

INTRICON CORPORATION, #4330745
INTRICON CORPORATION, SECOND QUARTER 2010
EARNINGS CALL
July 27, 2010, 5:00 PM ET
Chairperson: Mark Gorder (Mgmt.)

Operator: Good day, ladies and gentlemen. Thank you for standing by. Welcome to the IntriCon Second Quarter 2010 Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be opened for questions. If you have a question, please press the star, followed by the one on your touchtone phone. If you'd like to withdraw your question, please press the star, followed by the two, and if you are using speaker equipment, please lift the handset before making your selection. This conference is being recorded today, Tuesday, July 27th, 2010.

I would now like to turn the conference over to Scott Longval, CFO. Please go ahead.

Scott Longval: Thank you, Operator. Joining me on today's call is Mark Gorder, IntriCon's CEO. Before we begin, I'd like to preface our remarks with the customary Safe Harbor statement. Today's conference call contains certain forward-looking statements. These statements are based on the current estimates and assumptions of IntriCon's management and are subject to uncertainty and changes in circumstances. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Actual results may vary from expectations contained in today's call. Important factors that could cause such differences include, among others, those set forth under the headings Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in our 10-K filing for the year ended December 31, 2009.

With that, I'd now like to introduce Mark for a strategic look at IntriCon's second quarter.

Mark Gorder: Thank you, Scott and thank you everyone for joining us today. I would like to begin by reviewing our 2010 second quarter results and key highlights for the Company; next, I will discuss our strategy and growth plan; after that Scott will cover the financials in more detail; and then we'll open up the call for questions.

By this time, most of you have had a chance to review our second quarter press release. We're pleased with our performance, delivering both year-over-year sequential top and bottom line gains. Sales were up 16.6% over the prior year and we reported \$0.05 per share earnings versus a loss of \$0.11 in the 2009 second quarter.

As most of you know, on May 28 we completed the previously announced divestiture of our non-core electronics business, Anaheim, California based RTI Electronics. The business was sold to an affiliate of Shackleton Equity Partners, the Los Angeles based private equity group. The sale of RTI Electronics eliminates an unprofitable business segment and allows us to focus on our core body-worn business.

Also, in the second quarter, medical continued to post record revenues, rising 19% from the prior year. Once again, medical gains were the result of continued sales of wireless glucose monitors and the addition of sales from our proprietary cardiac diagnostic monitoring devices, or CDMs. Currently CDM sales consist of digital halter monitors designed for continuous electrocardiograph or ECG data recording. Additionally, the wireless glucose monitors we manufacture for a large medical OEM are first and second generation devices. We are actively involved with this customer for future development of next generation wireless glucose monitors.

Professional audio communications rose 50% from the prior year, primarily through organic growth and sales of headset devices to the installed sound market and communication devices to security agencies. Fueling this business is increasing marketplace demand for smaller and more durable devices that perform well in noisy or hazardous environments.

Hearing health revenues remained relatively flat with the 2009 second quarter. Growth was hampered by sustained sluggishness in consumer spending on hearing aids. In the first quarter, we introduced the Scenic and Overtus DSP amplifiers. While these technology leading products are anticipated to have a positive impact in late 2010, they're still gaining traction with customers. As the hearing health market rebounds, we believe these products will be the drivers of future growth.

I'll now touch briefly on highlights from our respective businesses. In the medical arena we continue to make progress with our new Centauri cardiac diagnostic monitoring device. Centauri is the next generation wireless outpatient monitoring device that uses a proven automatic arrhythmia detection algorithm. We anticipate 2010 fourth quarter FDA approval and subsequent to such approval we will begin selling the Centauri product.

In April, we unveiled the Overtus DSP amplifier at AudiologyNOW!, the annual convention of the American Academy of Audiology. Overtus DSP is designed to optimize open-in-the-canal type fittings and features an advanced adaptive feedback canceller and an acoustic switch that eliminates the need for a mechanical switch and allows for further miniaturization. Overtus is expected to be released at the end of the third

quarter and is anticipated to have a modest sales impact throughout the remainder of the 2010 fiscal year.

Our new PhysioLink technology, which also premiered at AudiologyNOW!, is currently being incorporated into IntriCon products in the medical, the hearing health and the professional communications markets. PhysioLink consists of a 2.4 gigahertz radio communications protocol processing and miniature antenna, packaged into a compact module suitable for ear-worn and body-worn applications of audio and data streaming over distances of up to five meters. PhysioLink has the potential to span all of our businesses, including hearing aids, professional audio products, situational listening devices, cardiac diagnostic monitors and other biotelemetry devices. This proprietary technology allows for wireless data links which consume significantly less power than blue tooth radials, resulting in more compact devices.

We continue development of our situational listening device, also known as SLD product line. SLDs help hearing impaired people in noisy environments and allow them to listen to television and music by direct wireless connection. SLDs supplement conventional hearing aids that don't handle noisy situations well. We anticipate a 2011 first quarter launch for our line of SLDs.

As you can see, we're continuing to focus our resources and capital on our core strengths, while prudently investing in new initiatives that we believe will fuel long-term growth. This strategy centers on the idea of enhancing the mobility and effectiveness of miniature body-worn devices and creating entirely new technology driven products. While we are pleased with our results to date, we continue to drive future growth opportunities.

Now I'd like to turn the call back to Scott for an in-depth look at our financial performance.

Scott Longval:

Thank you, Mark. I would like to echo Mark in saying that we are encouraged by our second quarter performance. For the second quarter, the Company reported net sales of 14.9 million, an increase of 16.6% from net sales of 12.8 million from the prior year. This marks the fifth consecutive quarter we have reported sequential revenue growth. Income in the 2010 second quarter was 269,000, or \$0.05 per diluted share, versus a net loss of 598,000, or \$0.11 per diluted share, from the prior year period. IntriCon reported 2010 second quarter income from continuing operations, which consists of the Company's core body-worn device businesses, medical, hearing, health and professional communications, of 404,000, or \$0.07 per diluted share. Second quarter results from discontinued operations include a net loss of 135,000, including the 35,000 gain on the sale of RTI Electronics, or \$0.02 per diluted share.

As Mark mentioned, on May 28, we completed the previously announced divestiture of RTI Electronics. We sold substantially all of the assets of the business to affiliate of Shackleton Equity Partners. The Company received \$850,000 in cash and, as previously mentioned, reported a \$35,000 gain on the sale.

Gross profit in the 2010 second quarter was 27%, up significantly from 21% from the year ago period, and also up from the 2010 first quarter gross profit of 25.3%. The primary drivers of the gains were higher sales volumes and the impact of the various gross margin enhancement programs. We continue to implement gross profit improvement initiatives, including production transfer to lower cost manufacturing facilities and the roll-out of lean manufacturing programs.

For the 2010 six month period, IntriCon reported net sales of 29.5 million and net income of 287,000, or \$0.05 per diluted share. This is up from 2009 sales of 24.7 million and a net loss of 1.6 million, or \$0.30 per diluted share. The six-month net income from the Company's core business was 581,000, or \$0.11 per share, with a net loss from discontinued operations of 294,000, including the 35,000 gain on the sale of the RTI Electronics, or \$0.06 per diluted share. For the six months ended June 30, 2009, the core business net loss was 1.2 million or \$0.23 per diluted share; the loss from discontinued operations was 357,000 or \$0.07 per diluted share.

Importantly, during the first six months of 2010, we paid down our bank debt from 8.4 million at the end of 2009 to 7.1 million. This was driven by the improved financial performance, tight cash management and the sale of RTI Electronics.

In the third quarter, we will begin relocation of our Singapore operation, as required by the Singapore government. We anticipate the moving cost and facility build-up to be approximately 650,000. This includes construction of a new clean room to house future transfers of Class 2 and Class 3 medical devices, helping to meet rising pressure from medical customers to reduce costs. The bulk of these costs will be capitalized and expensed over the term of the new lease. We anticipate we'll be up and running in the new facility by the end of the year.

Taking a step back, what we're seeing in the marketplace is customers are beginning to re-engage, particularly in medical and professional audio communications. We are encouraged by our performance and cautiously optimistic that this trend will continue. That said, our focus remains on the long-term. This includes our ongoing commitment to prudently investing in key research and development initiatives that we believe will drive new products and future revenue growth.

Turning over to other financial metrics, IntriCon generated approximately \$1.5 million in positive operating cash flow during the second quarter, due largely to tight working capital management. IntriCon's total cash cycle base at June 30, 2010 was 81, a marked improvement from 92 days for the comparable 2009 period. Cash cycle days are comprised of days' sales outstanding, which was 45 days, plus inventory outstanding, which was 70 days at the end of the second quarter, less days payable, which stood at 37 days.

Now, I'd like to turn the call back over to the Operator so we can take your questions.

Operator: Thank you, sir. Ladies and gentlemen, as a reminder, if you have a question, please press the star, followed by the one on your touchtone phone. If you would like to withdraw your question, press the star, followed by the two. If you are using speaker equipment, please lift up your handset before making your selection. Once again, if you have a question, please press the star, followed by the one at this time. One moment. Once again, ladies and gentlemen, if you have a question, please press the star, followed by the one at this time.

I'm showing that we do have a question from the line of Alvin Hoffman, a private investor. Please go ahead.

Alvin Hoffman: Will the development of your next stage insulin pump or insulin system be financed by your customer or is this financed by IntriCon?

Mark Gorder: Good afternoon, Alvin. It's Mark Gorder. The glucose sensor transmitters that we manufacture, the development is funded primarily by the customer.

Kalvin Hoffman: Your R&D is still running what, a million one in the second quarter, still a big number for a small company.

Mark Gorder: Yes, and our goal is to transition ourselves into more of a marketing and R&D company, which means that we're trying to develop proprietary technologies, so we are cautiously trying to drive up our R&D spending, but do it in a way that's prudently balanced with our revenue growth, but we are spending a lot of money to develop new core technologies which we think are going to have a big impact on our margins in years going forward.

Alvin Hoffman: Will your new plant in Singapore accommodate the more modern machinery or just moving machinery from one plant to another?

Mark Gorder: No, the new plant will incorporate some more modern—will be a more modern facility than the one we are leaving, primarily to accommodate a higher level of medical device manufacturing, principally to be able to

manufacture both Class 2 and Class 3 medical devices. Currently, in Singapore we are only capable of doing Class 1 medical devices, but we're getting substantial pressure from several of our medical customers to do more manufacturing offshore in order to accommodate giving them continuous price reductions.

Alvin Hoffman: Do you do Class 2 and Class 3 in Wisconsin?

Mark Gorder: In Minnesota.

Alvin Hoffman: Minnesota? Yes, do you do Class 2 and Class 3 in Minnesota?

Mark Gorder: Yes, both Class 2 and Class 3 in Minnesota.

Alvin Hoffman: Ah.

Operator: As a reminder, ladies and gentlemen, if there are any additional questions at this time, please press the star, followed by the one on your touchtone phone. I'm showing that there are no further questions.

Mark Gorder: Yes. Once again, thank you for taking time out of your day to join our call. I would just like to conclude by saying we spent a large part of 2009 positioning IntriCon to better support our medical, hearing, health and professional audio communications customers with new devices. In 2010, our efforts are starting to pay off and now more than ever we'll be able to fully focus our resources of capital on our core strengths, making body-worn devices smaller, more effective and better connected than ever before. We're excited about the future and remain cautiously optimistic about our ability to continue to deliver growth. Thank you very much for participating in the call.

Operator: Ladies and gentlemen, this concludes our conference for today. Thank you for using ACT Conferencing. You may now disconnect.

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