

Annual **08** Report



 **IntriCon**
The Body-Worn Device Company

IntriCon is the Body-Worn Device Company

About IntriCon

We design, develop and manufacture miniature and micro-miniature body-worn medical and electronics products based on our proprietary technology.

We meet the rising demand for smaller, portable and more advanced devices. Our mission is clear: to enhance the mobility and effectiveness of these body-worn products that connect people to people and to the devices around them.

Our expertise is focused on three main markets: medical, hearing health and professional audio communications. Within these chosen markets, we combine ultra-miniature mechanical and electronics capabilities with proprietary technology – including ultra-low-power (ULP) wireless and digital signal processing (DSP) capabilities – to enhance the performance of body-worn devices, ultimately improving peoples' quality of life. This builds lasting customer relationships with leaders in medical, hearing health and professional audio communications, and allows us to leverage our technology development over all three markets.

IntriCon is headquartered in Arden Hills, Minn., a suburb of Minneapolis/St. Paul. We employ more than 600 people at facilities in the United States, Europe and Asia. IntriCon common stock is traded on the NASDAQ Stock Market under the symbol "IIN."

Our Markets

Medical

From life-critical diagnostic monitoring devices to drug-delivery solutions, we design, develop and manufacture injection-molded plastics, microelectronics, micro-mechanical assemblies and complete bio-telemetry devices based on our proprietary ULP nanoDSP™ and ULP nanoLink™ technology for emerging companies, as well as leading medical device manufacturers. Our products shift the point of care by connecting patients and caregivers, providing vital information and feedback while improving productivity and lowering the cost of quality health care.

Hearing Health

IntriCon provides customers with advanced hearing products ranging from ultra-miniature volume controls and trimmers to custom amplifiers and complete hearing instruments based on proprietary ULP nanoDSP and ULP nanoLink wireless technology. IntriCon's nanoDSP amplifier line includes our newly released Ethos™ amplifier with an advanced adaptive feedback canceller (AFC) and noise reduction (NR) algorithms. Our BodyNet™ line features a series of wirelessly enabled products, including wireless programming adapters, remote microphones and wireless earpieces, which improve the performance of hearing instruments in difficult listening situations.

Professional Audio Communications

For customers focusing on security and emergency response needs, and hearing protection, IntriCon offers body-worn devices that are extremely portable and perform well in noisy or hazardous environments – making them well-suited for applications in the aviation, fire, law enforcement, safety and military markets. We also provide products for technical surveillance by law enforcement and security agencies. Additionally, we support performers and production staff in the music and stage performance markets with proven ear- and head-worn devices. Increasingly, these products will include our proprietary ULP nanoDSP and ULP nanoLink wireless technology to improve performance in difficult listening environments and wireless operation.

Electronics

IntriCon is a leader in the field of miniaturized electronics. Used in a broad range of industries, we believe our products enable manufacturers to produce smaller, more reliable devices that effectively meet the needs of their customers.

Financial Highlights

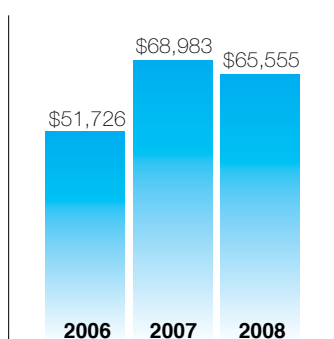
(dollars in thousands, except per share data)

Fiscal Year Ended December 31,

| | 2008 | 2007 | 2006 |
|-----------------------------------|-----------|-----------|-----------|
| Net sales | \$ 65,555 | \$ 68,983 | \$ 51,726 |
| Gross profit | 16,046 | 17,245 | 12,422 |
| % of net sales | 24.5% | 25.0% | 24.0% |
| Research and development expense | 3,248 | 3,089 | 2,123 |
| Income from continuing operations | 1,038 | 1,867 | 1,241 |
| Net earnings | 1,038 | 1,867 | 1,163 |
| % of net sales | 1.6% | 2.7% | 2.2% |
| Diluted net earnings per share | 0.19 | 0.34 | 0.22 |

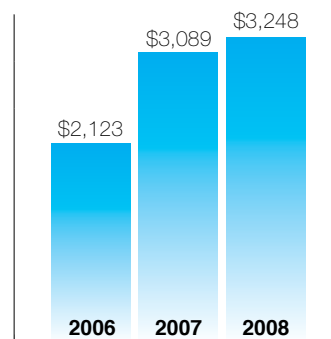
At December 31,

| | 2008 | 2007 | 2006 |
|---------------------------|--------|--------|--------|
| Cash | \$ 249 | \$ 381 | \$ 160 |
| Working capital | 10,602 | 9,365 | 8,445 |
| Total current liabilities | 9,421 | 10,536 | 10,203 |
| Shareholders' equity | 20,312 | 18,597 | 15,607 |



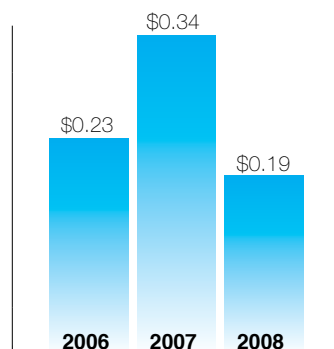
Net Sales

(dollars in thousands)

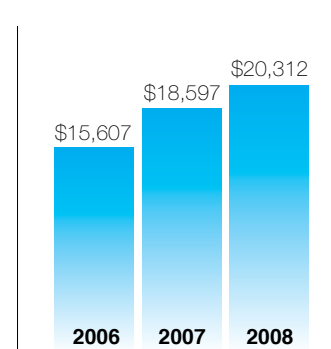


Investment in Research And Development

(dollars in thousands)



Earnings Per Share From Continuing Operations



Shareholders' Equity

(dollars in thousands)

We're excited for the future of IntriCon



Members of IntriCon's management team in New York City to ring NASDAQ's closing bell on July 17, 2008.

Left to Right:

Greg Gruenhagen, VP Quality & Regulatory Affairs; Dennis Gonsior, VP Global Operations; Chris Conger, VP Research & Development; Mark Gorder, President & CEO; Michael Geraci, VP Sales & Marketing; and Scott Longval, CFO, Secretary & Treasurer.

To Our Shareholders

Though challenging, the past year is one we're proud of at IntriCon. Facing an uncertain economy, we steadied our sights on the company's future and over the course of 12 months, further positioned ourselves as the body-worn device company.

Our medical and professional audio communications businesses posted gains for the year, and we continued to enhance our foundation for long-term success in core markets with strong fundamentals. Importantly, IntriCon remained profitable, generating strong cash flow from operations and improving liquidity. This gives us the financial flexibility to weather the conditions in 2009 and emerge even stronger when an economic rebound occurs.

We're excited for the future of IntriCon. We continue to invest heavily in research and development (R&D) to design new proprietary technologies to be used in our core markets. Our R&D focus is on improving the mobility and effectiveness of body-worn devices by incorporating ultra-low-power (ULP) wireless and digital signal processing (DSP) capabilities. This better connects people to devices and, we feel, will allow us to ultimately gain market share and further grow our business.

IntriCon made significant and tangible strides in 2008 that enhanced our body-worn device capabilities. Our ULP BodyNet product family, that offers customers wireless connectivity for the entire body based on our ULP nanoLink technology, gained momentum in the marketplace. As did IntriCon's nanoDSP technology, which provides ULP DSP-based products that can be customized for a range of applications.

We also introduced our new wireless nanoLink product family. Part of IntriCon's BodyNet wireless portfolio, nanoLink is a family of products based on proprietary new radio technology and circuitry we developed. nanoLink's advanced capabilities and micro-miniature footprint enable wireless transmission and intra-device communication that's ideally suited for both the hearing health and medical markets. We're pleased to announce that our nanoLink radio technology has received regulatory approval in 13 European countries, paving the way for commercialization of a product family we see as a key to our company's future.

Additionally, we're particularly excited about the bio-telemetry projects with our strategic partner, Advanced Medical Electronics (AME). We continue to seek out additional opportunities to expand our presence in bio-telemetry, which encompasses wirelessly transmitting critical diagnostic and therapeutic information. We also intend to leverage this technology, integrating both BodyNet and nanoDSP, for our professional audio communications business.

At IntriCon, we strive for efficiency and solutions that save customers time and money, while improving quality. This was exemplified by our integration of Tibbetts Industries, which we acquired in 2007. During 2008 we successfully transferred much of Tibbetts' manufacturing to our low-cost facility in Singapore while restructuring our Maine facility to better serve the needs of our U.S. Government customers.

We also implemented Six Sigma in key medical product lines and plan to roll the process out to our other businesses in 2009.

2008 Results

For the year, IntriCon reported net sales of \$65.6 million and net income of \$1.0 million, or \$0.19 per diluted share. This compares to 2007 net sales of \$69.0 million and net income of \$1.9 million, or \$0.34 per diluted share.

Core business net income for 2008 was \$1.3 million, or \$0.24 per diluted share, partially offset by a net loss in the non-core business of \$277,000, or \$0.05 per diluted share. For 2007, core business net income was \$1.7 million, or \$0.31 per diluted share; non-core business net income was \$155,000, or \$0.03 per diluted share. The 2008 results include non-cash FAS 123(R) stock-based compensation expense of \$526,000, or \$0.09 per diluted share, compared to \$280,000, or \$0.05 per diluted share, for 2007.

In 2008 we also continued to make significant investments in our proprietary intellectual property (IP), specifically in the development of ULP wireless and DSP capabilities on body-worn platforms. As a percent of 2008 sales, research and development was 5.0 percent, up from 4.5 percent in 2007. In addition, we had a significant amount of customer-funded R&D and technology licensed from AME as a result of customer-funded grants, which greatly increased our IP portfolio. We plan to continue to invest heavily in targeted R&D areas that will drive future sales growth.

Medical

Industry-wide, the trend toward further miniaturization in medical products continues. Device sizes are shrinking and moving to body-worn platforms—many incorporating ULP wireless capabilities to transmit critical data. The market also views the emergence of wireless-based bio-telemetry applications as paradigm shifting. IntriCon is one of the few companies with the capabilities to design, manufacture and bring these products to market, incorporating our own proprietary technology.

IntriCon's strong relationships with leading OEMs and our device expertise helped grow medical sales more than 7 percent in 2008. Moreover, we invested time and energy during the year laying the groundwork for new medical work we anticipate will launch later in 2009.

The medical market continues to be IntriCon's core strength and focus. Our expertise in the robotic manufacture of miniature and micro-miniature electronic products is well-suited to address the needs of the aging population demanding these devices. Moreover, the medical market has rigorous demands for high-tech,

miniature, portable devices; and we are able to deliver those benefits to our customers both directly and via key partnerships. A key medical initiative for us is our bio-telemetry initiative, and projects are under way with our strategic partner AME. Through these efforts, the company is working to develop devices that wirelessly transmit critical diagnostic and therapeutic information.

Examples of development projects include: a miniature wearable electroencephalograph (EEG) transmitter that will digitize EEG signals and transmit them in neuroscience research; and a wearable electromyography (EMG) and inertial limb tracking system for bio-mechanical research and clinical studies.

The bio-telemetry opportunity will allow us to leverage both our BodyNet and nanoDSP devices across our medical business. We're focused on creating new devices that shift the point of care, better connecting patients and caregivers, providing critical information and feedback—improving both the quality and the cost of care.

Hearing Health

Overall, IntriCon's hearing-health business decreased in 2008. The biggest factor impacting us was an industry-wide pause in hearing-health spending by our manufacturer customers and their end consumers. While the hearing-health market is by no means shrinking, customers are delaying hearing aid purchases.

We feel that this is chiefly due to adverse economic conditions and the overall pullback in consumer spending. Additionally, the completion of a one-time hearing-health program in early 2008 drove a \$2.7 million reduction in revenue compared to 2007.

That said, the hearing-health market holds tremendous opportunities for IntriCon. Here's why: the over-65 age demographic is the fastest growing segment of the population in the United States, Europe and Japan. The over-65 group is very important to us, as many of them at some point could benefit from a proprietary IntriCon hearing device that offers advanced technology and superior performance. When the pullback in consumer spending ends, we are confident that we will be ready to take advantage of this opportunity.

Today, we can service the hearing-health segment better than ever, due to the introduction of Ethos™, our new high-performance adaptive DSP hearing aid amplifier. With advanced capabilities ideally suited for the hearing-health market, we feel Ethos will greatly improve hearing performance for customers. DSP devices have greater clarity and more efficiently filter background noise and feedback. By offering both assemblies, as well as complete devices, we've established ourselves as a leading supplier of high-quality DSP amplifier devices.

During the year we also entered into a strategic alliance with Australia-based Dynamic Hearing, a designer of proprietary DSP firmware used in hardware platforms for the hearing health and professional audio communications markets. We will use the license from Dynamic Hearing to develop new body-worn applications and expand our hearing health and professional audio communications product portfolio. During the fourth quarter, we completed the development of a custom high-performance DSP amplifier for a large customer using technology and resources available through our strategic alliance with Dynamic Hearing.

We're also working on other hearing-health projects with our strategic partner AME. Through these efforts, the company is working to develop wireless technologies that enhance the performance and capabilities of hearing devices. One example of a development project is the Hearing Aid Companion Microphone that will provide for wireless broadcast to a hearing device.

Professional Audio Communications

IntriCon's sales in the professional audio communications market grew more than 20 percent in 2008—an achievement we're very excited by. A mere eight years after we entered the market, ongoing relationships with, and dedication to major audio players continue to drive this opportunity.

We provide products for military, aerospace, police, fire and emergency response needs, as well as for music and stage performance, including boom microphones, ear-worn microphones, headsets and accessories. In 2008, we launched a number of professional audio communications products. These include our SK series ear-worn headset line and our wireless Push-to-Talk (PTT) line.

Our acquisition of Tibbetts in 2007, and successful integration in 2008, affords us new opportunities through access to key technologies, as well as entry into the law enforcement and security agency markets. By shifting Tibbetts' production to our cost-effective locations, we're helping customers lower costs while maintaining quality. In addition, we have restructured our Maine facility to better serve the needs of our U.S. Government customers.

Moreover, the same proprietary technology that we use in hearing health, including ULP wireless and DSP, holds tremendous potential for professional audio communications and we're beginning to leverage that on several fronts. As the demand for smaller and smaller ear- and body-worn devices continues to rise, we have both the capabilities and product offering to meet customer needs.

Looking Ahead

At IntriCon, our goal in 2009 is to further our position as the body-worn medical device company – creating products that improve quality of life. To do so, we will invest strategically, manage prudently and listen to our customers.

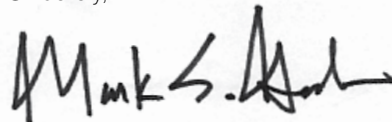
Our commitment to R&D is expected to drive new product development—now and in the future. And we have partnered with leaders in the body-worn device space and will continue to forge new relationships.

Despite challenging economic conditions, over the next 12 months we intend to: develop new bio-telemetry medical applications; gain additional traction and market share in hearing health; and further advance our professional audio communications product offering. We will do so with an added emphasis on fiscal prudence while still investing in growth initiatives.

On behalf of IntriCon's management and the board of directors, I would like to thank our customers for their loyalty, our team of employees for their contributions and our shareholders for their support.

I look forward to updating you on our progress during the year.

Sincerely,



Mark S. Gorder
President and Chief Executive Officer
IntriCon Corporation

March 13, 2009

Management

Mark S. Gorder

President & Chief Executive Officer

J. Scott Longval

Chief Financial Officer, Secretary & Treasurer

Chris D. Conger

Vice President, Research & Development

Michael P. Geraci

Vice President, Sales & Marketing

Greg Gruenhagen

Vice President, Quality & Regulatory Affairs

Dennis L. Gonsior

Vice President, Global Operations

Steve M. Binnix

Vice President & General Manager,
RTI Electronics, Inc.

Colman Lau

General Manager, IntriCon PTE LTD

Directors

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Chairman of the Board of IntriCon Corporation,
Retired Vice Chairman,
President & Director,
Crown Cork & Seal Company, Inc.

Nicholas A. Giordano

Business Consultant,
Former President & CEO
Philadelphia Stock Exchange

Mark S. Gorder

President & Chief Executive Officer
IntriCon Corporation

Robert N. Masucci

Chairman of Barclay Brand Ferndon, Inc.
Chairman, Montgomery Capital Advisors, Inc.

Philip N. Seamon

President, Philip N. Seamon, Inc.
Retired Senior Managing Director,
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