation;

effects of foreign operations;

our ability to develop new products;

our ability to recruit and retain engineering and technical personnel;

the costs and risks associated with research and development investments;

the recent recessions in Europe and the debt crisis in certain countries in the European Union;

our ability and the ability of our customers to protect intellectual property;

cybersecurity threats;

loss of members of our senior management team; and

other risk factors set forth in our most recent Annual Report on Form 10-K or any prior Quarterly Report on Form 10-Q, which are incorporated by reference into this Report.

For a description of these and other risks, see Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015, and other risks described elsewhere in this Quarterly Report on Form 10-Q, or in other filings the Company makes from time to time with the Securities and Exchange Commission. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain 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 their significance to the consolidated condensed financial statements and the possibility that future events affecting them may differ markedly. The accounting policies of the Company with significant estimates and assumptions include the Company's revenue recognition, accounts receivable reserves, inventory valuation, goodwill, long-lived assets, deferred taxes policies and employee benefit obligations. These and other significant accounting policies are described in and incorporated by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 1 to the financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Results of Operations

Sales, net

Our net sales are comprised of three main markets: medical, hearing health, and professional audio communications. Below is a summary of our sales by main markets for the three and nine months ended September 30, 2016 and 2015:

			Change		
Three Months Ended September 30	2016	2015	**Dollars**	**Percent**	
Medical	$9,256	$11,122	$(1,866)	-16.8	%
Hearing Health	4,927	4,594	333	7.2	%
Professional Audio Communications	1,829	1,625	204	12.6	%
Consolidated Net Sales	$16,012	$17,341	$(1,329)	-7.7	%
Nine Months Ended September 30					
Medical	$28,816	$30,018	$(1,202)	-4.0	%
Hearing Health	16,722	15,114	1,608	10.6	%
Professional Audio Communications	5,708	5,931	(223)	-3.8	%
Consolidated Net Sales	$51,246	$51,063	$183	0.4	%

For the three and nine months ended September 30, 2016, we experienced decreases of 16.8% and 4.0% in net sales in the medical market compared to the same periods in 2015. Medtronic sales volumes are down year-over-year.

Sales to Medtronic were down as they manage transition of their pending FDA product approval and launch for the MiniMed 630G system. We continue to anticipate Medtronic revenue growth during the fourth quarter of 2016 driven by market share growth for legacy products and the introduction of new products. IntriCon currently serves this market by offering medical manufacturers the capabilities to design, develop and manufacture medical devices that are easier to use, are more miniature, use less power, and are lighter. IntriCon has a strong presence in both the diabetes market, with its Medtronic partnership, and cardiac diagnostic monitoring bio-telemetry market. The Company

believes there are growth opportunities in these markets as well other emerging biotelemetry and home care markets that could benefit from its capabilities to develop devices that are more technologically advanced, smaller and lightweight.

Net sales in our hearing health business for the three and nine months ended September 30, 2016 increased 7.2% and 10.6% compared to the same periods in 2015. The increases for the three months and nine months ended September 30, 2015 were primarily due to increases in the value hearing health sector partially offset by decreases in the conventional hearing health channel. The Company remains very optimistic about the progress that has been made and the long term prospects of the value hearing health market. Market dynamics, such as low penetration rates, an aging population, and the need for reduced cost and convenience, have resulted in the emergence of alternative care models, such as the insurance channel, PSAP channel, earVenture, and the National Health Service. IntriCon believes it is very well positioned to serve these value hearing health market channels. The Company will be aggressively pursuing larger customers who can benefit from our value proposition. Over the past several years, the Company has invested heavily in core technologies, product platforms and its global manufacturing capabilities geared to provide high-tech, lower-cost hearing devices.

Net sales to the professional audio device sector increased 12.6% and decreased 3.8% for the three and nine months ended September 30, 2016 compared to the same periods in 2015. IntriCon will continue to leverage its core technology in professional audio to support existing customers, as well as pursue related hearing health and medical product opportunities.

Gross profit

Gross profit, both in dollars and as a percent of sales, for the three and nine months ended September 30, 2016 and 2015, was as follows:

	2016		2015		Change		
Three Months Ended September 30	**Dollars**	**Percent of Sales**	**Dollars**	**Percent of Sales**	**Dollars**	**Percent**	
Gross Profit	$3,665	22.9 %	$4,635	26.7 %	$(970)	-20.9	%
Nine Months Ended September 30							
Gross Profit	$12,649	24.7 %	$13,548	26.5 %	$(899)	-6.6	%

The gross profit for the three and nine months ended September 30, 2016 decreased over the comparable prior year periods primarily due to unfavorable product mix.

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

Sales and marketing, general and administrative and research and development expenses for the three and nine months ended September 30, 2016 and 2015 were as follows:

	2016		2015		Change		
Three Months Ended September 30	**Dollars**	**Percent of Sales**	**Dollars**	**Percent of Sales**	**Dollars**	**Percent**	
Sales and Marketing	$1,082	6.8 %	$854	4.9 %	$228	26.7	%
General and Administrative	2,250	14.1 %	1,708	9.8 %	542	31.7	%
Research and Development	1,323	8.3 %	1,344	7.8 %	(21)	-1.6	%
Nine Months Ended September 30							
Sales and Marketing	$3,478	6.8 %	$2,739	5.4 %	$739	27.0	%
General and Administrative	6,649	13.0 %	5,150	10.1 %	1,499	29.1	%
Research and Development	4,297	8.4 %	3,864	7.6 %	433	11.2	%

Sales and marketing and general and administrative expenses were greater than the prior year periods primarily due to increased support costs for our value hearing health initiatives and the addition of IntriCon UK. Research and development for the nine months ended increased over the prior year period primarily due to increased use of outside

service providers and support costs for our value hearing health initiatives.

Restructuring charges

During the three and nine months ended September 30, 2016, the Company incurred restructuring charges of $0 and $132, related to IntriCon UK's facility moving costs. The Company does not expect to incur any additional cash charges related to this restructuring.

Interest expense

Net interest expense for the three and nine months ended September 30, 2016 was $135 and $387 compared to $95 and $287 for the comparable three and nine month periods in 2015. The increase in interest expense was primarily due to higher average debt balance compared to the prior year.

Other income (expense)

Other income (expense) for the three and nine months ended September 30, 2016 was ($181) and ($472) compared to other income (expense) of ($131) and $17 for the same periods in 2015. The change in other income (expense) for the three months ended September 30, 2016 was largely due to the $99k in costs related to pursuing target acquisitions that did not occur in the same period in 2015. The change in other income (expense) for the nine months ended September 20, 2016 was largely due to a royalty earned in 2015 that did not occur in 2016 and $205 in costs related to pursuing targeted acquisitions that did not occur in 2015.

Income tax expense (benefit)

Income tax expense (benefit) for the three and nine months ended September 30, 2016 was $33 and $119 compared to ($125) and $107 for the same periods in 2015. The expense for the three and nine months ended September 30, 2016 was primarily due to taxable income generated by foreign operations.

Liquidity and Capital Resources

As of September 30, 2016, we had $604 of cash on hand. Sources of our cash for the nine months ended September 30, 2016 were from our financing activities, as described below. The Company's cash flows from operating, investing and financing activities, as reflected in the statement of cash flows, are summarized as follows:

	Nine Months Ended September 30, 2016	**September 30, 2015**
Cash provided by (used in):		
Operating activities	$(574)	$ 2,224
Investing activities	(1,721)	(2,913)
Financing activities	2,732	867
Effect of exchange rate changes on cash	(202)	(109)
Increase in cash	$235	$ 69

Net cash used in by operations of $574 was primarily driven by net loss of $2,885, increases in other assets, a decrease in accrued liability and accounts payable partially offset by decreases in accounts receivable, inventory and add backs for non-cash depreciation and stock compensation.

Net cash used in investing activities of $1,721 consisted primarily of $1,557 of purchases of property, plant and equipment.

Net cash provided by financing activities of $2,732 was primarily driven by net proceeds from our equity offering that occurred in the second quarter of 2016.

The Company had the following bank arrangements:

	September 30, 2016	December 31, 2015
Total borrowing capacity under existing facilities	$ 14,915	$ 13,980
Facility borrowings:		
Domestic revolving credit facility	2,213	4,674
Foreign overdraft and letter of credit facility	1,248	913
Domestic term loan	5,500	4,250
Total borrowings and commitments	8,961	9,837
Remaining availability under existing facilities	$ 5,954	$ 4,143

Domestic Credit Facilities

The Company and its domestic subsidiaries are parties to a credit facility with The PrivateBank and Trust Company. The credit facility, as amended through September 30, 2016, provides for:

an $9,000 revolving credit facility, with a $200 sub facility 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 $6,000.

In August 2016, the Company and its domestic subsidiaries entered into a Ninth Amendment to the Loan and Security Agreement and Waiver with The PrivateBank and Trust Company. The amendment, among other things:

amended the definition of EBITDA to permit the add back of certain transactions expenses and expense reductions;

amended the funded debt to EBITDA and fixed charge coverage covenants; and

waived a default in the funded debt to EBITDA covenant as of June 30, 2016.

All of the borrowings under this agreement have been characterized as either a current or long-term liability on our balance sheet in accordance with the repayment terms described more fully below.

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 2.50% to 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 0.00% - 1.25% ; in each case, 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 the revolving credit facility was 4.79% for the nine months ended September 30, 2016 and 3.68% for the year ended December 31, 2015. The outstanding balance of the revolving credit facility was $2,213 and $4,674 at September 30, 2016 and December 31, 2015, respectively. The total availability on the revolving credit facility was approximately $5,429 and $3,326 at September 30, 2016 and December 31, 2015, respectively.

The outstanding principal balance of the term loan, as amended, is payable in quarterly installments of $250. Any remaining principal and accrued interest is payable on February 28, 2019. IntriCon is also required to use 100% of the net cash proceeds of certain asset sales (excluding inventory and certain other dispositions), sale of capital securities or issuance of debt to pay down the term loan.

The Company was in compliance with the financial covenants under the facility as of September 30, 2016.

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 an asset based line of credit. Borrowings bear interest at a rate of .75% to 2.5% over the lender's prevailing prime lending rate. Weighted average interest on the international credit facilities was 3.48% for the nine months ended September 30, 2016 and 3.37% for the year ended December 31, 2015. The outstanding balance was $1,248 and $913 at September 30, 2016 and December 31, 2015, respectively. The total remaining availability on the international senior secured credit agreement was approximately $525 and $817 at September 30, 2016 and December 31, 2015, respectively.

Capital Adequacy

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 and for repayment of maturing debt 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. Furthermore, if we fail to meet our financial and other covenants under our loan agreements, absent waiver, we will be in default of the loan agreements and our lenders could take action that would adversely affect our business. There can be no assurance that our lenders will provide a waiver of any default in our loan covenants. 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.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

ITEM 4. Controls and Procedures

The Company's management, with the participation of its chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of September 30, 2016 (the "Disclosure Controls Evaluation"). Based on the Disclosure Controls Evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective to provide a reasonable level of assurance that: (i) information required to be disclosed by the Company in the reports the Company files or submits under the Securities Exchange Act of 1934, as amended ("Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed in the reports the Company files or submits under Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure, all in accordance with Exchange Act Rule 13a-15(e).

There were no changes in the Company's internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), during the quarter ended September 30, 2016, that 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.

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

The information contained in note 10 to the Consolidated Condensed Financial Statements in Part I of this quarterly report is incorporated by reference herein.

ITEM 1A. Risk Factors

In addition to the foregoing and the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect the Company’s business, financial condition or future results. The risk factors in the Company’s Annual Report on Form 10-K have not materially changed. The risks described in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information

None

ITEM 6. Exhibits

(a) Exhibits

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 to 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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Condensed Balance Sheets as of September 30, 2016, (Unaudited) and December 31, 2015; (ii) Consolidated Condensed Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2016, and 2015; (iii) Consolidated Condensed Statements of Comprehensive Income (Loss) (Unaudited) for the Three and Nine Months Ended September 30, 2016, and 2015; (iv) Consolidated Condensed Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2016, and 2015; and (v) Notes to Consolidated Condensed Financial Statements (Unaudited)*

*Filed herewith.

SIGNATURES

Pursuant to the requirements 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)

Date: November 14, 2016 By:/s/ Mark S. Gorder
Mark S. Gorder
President and Chief Executive Officer
(principal executive officer)

Date: November 14, 2016

By:/s/ Scott Longval
Scott Longval
Chief Financial Officer and Treasurer
(principal financial officer)

EXHIBIT INDEX

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 to 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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Condensed Balance Sheets as of September 30, 2016, (Unaudited) and December 31, 2015; (ii) Consolidated Condensed Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2016, and 2015; (iii) Consolidated Condensed Statements of Comprehensive Income (Loss) (Unaudited) for the Three and Nine Months Ended September 30, 2016, and 2015; (iv) Consolidated Condensed Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2016, and 2015; and (v) Notes to Consolidated Condensed Financial Statements (Unaudited)*

*Filed herewith.