

INTRICON CORP
Form 4
December 02, 2016

FORM 4 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

OMB Number: 3235-0287
Expires: January 31, 2015
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).

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

(Print or Type Responses)

1. Name and Address of Reporting Person *
Gruenhagen Greg

(Last) (First) (Middle)

C/O INTRICON CORPORATION, 1260 RED FOX ROAD

(Street)

ARDEN HILLS, MN 55112

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
INTRICON CORP [IIN]

3. Date of Earliest Transaction (Month/Day/Year)
11/30/2016

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

____ Director _____ 10% Owner
 Officer (give title below) _____ Other (specify below)
VP, Corp. Qlty. & Reg. Affairs

6. Individual or Joint/Group Filing(Check Applicable Line)
 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 Ownership (Instr. 4)
			Code	V	Amount or (D) Price		
Common Stock	11/30/2016		M		2,500 (1) \$ 5.35	A	9,080 D
Common Stock	11/30/2016		F		2,124 (1) \$ 6.3	D	6,956 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)

Edgar Filing: INTRICON CORP - Form 4

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

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Amount or Number of Shares
Option to Purchase - Common Stock	\$ 5.35	11/30/2016		M	2,500	<u>(2)</u> 12/11/2016	Common Stock	2,500

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Gruenhagen Greg C/O INTRICON CORPORATION 1260 RED FOX ROAD ARDEN HILLS, MN 55112			VP, Corp. Qlty. & Reg. Affairs	

Signatures

/s/ Scott Longval,
attorney-in-fact
Date: 12/02/2016

**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) "Cashless Exercise" Resulting In Net Acquisition of 376 Shares
- (2) This Option is Fully Vested and May Be Exercised Immediately.

Remarks:

The filing of this Statement shall not be construed as an admission (a) that the person filing this Statement is, for the purposes

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. TD>

Carrying Values Interest

**Rate Year of
Maturity**

U.S. Treasury notes

\$3,703 3.00%-3.88% 2009

U.S. Treasury notes

5,184 2.63%-4.13% 2010

U.S. Treasury notes

1,517 1.75% 2011

Total U.S. Treasury notes

\$10,404

F-24

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. FIXED ASSETS**

The components of fixed assets are as follows (in thousands):

	December 31,	
	2008	2007
Internally developed software	\$ 190,949	\$ 165,201
Computers and software	87,113	73,414
Leasehold improvements	42,547	25,049
Furniture and equipment	20,116	16,572
Property	6,572	6,572
Total fixed assets	347,297	286,808
Accumulated depreciation and amortization	(185,537)	(130,011)
Fixed assets net	\$ 161,760	\$ 156,797

Depreciation and amortization expense for fixed assets was \$60.20 million, \$43.69 million and \$36.04 million for the years ended December 31, 2008, 2007 and 2006, respectively.

10. GOODWILL AND INTANGIBLE ASSETS

A summary of the activity in goodwill is presented below (in thousands):

Balance at December 31, 2006	\$ 1,249,159
Acquisition of UVEST (Note 4)	27,406
Acquisition of IASG (Note 4)	11,304
Adjustment related to IASG expiring tax statute (Note 4)	(113)
Balance at December 31, 2007	1,287,756
IFMG purchase accounting adjustment(1)	5,610
Balance at December 31, 2008	\$ 1,293,366

(1)

Adjustments were recorded to goodwill as a result of additional purchase price consideration for the acquisition of IFMG in accordance with the purchase and sale agreement, and the Company's review of the appraisal of related tangible and intangible assets, which was completed in 2008. See Note 4 for further discussion.

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of intangible assets as of December 31, 2008 and 2007 are as follows (in thousands):

	Gross carrying value	Accumulated amortization	Net carrying value
At December 31, 2008:			
Definite-lived intangible assets:			
Advisor relationships	\$482,397	\$ (71,318)	\$411,079
Product sponsor relationships	233,663	(33,442)	200,221
Trust client relationships	2,630	(521)	2,109
Trademarks and trade names	2,757	(1,282)	1,475
Total definite-lived intangible assets	\$721,447	\$ (106,563)	\$614,884
Indefinite-lived intangible assets:			
Trademark and trade name			39,819
Total intangible assets			\$654,703
At December 31, 2007:			
Definite-lived intangible assets:			
Advisor relationships	\$471,551	\$ (43,650)	\$427,901
Product sponsor relationships	233,663	(21,668)	211,995
Trust client relationships	2,630	(389)	2,241
Trademarks and trade names	2,757	(590)	2,167
Total definite-lived intangible assets	\$710,601	\$ (66,297)	\$644,304
Indefinite-lived intangible assets:			
Trademark and trade name			39,819
Total intangible assets			\$684,123

Total amortization expense of intangible assets was \$40.27 million, \$35.06 million and \$29.30 million for the years ended December 31, 2008, 2007 and 2006, respectively. Amortization expense for each of the fiscal years ended December 2009 through 2013 and thereafter is estimated as follows (in thousands):

2009	\$ 39,412
2010	38,454
2011	38,194
2012	37,723
2013	36,941
Thereafter	424,160
Total	\$614,884

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. INCOME TAXES**

The Company's provision (benefit) for income taxes is as follows (in thousands):

	2008	2007	2006
Current provision:			
Federal	\$ 61,498	\$ 58,123	\$ 33,380
State	11,909	9,961	7,248
Total current provision	73,407	68,084	40,628
Deferred benefit:			
Federal	(25,385)	(18,151)	(19,473)
State	(753)	(3,169)	69
Total deferred benefit	(26,138)	(21,320)	(19,404)
Provision for income taxes	\$ 47,269	\$ 46,764	\$ 21,224

The principal items accounting for the differences in income taxes computed at the U.S. statutory rate (35%) and the effective income tax rate comprise the following (in thousands):

	2008	2007	2006
Taxes computed at statutory rate	\$32,468	\$37,742	\$19,203
State income taxes net of federal benefit	7,261	4,415	4,755
Nondeductible expenses	1,512	1,404	488
Research and development credits	(493)	(677)	(390)
Share-based compensation	919	285	207
Transaction costs			(823)
Tax contingencies	3,363	3,941	(2,160)
Other	2,239	(346)	(56)
Provision for income taxes	\$47,269	\$46,764	\$21,224

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of the net deferred tax liabilities included in the consolidated statements of financial condition were as follows (in thousands):

	December 31,	
	2008	2007
Deferred tax assets:		
State taxes	\$ 19,976	\$ 19,242
Reserves for litigation, vacation, and bonuses	19,003	6,794
Unrealized loss on interest rate swaps	9,920	4,323
Deferred rent	6,457	3,474
Share-based compensation	5,212	4,215
Provision for bad debts	2,041	2,428
Net operating losses of acquired subsidiaries	236	301
Other	2,777	2
Subtotal	65,622	40,779
Valuation allowance	(1,290)	
Total deferred tax assets	64,332	40,779
Deferred tax liabilities:		
Amortization of intangible assets and trademarks and trade names	(228,163)	(244,407)
Depreciation of fixed assets	(21,338)	(13,200)
Other		(75)
Total deferred tax liabilities	(249,501)	(257,682)
Deferred income taxes net	\$(185,169)	\$(216,903)

At January 1, 2008 the Company had gross unrecognized tax benefits of \$15.14 million. Of this total, \$2.20 million represents amounts acquired during the Company's acquisition of IASG. The acquired unrecognized tax benefits will have no impact on the Company's annual effective tax rate as these are fully indemnified by the seller in accordance with the purchase and sale agreement. Of the remaining \$12.94 million, \$9.71 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

The following table reflects a reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits including interest and penalties (in thousands):

	2008	2007
Balance Beginning of year	\$ 15,139	\$ 8,533
Increases related to acquired tax positions	969	2,725
Increases related to current year tax positions	6,480	5,657
Reductions as a result of a lapse of the applicable statute of limitations related to acquired tax positions	(596)	(524)
Reductions as a result of a lapse of the applicable statute of limitations related to prior period tax positions	(1,734)	(1,252)
Balance End of year	\$ 20,258	\$ 15,139

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At December 31, 2008, the Company had gross unrecognized tax benefits of \$20.26 million. Of this total, \$2.57 million represents amounts acquired due to the Company's acquisition of IASG. The acquired unrecognized tax benefits will have no impact on the Company's annual effective tax rate as these are fully indemnified by the seller in accordance with the purchase and sale agreement. At December 31, 2008, the Company has recorded a receivable from seller in the amount of \$2.57 million, which is included in other assets in the accompanying consolidated statements of financial condition. Of the remaining \$17.68 million, \$13.07 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes within the consolidated statements of financial condition. At January 1, 2008, the Company had \$913,000 accrued for interest and \$2.03 million accrued for penalties. At December 31, 2008, the liability for unrecognized tax benefits included accrued interest of \$1.26 million and penalties of \$2.92 million. Tax expense for the year ended December 31, 2008 includes interest expense of \$311,000 and penalties of \$771,000.

The Company and its subsidiaries file income tax returns in the federal jurisdiction, as well as most state jurisdictions, and are subject to routine examinations by the respective taxing authorities. The Company has concluded all federal and state income tax matters for years through 2003, with the exception of California, which has concluded income tax matters for years through 2002.

The tax years of 2005 to 2008 remain open to examination by major taxing jurisdictions to which the Company is subject, with the exception of California discussed above. In the next 12 months, the Company expects a reduction in unrecognized tax benefits of \$1.31 million primarily related to the statute of limitations expiration in various state jurisdictions.

12. INDEBTEDNESS

Senior Secured Credit Facilities Borrowings under the Company's senior secured credit facilities bear interest at a base rate equal to either the one, two, three, six, nine or twelve-month LIBOR plus the applicable margin, or an alternative base rate ("ABR") plus the applicable margin. The ABR is equal to the greater of the prime rate or the federal funds effective rate plus $\frac{1}{2}$ of 1.00%. The applicable margin on the senior secured term credit facilities could change depending on the Company's credit rating. In September 2008, the Company's corporate credit rating was upgraded to Ba3 from B1, which has reduced the interest rate on its senior secured credit facilities from LIBOR plus 200 basis points to LIBOR plus 175 basis points. The senior secured credit facilities are subject to certain financial and nonfinancial covenants. As of December 31, 2008, the Company was in compliance with all such covenants.

Senior Unsecured Subordinated Notes The Company also has \$550.00 million of senior unsecured subordinated notes due December 15, 2015. The notes bear interest at 10.75% per annum and interest payments are payable semiannually in arrears. The Company is not required to make mandatory redemption or sinking-fund payments with respect to the notes. The indenture underlying the senior unsecured subordinated notes contain various restrictions with respect to the issuer, including one or more restrictions relating to limitations on liens, sale and leaseback arrangements, and funded debt of subsidiaries.

Revolving Line of Credit The Company maintains a \$100.00 million revolving line of credit facility, \$10.00 million of which is being used to support the issuance of an irrevocable line of credit for PTC

Table of Contents

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and \$90.00 million of which was drawn for a combination of acquisition integration costs and credit preservation measures. The revolving credit facility carries a borrowing rate of one-month LIBOR plus an interest rate margin of an additional 2.00%. On December 31, 2008 and 2007, there was a \$90.00 million and \$65.00 million, respectively, outstanding borrowing balance against the revolving line of credit.

Bank Loans Payable In April 2008, the Company entered into an uncommitted line of credit that has a \$100.00 million limit and is primarily dependent on its ability to provide sufficient collateral. The Company also maintains an additional uncommitted line of credit, which has an unspecified limit and is also dependent on its ability to provide sufficient collateral. At December 31, 2008 and 2007, there were no outstanding balances on the Company's uncommitted lines of credit.

The Company's outstanding borrowings were as follows (in thousands):

	Maturity	December 31,			
		2008		2007	
		Balance	Interest Rate	Balance	Interest Rate
Revolving line of credit	12/28/2011	\$ 90,000	2.46%(4)	\$ 65,000	7.87%(2)
Senior secured term loan:					
Unhedged	6/28/2013	332,647	2.23%(5)	341,071	6.83%(1)
Hedged with interest rate swaps	6/28/2013	495,000	3.21%(3)	495,000	6.83%(1)
Senior unsecured subordinated notes	12/15/2015	550,000	10.75%	550,000	10.75%
Total borrowings		1,467,647		1,451,071	
Less current borrowings (maturities within 12 months)		8,424		73,424	
Long-term borrowings net of current portion		\$ 1,459,223		\$ 1,377,647	

-
- (1) As of December 31, 2007, the variable interest rate for the senior secured term loan is based on the three-month LIBOR of 4.83% plus the applicable interest rate margin of 2.00%.
- (2) As of December 31, 2007, \$25.00 million is based on the variable interest rate of the one-month LIBOR of 5.25% plus the applicable interest rate margin of 2.00% and \$40.00 million is based on the variable interest rate of the prime rate of 7.25% plus the applicable interest rate margin of 1.00%.
- (3) As of December 31, 2008, the variable interest rate for the hedged portion of the senior secured term loan is based on the three-month LIBOR of 1.46%, plus the applicable interest rate margin of 1.75%.
- (4) As of December 31, 2008, the variable interest rate for the revolving line of credit is based on the one-month LIBOR of 0.46% plus the applicable interest rate margin of 2.00%.
- (5) As of December 31, 2008, the variable interest rate for the unhedged portion of the senior secured term loan is based on a weighted average of the one- and three-month LIBOR of 0.46% and 1.46%, respectively, plus the applicable interest rate margin of 1.75%.

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes borrowing activity in the revolving and margin credit facilities (in thousands):

	Year ended December 31,		
	2008	2007	2006
Average balance outstanding	\$48,725	\$6,282	\$1,575
Weighted-average interest rate	4.74%	6.93%	6.62%

The minimum calendar year principal payments and maturities of borrowings as of December 31, 2008, are as follows (in thousands):

	Senior Secured	Revolving Line of Credit	Senior Unsecured	Total Amount
2009	\$ 8,424	\$	\$	\$ 8,424
2010	8,424			8,424
2011	8,424	90,000		98,424
2012	8,424			8,424
2013	793,951			793,951
Thereafter			550,000	550,000
Total	\$827,647	\$ 90,000	\$ 550,000	\$1,467,647

13. INTEREST RATE SWAPS

An interest rate swap is a financial derivative instrument whereby two parties enter into a contractual agreement to exchange payments based on underlying interest rates. The Company uses interest rate swap agreements to hedge the variability on its floating rate senior secured term loan. The Company is required to pay the counterparty to the agreement fixed interest payments on a notional balance and in turn, receives variable interest payments on that notional balance. Payments are settled quarterly on a net basis.

On January 30, 2006, the Company entered into five interest rate swap agreements with a total notional value of \$495.00 million. Under the terms of the agreements, the Company paid a fixed rate of interest ranging from 3.43% to 4.85% and received a floating rate based on the three-month LIBOR rate. On June 30, 2008, one of the interest rate swap agreements matured. As a result, the Company entered into a new agreement with a notional value of \$70.00 million, which swaps a variable rate based on a three-month LIBOR with a fixed interest rate of 3.43% and expires on June 30, 2010.

Table of Contents

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information related to the Company's interest rate swaps as of December 31, 2008 (in thousands):

Notional Balance	Fixed Pay Rate	Variable Receive Rate(1)	Fair Value	Maturity Date
\$ 95,000	4.77%	1.46%	\$ (1,609)	June 30, 2009
70,000	3.43%	1.46%	(2,042)	June 30, 2010
120,000	4.79%	1.46%	(5,751)	June 30, 2010
145,000	4.83%	1.46%	(10,278)	June 30, 2011
65,000	4.85%	1.46%	(5,737)	June 30, 2012
\$495,000			\$(25,417)	

(1)

The variable receive rate reset on the last day of the year is based on the applicable three-month LIBOR. The effective rate from September 30, 2008 through December 31, 2008, was 3.76%. As of December 31, 2008, the effective rate was 1.46%.

Each of the interest rate swap agreements listed above have been designated as cash flow hedges against specific payments due on the Company's senior secured term loan. The interest rate swap agreements qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As of December 31, 2008, the Company assessed the interest rate swap agreements as being highly effective and expects them to continue to be highly effective. Accordingly, the changes in fair value of the interest rate swaps have been recorded as other comprehensive loss, with the fair value included as a liability on the Company's consolidated statements of financial condition. Based on current interest rate assumptions and assuming no additional interest rate swap agreements are entered into, the Company expects to reclassify \$15.61 million or \$7.65 million after tax, from other comprehensive loss as additional interest expense over the next 12 months.

14. COMMITMENTS AND CONTINGENCIES

Leases The Company leases certain office space and equipment at its headquarters locations under various operating leases. These leases are generally subject to scheduled base rent and maintenance cost increases, which are recognized on a straight-line basis over the period of the leases.

Service Contracts The Company is party to certain long-term contracts for systems and services that enable its back office trade processing and clearance.

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Future minimum payments under leases, lease commitments and other noncancellable contractual obligations with remaining terms greater than one year as of December 31, 2008, are as follows (in thousands):

Years ending December 31	
2009	\$ 25,646
2010	25,088
2011	21,457
2012	16,788
2013	11,908
Thereafter	18,327
Total	\$ 119,214

Total rental expense for all operating leases was approximately \$22.05 million, \$14.38 million and \$9.75 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Guarantees The Company occasionally enters into certain types of contracts that contingently require it to indemnify certain parties against third-party claims. The terms of these obligations vary and, because a maximum obligation is not explicitly stated, the Company has determined that it is not possible to make an estimate of the amount that it could be obligated to pay under such contracts.

LPL Financial provides guarantees to securities clearing houses and exchanges under their standard membership agreements, which require a member to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearing houses and exchanges, all other members would be required to meet any shortfall. The Company's liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these agreements is remote. Accordingly, no liability has been recognized for these transactions.

Loan Commitments From time to time, the Company makes loans to its financial advisors, primarily to new recruits to assist in the transition process. Due to timing differences, the Company may make commitments to issue such loans prior to actually funding them. These commitments are generally contingent upon certain events occurring, including but not limited to the financial advisor joining the Company, and may be forgivable. As of December 31, 2008, the Company estimates that it had made commitments for \$1.89 million in transition loans that have not yet been funded.

At December 31, 2008, the Company had made \$3.97 million in transition loans, which bear interest at the minimum federal rate per annum as published by the IRS and are forgivable on a prorated basis over five years, based upon the financial advisor's achievement of certain commission targets. Outstanding loan balances plus interest are payable in full if the financial advisor has not achieved 100-percent of the cumulative commission targets.

Litigation The Company has been named as a defendant in various legal actions, including arbitrations. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, the Company cannot predict with certainty what the eventual loss or range of loss related to such matters will be. The Company believes, based on current knowledge, after consultation with counsel, and consideration of insurance, if any,

Table of Contents

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

that the outcome of such matters will not have a material adverse effect on its accompanying consolidated statements of financial condition, income, or cash flows.

The Company recognizes a liability for legal and defense costs when it believes it is probable a liability has occurred and the amount can be reasonably estimated. Legal and defense costs are expensed as incurred and classified as professional services within the accompanying consolidated statements of income. In 2008, and in accordance with the related purchase and sale agreements, the Company received \$3.44 million from the sellers for the reimbursement of legal and defense costs for which it was indemnified at or prior to the date of acquisition. The Company has recorded the indemnifications as a reduction in professional services at the time such amounts were acknowledged by the sellers. At December 31, 2008, the Company has an indemnification receivable of \$2.76 million, which is included in other assets in the accompanying consolidated statements of financial condition. The Company has not recorded any additional reserve for legal expenses as all known cases are covered by the indemnification.

In November 2005, MSC received a "Wells" notice from FINRA's Department of Enforcement. FINRA alleges that MSC had failed to maintain adequate supervisory procedures regarding certain variable annuity transactions, and failed to maintain accurate books and records related thereto. On July 23, 2007, the staff filed a complaint against MSC and certain of its employees in connection with this matter. On December 16, 2008, the matter was resolved and MSC was fined \$1.54 million, which was paid directly by the seller in accordance with the Company's indemnification agreement.

Other Commitments As of December 31, 2008, the Company had received collateral primarily in connection with customer margin loans with a market value of approximately \$335.88 million, which it can sell or repledge. Of this amount, approximately \$167.54 million has been pledged or sold as of December 31, 2008; \$143.83 million was pledged to a bank in connection with an unutilized secured margin line of credit, \$15.24 million was pledged to client-owned securities with the DTC, \$3.22 million was pledged to client-owned securities with the Options Clearing Corporation, and \$5.25 million was loaned to the DTC through participation in its Stock Borrow Program. As of December 31, 2007, the Company had received collateral primarily in connection with client margin loans with a market value of approximately \$516.64 million, which it can sell or repledge. Of this amount, approximately \$183.67 million has been pledged or sold as of December 31, 2007: \$128.72 million was pledged to a bank in connection with an unutilized secured margin line of credit, \$31.63 million was pledged to various clearing organizations, and \$23.32 million was loaned to the DTC through participation in its Stock Borrow Program.

Innovex ceased operations on December 31, 2007. Prior to that date, Innovex sold its mortgage loans without recourse. Innovex was usually required by the buyers (investors) of these loans to make certain representations concerning credit information, loan documentation, and collateral. Innovex did not repurchase any loans during the year ended December 31, 2007.

In August of 2007, pursuant to agreements with a large global insurance company, LPL Financial began providing brokerage, clearing, and custody services on a fully disclosed basis; offering its investment advisory programs and platforms; and providing technology and additional processing and related services to its financial advisors and clients. The terms of the agreements are five years, subject to additional 24-month extensions. Termination fees may be payable by a terminating or breaching party depending on the specific cause leading to termination.

Table of Contents

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. SHARE-BASED COMPENSATION

2005 Stock Option Plans

Certain employees, officers and directors participate in the Company's 2005 Stock Option Plan for Incentive Stock Options and 2005 Stock Option Plan for Non-qualified Stock Options (collectively the "2005 Plans"). The 2005 Plans provide for the granting of 33,494,370 incentive stock options, 1,992,640 nonqualified stock options and an unspecified number of stock appreciation rights. The exercise price is equal to the fair market value on the grant date. Stock option awards vest in equal increments over a three- to five-year period and expire on the 10th anniversary following the date of grant.

2008 Stock Option Plan, Advisor Incentive Plan and Financial Institution Incentive Plan

The Company adopted the 2008 Stock Option Plan effective January 1, 2008. Eligible participants include employees, officers, directors and consultants who make a significant contribution to the success of the Company. On April 25, 2008, the Company adopted the Financial Institution and Advisor Incentive Plan, which was subsequently amended on June 3, 2008 to create two separate plans the Advisor Incentive Plan and the Financial Institution Incentive Plan. Eligible participants include financial advisors and financial institutions in a position to make a significant contribution to the success of the Company. The 2008 Stock Option Plan, the Advisor Incentive Plan and the Financial Institution Plan are referred to herein as the "2008 Plans".

Subject to the approval of the Company's compensation committee, the 2008 Plans provide for an allocation of up to 2% of the outstanding stock (determined at January 1st on a fully diluted basis), with an additional 2% available on the first anniversary, and an additional 2.5% available on the second and third anniversaries. The exercise price is equal to the fair market value on the grant date. Stock option awards vest in equal increments of 20% over a five-year period and expire on the 10th anniversary following the date of grant.

Collectively, the 2005 Plans and the 2008 Plans are referred to herein as the "Stock Option Plans".

Share-Based Compensation

The Company recognized \$1.40 million and \$2.85 million of share based compensation for the years ended December 31, 2007 and 2006, respectively, under APB 25 related to the vesting of stock options awarded to employees prior to January 1, 2006. The Company also recognized \$4.56 million, \$0.76 million and \$0.02 million of share-based compensation under SFAS 123R related to employee stock option awards during the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008, total unrecognized compensation cost related to nonvested share-based compensation arrangements granted was \$17.76 million, which is expected to be recognized over a weighted-average period of 3.54 years. Under SFAS 123R, the Company calculates the compensation cost for stock options based on its estimated fair value.

The Company recognized \$0.30 million of share based compensation during the year ended December 31, 2008, related to the vesting of stock options awarded to non-employees. As of December 31, 2008, total unrecognized compensation cost related to nonvested share-based compensation arrangements granted was \$1.71 million for non-employees, which is expected to be recognized over a weighted-average period of 4.36 years.

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table presents the weighted-average assumptions used by the Company in calculating the fair value of its stock options with the Black-Scholes valuation model for the years ended December 31, 2008, 2007 and 2006:

	2008	2007	2006
Expected life (in years)	6.52	6.50	6.53
Expected stock price volatility	33.78%	31.08%	34.09%
Expected dividend yield			
Annualized forfeiture rate	1.51%	1.00%	0.27%
Fair value of options	\$ 9.96	\$ 9.86	\$ 8.03
Risk-free interest rate	2.73%	4.93%	5.23%

The risk-free interest rates are based on the implied yield available on U.S. Treasury constant maturities in effect at the time of the grant with remaining terms equivalent to the respective expected terms of the options. The dividend yield of zero is based on the fact that the Company has no present intention to pay cash dividends. In the future, as the Company gains historical data for volatility in its own stock and the actual term over which employees hold its options, expected volatility, and the expected term may change, which could substantially change the grant-date fair value of future awards of stock options and, ultimately, compensation recorded on future grants. The Company estimates the expected term for its employee option awards using the simplified method in accordance with SEC SAB 107, *Shared-Based Payment*, which was subsequently amended and replaced by SAB 110, *Certain Assumptions Used in Valuation Methods*. The simplified method is used because the Company does not have sufficient relevant historical information to develop reasonable expectations about future exercise patterns. The Company estimates the expected term for its non-employee option awards using the contractual term in accordance with EITF 96-18. Expected volatility is calculated based on companies of similar growth and maturity and the Company's peer group in the industry in which the Company does business because the Company does not have sufficient historical volatility data. The Company will continue to use peer group volatility information until historical volatility of the Company is relevant to measure expected volatility for future option grants.

The Company has assumed an annualized forfeiture rate for its options based on a combined review of industry and employee turnover data, as well as an analytical review performed of historical prevesting forfeitures occurring over the previous year. Under the true-up provisions of SFAS 123R, the Company will record additional expense if the actual forfeiture rate is lower than estimated and will record a recovery of prior expense if the actual forfeiture is higher than estimated.

Table of Contents

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the Company's activity in its Stock Option Plans for the year ended December 31, 2008:

		Number of Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Options outstanding	December 31, 2007	21,748,080	\$ 2.46		
Granted		1,936,206	27.55		
Exercised		(286,968)	2.04		
Forfeited(1)		(3,319,035)	2.59		
Options outstanding	December 31, 2008	20,078,283	\$ 4.87	5.15	\$ 285,797
Options exercisable	December 31, 2008	17,684,698	\$ 1.93	4.62	\$ 285,665

(1)

Approximately 3,006,730 forfeited shares were cancelled under the 2005 Plans in exchange for units under the Company's 2008 Nonqualified Deferred Compensation Plan, as indicated below.

The following table summarizes information about outstanding stock option awards:

Range of Exercise Prices	Total Number of Shares	Outstanding		Exercisable	
		Weighted- Average Remaining Life (Years)	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
At December 31, 2008:					
\$ 1.07 \$ 2.38	17,501,710	4.58	\$ 1.73	17,501,710	\$ 1.73
\$10.30 \$18.89	148,010	7.86	16.07	55,410	14.20
\$21.60 \$27.80	2,428,563	9.07	26.78	127,578	24.16
	20,078,283	5.15	\$ 4.87	17,684,698	\$ 1.93

2008 Nonqualified Deferred Compensation Plan

On November 19, 2008, the Company established an unfunded, unsecured deferred compensation plan to permit employees and former employees that hold non-qualified stock options issued under the 2005 Plans, a one-time opportunity to exchange stock options expiring in 2009 and 2010, for stock units of the 2008 Nonqualified Deferred Compensation Plan. Stock units represent the right to receive one share of common stock. Distribution will occur at the earliest of (a) December 31, 2012; (b) a change in control of the Company; or (c) death or disability of the participant. The exchange of stock options for stock units is not taxable for federal and state income tax purposes until the participant receives a distribution under the deferred compensation plan. As of December 31, 2008, 3,006,730 options, having an average exercise price of \$1.10, have been exchanged for 2,823,452 stock units. Stock options exchanged for stock units in the deferred compensation plan are considered cancelled under the provisions of the 2008 Nonqualified Deferred Compensation Plan.

Stock Bonus Plan

Edgar Filing: INTRICON CORP - Form 4

The Company's financial advisors participate in the fifth amended and restated 2000 Stock Bonus Plan (the "Stock Bonus Plan"), which provided for the grant and allocation of bonus credits. Each

F-37

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

bonus credit represented the right to receive shares of common stock. Participation in the Stock Bonus Plan was dependent upon meeting certain eligibility criteria, and bonus credits were allocated to eligible participants based on certain performance metrics, including amount and type of commissions, as well as tenure with the firm. Bonus credits vested annual in equal increments over a three-year period and expired on the tenth anniversary following the date of grant. Unvested bonus credits held by financial advisors who terminated prior to vesting were forfeited and reallocated to other financial advisors eligible under the plan. In 2008, the Company amended and restated its Stock Bonus Plan by eliminating the vesting provisions and granting the financial advisors with physical ownership of common stock of the Company. Consequently, on December 28, 2008, the Company issued 7,423,973 restricted shares in exchange for bonus credits. These restricted shares may not be sold, assigned or transferred and are not entitled to receive dividends or non-cash distributions, until either a sale of the Company that constitutes a change in control or an initial public offering.

The Company accounts for restricted shares granted to its financial advisors under the Stock Bonus Plan in accordance with EITF 96-18 and measures such grants at their then-current lowest aggregate value. Since the value is contingent upon the Company's decision to sell itself or perform an initial public offering, the current aggregate value will be zero until such event occurs. Upon the occurrence of such an event, the Company will record the par value, additional paid in capital and expense based on the number of restricted shares under the stock bonus plan times the fair market value determined at the event date.

16. EMPLOYEE AND ADVISOR BENEFIT PLANS

The Company has a 401(k) defined contribution plan. All employees meeting minimum age and length of service requirements are eligible to participate. The Company has an employer matching program whereby employer contributions are made to the 401(k) plan in an amount equal to 50% of the lesser of the amount designated by the employee for withholding and contribution to the 401(k) plan or 10% of the employee's total compensation. The Company's total cost under the 401(k) plan was \$4.79 million, \$3.79 million and \$1.85 million for the years ended December 31, 2008, 2007 and 2006, respectively.

On January 1, 2008, the Company adopted a non-qualified deferred compensation plan for the purpose of attracting and retaining financial advisors who operate, for tax purposes, as independent contractors, by providing an opportunity for participating financial advisors to defer receipt of a portion of their gross commissions generated primarily from commissions earned on the sale of various products. The deferred compensation plan has been fully funded to date by participant contributions. Plan assets are invested in mutual funds, which are held by the Company in a Rabbi Trust and accounted for in accordance with EITF Issue No. 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested* ("EITF 97-14"). The liability for benefits accrued under the non-qualified deferred compensation plan totaled \$3.51 million at December 31, 2008, and is included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial condition. The cash values of the related trust assets was \$3.60 million at December 31, 2008, which is included in other assets in the accompanying consolidated statements of financial condition.

Certain employees and financial advisors of the Company's subsidiaries AFG, MSC and UVEST participated in non-qualified deferred compensation plans (the "Plans") that permitted participants to defer portions of their compensation and earn interest on the deferred amounts. The Plans have been closed to new participants and no contributions have been made since the acquisition date. Plan assets are held by the Company in a Rabbi Trust and accounted for in accordance with EITF 97-14. As of

Table of Contents

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2008, the Company has recorded assets of approximately \$3.36 million and liabilities of \$4.44 million, which are included in other assets and accounts payable and accrued liabilities, respectively, in the accompanying consolidated statements of financial condition.

In conjunction with the Company's acquisitions of IASG and IFMG and pursuant to the purchase and sale agreements, the sellers committed to provide retention plan distributions to employees and financial advisors who remained with the Company through a specified date. Benefits received for the year ended December 31, 2008, totaled \$4.35 million; \$2.27 million has been classified as commission expense and \$2.08 million has been recognized as compensation and benefits, respectively, in the accompanying consolidated statements of income. The retention plan distributions have been made in 2008 pursuant to the terms of the purchase and sale agreements.

17. RELATED-PARTY TRANSACTIONS

AlixPartners, LLP ("AlixPartners"), a company majority-owned by one of the Company's Majority Holders, provides LPL Financial with consulting services pursuant to an agreement for interim management and consulting services dated August 21, 2007. LPL Financial paid \$4.17 million and \$0.91 million to AlixPartners during the years ended December 31, 2008 and 2007, respectively, and an additional \$0.15 million and \$0.76 million was included in accounts payable and accrued liabilities on the accompanying consolidated statements of financial condition as of December 31, 2008 and 2007, respectively, for annual fees under such agreement.

Artisan Partners Limited Partnership ("Artisan"), a company majority-owned by one of the Company's Majority Holders, pays fees to LPL Financial in exchange for product distribution and record-keeping services. During the years ended December 31, 2008 and 2007, LPL Financial earned \$1.57 million and \$1.92 million, respectively, in fees from Artisan. Additionally, as of December 31, 2008 and 2007, Artisan owed LPL Financial \$0.27 million and \$0.48 million, respectively, which is included in receivables from product sponsors, broker-dealers and clearing organizations on the accompanying consolidated statements of financial condition.

In conjunction with the acquisition of UVEST (see Note 4), the Company made full-recourse loans to certain members of management (also selling stockholders), most of which are now stockholders of the Company. As of December 31, 2008, outstanding stockholder loans, which are reported as a deduction from stockholders' equity, were approximately \$0.94 million.

18. NET CAPITAL/REGULATORY REQUIREMENTS

The Company's registered broker-dealers are subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934), which requires the maintenance of minimum net capital, as defined. Net capital is calculated for each broker-dealer subsidiary individually. Excess net capital of one broker-dealer subsidiary may not be used to offset a net capital deficiency of another broker-dealer subsidiary. Net capital and the related net capital requirement may fluctuate on a daily basis.

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Net capital and net capital requirements for the Company's broker-dealer subsidiaries as of December 31, 2008 are presented in the following table (in thousands):

	December 31, 2008		
	Net Capital	Minimum Net Capital Required	Excess Net Capital
LPL Financial Corporation	\$ 87,131	\$ 7,228	\$ 79,903
UVEST Financial Services Group, Inc.	8,287	1,540	6,747
Mutual Service Corporation	7,181	1,289	5,892
Associated Securities Corp.	2,975	250	2,725
Waterstone Financial Group, Inc.	3,154	294	2,860
Total	\$ 108,728	\$ 10,601	\$ 98,127

LPL Financial is a clearing broker-dealer and the remaining broker-dealer subsidiaries are introducing broker-dealers. During the third quarter ended September 30, 2008, and in accordance with the Shutdown Plan, the Company filed a Form BDW for its IFMG broker-dealer subsidiary along with its final FOCUS report, thus eliminating its net capital requirements.

PTCH is subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. As of December 31, 2008, the Company has met all capital adequacy requirements to which it is subject.

The Company operates in a highly regulated industry. Applicable laws and regulation restrict permissible activities and investments. These policies require compliance with various financial and customer-related regulations. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions. In addition, the Company is also subjected to comprehensive examinations and supervisions by various governmental and self-regulatory agencies. These regulatory agencies generally have broad discretion to prescribe greater limitations on the operations of a regulated entity for the protection of investors or public interest. Furthermore, where the agencies determine that such operations are unsafe or unsound, fail to comply with applicable law, or are otherwise inconsistent with the laws and regulations or with the supervisory policies, greater restrictions may be imposed.

19. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK

LPL Financial's client securities activities are transacted on either a cash or margin basis. In margin transactions, LPL Financial extends credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client's account. As customers write options contracts or sell securities short, LPL Financial may incur losses if the clients do not fulfill their obligations and the collateral in the clients' accounts is not sufficient to fully cover losses that clients may incur from these strategies. To control this risk, LPL Financial monitors margin levels daily and clients are required to deposit additional collateral, or reduce positions, when necessary.

LPL Financial is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligation to LPL Financial. Clients are required to complete their transactions on the settlement date, generally three business days after the trade date. If clients do not fulfill their contractual obligations, LPL Financial may incur losses. LPL Financial has established

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

procedures to reduce this risk by generally requiring that clients deposit cash and/or securities into their account prior to placing an order.

LPL Financial may at times maintain inventories in equity securities on both a long and short basis that are recorded on the accompanying consolidated statements of financial condition at market value. While long inventory positions represent LPL Financial's ownership of securities, short inventory positions represent obligations of LPL Financial to deliver specified securities at a contracted price, which may differ from market prices prevailing at the time of completion of the transaction. Accordingly, both long and short inventory positions may result in losses or gains to LPL Financial as market values of securities fluctuate. To mitigate the risk of losses, long and short positions are marked-to-market daily and are continuously monitored by LPL Financial.

UVEST and the broker-dealer subsidiaries of IASG are engaged in buying and selling securities and other financial instruments for clients of financial advisors. Such transactions are introduced and cleared through a third-party clearing firm on a fully disclosed basis. While introducing broker-dealers generally have less risk than clearing firms, their clearing agreements expose them to credit risk in the event that their clients don't fulfill contractual obligations with the clearing broker-dealer.

20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	2008			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$798,647	\$814,947	\$799,537	\$703,999
Gross margin(1)	245,316	244,778	251,984	212,004
Net income	\$ 11,665	\$ 14,303	\$ 17,168	\$ 2,360

	2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$562,717	\$647,769	\$725,017	\$782,102
Gross margin(1)	169,631	181,354	206,528	224,620
Net income	\$ 18,487	\$ 23,259	\$ 11,567	\$ 7,756

(1) Gross margin is calculated as total revenues less commissions and advisory fees, and brokerage, clearing and exchange expenses.

F-41