ROYAL BANK OF SCOTLAND GROUP PLC
Form F-3ASR
September 30, 2009
As filed with the Securities and Exchange Commission on September 30, 2009

Registration No. 333-

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

FORM F-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

The Royal Bank of Scotland Group plc

The Royal Bank of Scotland plc

(Exact Name of Registrant as Specified in Its Charter)
United Kingdom
(State or Other Jurisdiction of Incorporation or Organization)
Not Applicable
(I.R.S. Employer Identification No.)

RBS Gogarburn, PO Box 1000
Edinburgh EH12 1HQ
United Kingdom
011-44-131-626-0000
(Address and Telephone Number of Registrant's Principal Executive Offices)

John Fawcett
Chief Financial Officer
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United States
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(Name, Address and Telephone Number of Agent for Service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a registration statement pursuant to General Instruction I.C. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. x

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.C. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered/Proposed maximum offering pre unit/Proposed maximum price	Amount of registration fee
Debt Securities of The Royal Bank of Scotland Group plc	Unspecified(1)	$0(2)
Dollar Preference Shares of The Royal Bank of Scotland Group plc(3)	Unspecified(1)	$0(2)
Debt Securities of The Royal Bank of Scotland plc	Unspecified(1)	$0(2)
The Royal Bank of Scotland	Unspecified(1)	$0(2)

Group plc Guarantees of
Debt Securities of The Royal
Bank of Scotland plc(4)

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(1) An unspecified initial offering price, aggregate number of, or principal amount of, the Debt Securities and the Dollar Preference Shares of The Royal Bank of Scotland Group plc or the Debt Securities of The Royal Bank of Scotland plc and the related Guarantees of The Royal Bank of Scotland Group plc, as the case may be, are being registered as may from time to time be offered at unspecified prices. Separate consideration may or may not be received for securities that are issuable on exercise, conversion or exchange of other securities or that are issued in units or represented by depositary shares.

(2) Deferred in reliance upon Rule 456(b) and Rule 457(r), except for $370.22 that has already been paid with respect to $10,000,000,000 aggregate initial offering price of securities that were previously registered pursuant to Registration Statement No. 333-123972 of The Royal Bank of Scotland Group plc, which was initially filed on April 8, 2005 and were not sold thereunder. Pursuant to Rule 457(p) under the Securities Act, such unutilized filing fee may be applied to the filing fee payable pursuant to this Registration Statement.

(3) American Depositary Shares evidenced by American Depositary Receipts issuable upon deposit of the Preference Shares registered hereby have been registered under a separate Registration Statement on Form F-6.

(4) Guarantees of the Debt Securities of The Royal Bank of Scotland plc will be issued by The Royal Bank of Scotland Group plc. No separate consideration will be received for any of these guarantees.

PROSPECTUS

THE ROYAL BANK OF SCOTLAND GROUP plc

By this prospectus we may offer —

DEBT SECURITIES
DOLLAR PREFERENCE SHARES

We will provide the specific terms of these securities, and the manner in which they will be offered, in one or more supplements to this prospectus. Any supplement may also add, update or change information contained, or incorporated by reference, in this prospectus. You should read this prospectus and the supplements carefully before you invest.

You should read both this prospectus and any prospectus supplement, together with the additional information described under the heading "Where You Can Find More Information" and the heading "Incorporation of Documents by Reference", before investing in our securities. The amount and price of the offered securities will be determined at the time of the offering.

Our American depositary shares, or ADSs, each representing one ordinary share (or a right to receive one ordinary share), and evidenced by an American Depositary Receipt or uncertificated securities, are listed on the New York Stock Exchange under the symbol "RBS". Our ordinary shares are listed on the London Stock Exchange. Our series of American Depositary Shares representing non-cumulative dollar preference shares and evidenced by American Depositary Receipts (Series F, Series H, Series L, Series M, Series N, Series P, Series Q, Series R, Series S, Series T, and Series U) are also listed on the New York Stock Exchange.

Investing in our debt securities involves risks that are described in the "Risk Factors" section of our annual reports filed with the Securities and Exchange Commission or in the applicable prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to sell securities unless it is accompanied by a prospectus supplement.

The date of this prospectus is September 30, 2009.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the U.S. Securities and Exchange Commission ("SEC") using a "shelf" registration or continuous offering process. Under this shelf process, we may sell the securities described in this prospectus in one or more offerings of an unspecified amount in one or more foreign currencies or currency units.

This prospectus provides you with a general description of the debt securities and dollar preference shares we may offer, which we will refer to collectively as the "securities". Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement will provide information regarding certain tax consequences of the purchase, ownership and disposition of the offered securities. The prospectus supplement may also add to, update or change information contained in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. We will file each prospectus supplement with the SEC. You should read both this prospectus and the applicable prospectus supplement, together with the additional information described under the heading "Where You Can Find More Information".

The registration statement containing this prospectus, including exhibits to the registration statement, provides additional information about us and the securities offered under this prospectus. The registration statement can be read at the SEC's offices or obtained from the SEC's website mentioned under the heading "Where You Can Find More Information".

Certain Terms

In this prospectus, the terms "we", "us", "our" or "RBSG" refer to The Royal Bank of Scotland Group plc, the term "Group" means The Royal Bank of Scotland Group plc and its subsidiaries, the term "RBS plc" means The Royal Bank of Scotland plc, the term "RBS" or the "Royal Bank" means RBS plc and its subsidiaries, the term "NWB Plc" means National Westminster Bank Plc and the term "NatWest" means NWB Plc and its subsidiaries.

We publish our consolidated financial statements in pounds sterling ("£" or "sterling"), the lawful currency of the United Kingdom. In this prospectus and any prospectus supplement, references to "dollars" and "$" are to United States dollars.

USE OF PROCEEDS

Unless we have disclosed a specific plan in the accompanying prospectus supplement, we will use the net proceeds from the sale of the securities offered by this prospectus in the general business of our Group and to strengthen further our Group's capital base. The Group has raised capital in various markets from time to time and we expect to continue to raise capital in appropriate markets as and when required.

THE ROYAL BANK OF SCOTLAND GROUP PLC

RBSG is a public limited company incorporated in Scotland with registration number SC045551. RBSG was incorporated under Scots law on March 25, 1968. RBSG is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, the Group operates in the United Kingdom, the United States and internationally through its two principal subsidiaries, RBS and NatWest. Both RBS and NatWest are major U.K. clearing banks whose origins go back over 275 years. In the United States, the Group's subsidiary Citizens Financial Group, Inc. is a large commercial banking organisation. The Group has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

The Commissioners of Her Majesty's Treasury currently holds 70.3% of the issued ordinary share capital of RBSG. On February 26, 2009, RBSG announced its intention to issue up to £25.5 billion of B Shares to the U.K. Government. If all such B Shares are issued, conversion of the B Shares would increase this ownership interest to approximately 84.4% of the issued ordinary share capital of RBSG.

The Group had total assets of £2,401.7 billion and owners' equity of £58.9 billion at December 31, 2008. The Group's capital ratios at that date, which included the equity minority interest of the State of the Netherlands and Banco Santander, S.A. ("Santander") in ABN AMRO Holdings N.V. ("ABN AMRO"), were a total capital ratio of 14.1%., a Core Tier 1 capital ratio of 6.8% and a Tier 1 capital ratio of 10.0%. As at June 30, 2009, RBSG had total assets of £1,818.9 billion and owners' equity of £55.7 billion. RBSG's Tier 1 and Core Tier 1 capital ratios at that date were 9.3% and 7.0%, respectively.

On October 17, 2007, RFS Holdings B.V. ("RFS Holdings"), which at the time was owned by RBSG, Fortis N.V., Fortis SA/NY, Fortis Bank Nederland (Holding) N.V. and Santander, completed the acquisition of ABN AMRO. RFS Holdings, which is now jointly owned by RBSG, the State of the Netherlands and Santander (the "Consortium Members"), is in the process of implementing an orderly separation of the business units of ABN AMRO, with ABN AMRO's global wholesale businesses and international retail businesses in Asia and the Middle East subject to the outcome of RBSG's strategic review. Certain other assets will continue to be shared by the Consortium Members.

RBSG's registered office is 36 St Andrew Square, Edinburgh EH2 2YB, Scotland and its principal place of business is RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, Scotland, telephone +44 131 626 0000.

DESCRIPTION OF DEBT SECURITIES

The following is a summary of the general terms of the debt securities. Each time that we issue debt securities, we will file a prospectus supplement with the SEC, which you should read carefully. The prospectus supplement may contain additional terms of those debt securities. The terms presented here, together with the terms contained in the prospectus supplement, will be a description of the material terms of the debt securities, but if there is any inconsistency between the terms presented here and those in the prospectus supplement, those in the prospectus supplement will apply and will replace those presented here. You should also read the indentures under which we will issue the debt securities, which we have filed with the SEC as exhibits to the registration statement of which this prospectus is a part.

When we refer to "debt securities" in this prospectus, we mean the senior debt securities, the subordinated debt securities and the capital securities. The subordinated debt securities and the capital securities of any series will be our subordinated obligations. Senior debt securities will be issued under a senior debt indenture. Subordinated debt securities will be issued under a subordinated debt indenture. Capital debt securities that have no stated maturity will be issued under a capital securities indenture. Each indenture is a contract between us and The Bank of New York Mellon, which will initially act as trustee. The indentures are substantially identical, except for certain provisions such as those relating to subordination, which are included only in the subordinated debt indenture and the capital securities indenture. None of the indentures limit our ability to incur additional indebtedness, including additional senior indebtedness.

General

The debt securities are not deposits and are not insured or guaranteed by the U.S. Federal Deposit Insurance Corporation or any other government agency of the United States or the United Kingdom.

The indentures do not limit the amount of debt securities that we may issue. We may issue debt securities in one or more series. The relevant prospectus supplement for any particular series of debt securities will describe the terms of the offered debt securities, including some or all of the following terms:

- whether they are senior debt securities, capital securities or subordinated debt securities;

- their specific designation, authorized denomination and aggregate principal amount;
- the price or prices at which they will be issued;

- whether such debt securities will be dated debt securities with a specified maturity date or undated debt securities with no specified maturity date;
- the annual interest rate or rates, or how to calculate the interest rate or rates;
- the date or dates from which interest, if any, will accrue or the method, if any, by which such date or dates will be determined;
- whether payments are subject to a condition that we are able to make such payment and remain able to pay our debts as they fall due and our assets continue to exceed our liabilities (other than subordinated liabilities);
- the times and places at which any interest payments are payable;
- the terms of any mandatory or optional redemption, including the amount of any premium;
- any modifications or additions to the events of defaults with respect to the debt securities offered;
- any provisions relating to conversion or exchange for other securities issued by us;
- the currency or currencies in which they are denominated and in which we will make any payments;
- any index used to determine the amount of any payments on the debt securities;
- any restrictions that apply to the offer, sale and delivery of the debt securities and the exchange of debt securities of one form for debt securities of another form;
- whether and under what circumstances, if other than those described in this prospectus, we will pay additional amounts on the debt securities following certain developments with respect to withholding tax or information reporting laws and whether, and on what terms, if other than those described in this prospectus, we may redeem the debt securities following those developments;
- the terms of any mandatory or optional exchange; and
- any listing on a securities exchange.

In addition, the prospectus supplement will describe the material U.S. federal and U.K. tax considerations that apply to any particular series of debt securities.

Debt securities may bear interest at a fixed rate or a floating rate. We will sell any subordinated debt securities that bear no interest, or that bear interest at a rate that at the time of issuance is below the prevailing market rate, at a discount to their stated principal amount.

Holders of debt securities shall have no voting rights except those described under the heading "— Modification and Waiver" below.

Form of Debt Securities; Book-Entry System

General

Unless the relevant prospectus supplement states otherwise, the debt securities shall initially be represented by one or more global securities in registered form, without coupons attached, and will be deposited with or on behalf of one or more depositary, including, without limitation, The Depository Trust Company ("DTC"), Euroclear Bank S.A./N.V. ("Euroclear Bank"), as operator of the Euroclear System ("Euroclear") and/or Clearstream Banking S.A. ("Clearstream Luxembourg"), and will be registered in the name of such depositary or its nominee. Unless and until the debt securities are exchanged in whole or in part for other securities that we issue or the global securities are exchanged for definitive securities, the global securities may not be transferred except as a whole by the depositary to a nominee or a successor of the depositary.

The debt securities may be accepted for clearance by DTC, Euroclear and Clearstream Luxembourg. Unless the relevant prospectus supplement states otherwise, the initial distribution of the debt securities will be cleared through DTC only. In such event, beneficial interests in the global debt securities will be shown on, and transfers thereof will be effected only through, the book-entry records maintained by DTC and its direct and indirect participants, including, as applicable, Euroclear and Clearstream Luxembourg.

The laws of some states may require that certain investors in securities take physical delivery of their securities in definitive form. Those laws may impair the ability of investors to own interests in book-entry securities.

So long as the depositary, or its nominee, is the holder of a global debt security, the depositary or its nominee will be considered the sole holder of such global debt security for all purposes under the indentures. Except as described below under the heading "—Issuance of Definitive Securities", no participant, indirect participant or other person will be entitled to have debt securities registered in its name, receive or be entitled to receive physical delivery of debt securities in definitive form or be considered the owner or holder of the debt securities under the indentures. Each person having an ownership or other interest in debt securities must rely on the procedures of the depositary, and, if a person is not a participant in the depositary, must rely on the procedures of the participant or other securities intermediary through which that person owns its interest to exercise any rights and obligations of a holder under the indentures or the debt securities.

Payments on the Global Debt Security

Payments of any amounts in respect of any global securities will be made by the trustee to the depositary. Payments will be made to beneficial owners of debt securities in accordance with the rules and procedures of the depositary or its direct and indirect participants, as applicable. Neither we nor the trustee nor any of our agents will have any responsibility or liability for any aspect of the records of any securities intermediary in the chain of intermediaries between the depositary and any beneficial owner of an interest in a global security, or the failure of the depositary or any intermediary to pass through to any beneficial owner any payments that we make to the depositary.

The Clearing Systems

DTC, Euroclear and Clearstream Luxembourg have advised us as follows:

DTC. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The DTC rules applicable to its participants are on file with the SEC. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Euroclear. Euroclear holds securities for its participants and clears and settles transactions between its participants through simultaneous electronic book-entry delivery against payment. Euroclear provides various other services, including safekeeping, administration, clearance and settlement and securities lending and borrowing, and interfaces with domestic markets in several countries. Securities clearance accounts and cash accounts with

Euroclear are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable law (collectively, the "Euroclear Terms and Conditions"). The Euroclear Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear.

Clearstream Luxembourg. Clearstream Luxembourg is incorporated under the laws of The Grand Duchy of Luxembourg as a professional depositary. Clearstream Luxembourg holds securities for its participants and facilitates the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Clearstream Luxembourg provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream Luxembourg interfaces with domestic markets in several countries.

Issuance of Definitive Securities

So long as the depositary holds the global securities of a particular series of debt securities, such global securities will not be exchangeable for definitive securities of that series unless:

- the depositary notifies the trustee that it is unwilling or unable to continue to act as depositary for the debt securities or the depositary ceases to be a clearing agency registered under the Exchange Act;
- we are wound up and we fail to make a payment on the debt securities when due; or
- at any time we determine at our option and in our sole discretion that the global securities of a particular series of debt securities should be exchanged for definitive debt securities of that series in registered form.

Each person having an ownership or other interest in a debt security must rely exclusively on the rules or procedures of the depositary as the case may be, and any agreement with any direct or indirect participant of the depositary, including Euroclear or Clearstream Luxembourg and their participants, as applicable, or any other securities intermediary through which that person holds its interest, to receive or direct the delivery of possession of any definitive security. The indentures permit us to determine at any time and in our sole discretion that debt securities shall no longer be represented by global securities. DTC has advised us that, under its current practices, it would notify its participants of our request, but will only withdraw beneficial interests from the global securities at the request of each DTC participant. We would issue definitive certificates in exchange for any such beneficial interests withdrawn.

Unless otherwise specified in the prospectus supplement, definitive debt securities will be issued in registered form only. To the extent permitted by law, we, the trustee and any paying agent shall be entitled to treat the person in whose name any definitive security is registered as its absolute owner.

Payments in respect of each series of definitive securities will be made to the person in whose name the definitive securities are registered as it appears in the register for that series of debt securities. Payments will be made in respect of the debt securities by check drawn on a bank in New York or, if the holder requests, by transfer to the holder's account in New York. Definitive securities should be presented to the paying agent for redemption.

If we issue definitive debt securities of a particular series in exchange for a particular global debt security, the depositary, as holder of that global debt security, will surrender it against receipt of the definitive debt securities, cancel the book-entry debt securities of that series, and distribute the definitive debt securities of that series to the persons and in the amounts that the depositary specifies pursuant to the internal procedures of such depositary.

If definitive securities are issued in the limited circumstances described above, those securities may be transferred in whole or in part in denominations of any whole number of securities upon surrender of the definitive securities certificates together with the form of transfer endorsed on it, duly completed and executed at the specified office of a paying agent. If only part of a securities certificate is transferred, a new securities certificate representing the balance not transferred will be issued to the transferor within three business days after the paying agent receives the certificate. The new certificate representing the balance will be delivered to the transferor by uninsured post at the risk of the transferor, to the address of the transferor appearing in the records of the paying agent. The new

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certificate representing the securities that were transferred will be sent to the transferee within three business days after the paying agent receives the certificate transferred, by uninsured post at the risk of the holder entitled to the securities represented by the certificate, to the address specified in the form of transfer.

Settlement

Initial settlement for each series of debt securities and settlement of any secondary market trades in the debt securities will be made in same-day funds. Book-entry debt securities held through DTC will settle in DTC's Same-Day Funds Settlement System.

Payments

We will make any payments of interest and, in the case of subordinated debt securities, principal, on any particular series of debt securities on the dates and, in the case of payments of interest, at the rate or rates, that we set out in, or that are determined by the method of calculation described in, the relevant prospectus supplement.

Subordinated Debt Securities

Unless the relevant prospectus supplement provides otherwise, if we do not make a payment on that series of subordinated debt securities on any payment date, our obligation to make that payment shall be deferred, if it is an interest payment, until the date upon which we pay a dividend on any class of our share capital and, if it is a principal payment, until the first business day after the date that falls six months after the original payment date (a "Deferred Payment Date"). If we fail to make a payment before the Deferred Payment Date, that failure shall not create a default or otherwise allow any holder to sue us for the payment or take any other action. Each payment that is deferred in this way will accrue interest at the rate prevailing in accordance with the terms of the series of debt securities immediately before the original payment date. Any payment deferred in this way shall not be treated as due for any purpose, including for the purposes of ascertaining whether or not a Subordinated Debt Security Default has occurred, until the Deferred Payment Date.

Capital Securities

We are not required to make payments on any series of capital securities on any payment date and if we fail to make a payment, such failure shall not create a default. Any payment that we do not make in respect of any series of capital securities on any applicable payment date, together with any other unpaid payments, so long as they remain unpaid, shall be "Missed Payments" and will accumulate until paid. Missed Payments will not bear interest.

We may choose to pay any Missed Payments in whole or in part at any time on not less than 14 days' notice to the trustee, but, except as otherwise provided in the prospectus supplement, all Missed Payments on all capital securities of a particular series outstanding at the time shall become due and payable in full upon the occurrence of an "Event of Default" or, subject to the "solvency condition", a "Capital Security Default". These terms are defined below under the heading "—Events of Default and Defaults; Limitation of Remedies". If we give notice that we intend to pay all or part of the Missed Payments on the capital securities of any series, we shall be obliged, subject to the solvency condition, to do so at the time specified in our notice.

Except in a winding up, all payments on the capital securities of any series will be conditional upon our being solvent at the time of payment, and we will not make any payment unless we will still be solvent immediately afterwards. This is called the "solvency condition". For this purpose, we shall be solvent if we are able to pay our debts as they fall due and our total non-consolidated assets exceed our total non-consolidated liabilities, excluding liabilities that do not constitute "Senior Claims" (as defined under the heading "—Subordination" below) except in the case of the optional redemption or repurchase of any capital securities. A report as to our solvency by a director or, in certain circumstances, our auditors shall, unless there is a manifest error, be treated and accepted by us, the trustee and any holder of capital securities as correct and sufficient evidence of solvency or insolvency. If we fail to make any payment as a result of failure to satisfy the solvency condition, that payment will constitute a Missed Payment and will accumulate with any other Missed Payments until paid. In a winding up, the amount payable on capital securities of any series will be determined in accordance with the capital security subordination provisions described under the heading " —Subordination" below.

You should note that if we are unable to make any payment on the capital securities of any series because we are not able to satisfy the solvency condition, the amount of any payment which we would otherwise make will be available to meet our losses.

Subordination

Senior Debt Securities

Unless the relevant prospectus supplement provides otherwise, senior debt securities and coupons (if any) appertaining thereto constitute our direct, unconditional, unsecured and unsubordinated obligations ranking pari passu, without any preference among themselves, with all of our other outstanding unsecured and unsubordinated obligations, present and future, except such obligations as are preferred by operation of law.

Subordinated Debt Securities

Unless the relevant prospectus supplement provides otherwise, in a winding up, all payments on any series of subordinated debt securities will be subordinate to, and subject in right of payment to the prior payment in full of, all claims of all of our creditors other than claims in respect of any liability that is, or is expressed to be, subordinated, whether only in the event of a winding up or otherwise, to the claims of all or any of our creditors, in the manner provided in the subordinated debt indenture.

Capital Securities

Unless the relevant prospectus supplement provides otherwise, in a winding up, the principal amount of, and payments and any Missed Payments on, any series of capital securities will be subordinate to, and subject in right of payment to the prior payment in full of, all Senior Claims. The following are “Senior Claims” in respect of any series of capital securities:

- all claims of our unsubordinated creditors admitted in the winding up;
- all claims of our creditors in respect of liabilities that are, or are expressed to be, subordinated, whether only in the event of a winding up or otherwise, to the claims of our unsubordinated creditors but not further or otherwise; and
- all other claims except those that rank, or are expressed to rank, equally with or junior to the claims of any holder of capital securities of any series.

Additional senior claims, if any, may be set forth in the accompanying prospectus supplement.

If at any time an order is made or a shareholders’ resolution is passed for a winding up, any amounts that would have been payable in respect of the capital securities of any series if, on and after the day immediately before the winding up began, any holder of those capital securities had been the holder of preference shares in our capital with a preferential right to a return of assets in the winding up over the holders of all other issued shares, including all classes of our preference shares, will be payable on those capital securities. These amounts will be calculated assuming that such preference shares were entitled, to the exclusion of all other rights or privileges, to receive as a return of capital an amount equal to the principal amount of the capital securities of the series then outstanding, together with all payments accrued to the date of repayment at the rate provided for in those capital securities and any Missed Payments. Accordingly, no amount will be payable in a winding up on any series of capital securities until all Senior Claims admitted in the winding up have been paid in full.

General

As a consequence of these subordination provisions, if winding up proceedings should occur, each holder may recover less ratably than the holders of our unsubordinated liabilities and, in the case of the holders of capital securities, the holders of certain of our subordinated liabilities, including theTR>

Effect of exchange rate changes on cash

(6,457

)

(4,645

)

Net increase (decrease) in cash

106,431

(5,598

)

Cash, beginning of period

		385,055
		249,396
Cash, end of period	$	491,486
	$	243,798

(See accompanying notes to the consolidated condensed financial statements)

INTRICON CORPORATION

Notes to Consolidated Condensed Financial Statements (Unaudited)

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 March 31, 2010 and December 31, 2009, and the consolidated results of its operations for the three months ended March 31, 2010 and 2009. Results of operations for the interim period are not necessarily indicators of the results of the operations expected for the full year or any other interim period.

On January 1, 2010, the Company purchased the remaining 10 percent minority interest of its German subsidiary for approximately $18,000. The non-controlling interest was immaterial for all periods presented.

Segment Disclosures A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Company s segments have similar economic characteristics and are similar in the nature of the products sold, type of customers, methods used to distribute the Company s products and regulatory environment. Management believes that the Company meets the criteria for aggregating its operating segments of its continuing operations into a single reporting segment.

The Company has evaluated subsequent events through the date of this filing and has appropriately included all matters requiring disclosures herein.

2. New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, which amends Accounting Standards Codification (ASC) 820, Fair Value Measurements, by requiring additional disclosures for transfers in and out of levels 1 and 2 and activity in level 3 fair value measurements. Additionally, the amendment clarifies existing disclosure requirements surrounding the level of disaggregation and valuation techniques and inputs. This guidance became effective for us January 1, 2010 and did not have a material impact on our consolidated financial statements.

3. Discontinued Operations

In December 2009, the Company s Board of Directors authorized management to exit the non-core electronics products segment operated by its wholly-owned subsidiary, RTI Electronics, Inc. and divest the assets used in the business. The decision to exit the electronics products segment was made to allow the Company to focus on its core body-worn device segment and to improve the Company s overall margins and profitability. In connection with its decision to divest the electronics business, the Company evaluated assets for impairment and costs of terminating employees and recorded the following: (i) an impairment charge of $685,000 relating to goodwill, (ii) a reduction to realizable value of $720,000 to tangible assets, and (iii) $275,000 in employee termination costs for the year ended December 31, 2009. Additional costs related to employee terminations of $92,500 were recorded during the three months ended March 31, 2010. Additional future employee termination costs are expected to be approximately $90,000 in 2010.

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The following table shows the results of operations of the Company s electronic products segment (in thousands):

	Three Months Ended March 31, 2010	2009
Sales, net	$ 1,362	$ 1,486
Operating costs and expenses	(1,519)	(1,650)
Operating loss	(157)	(164)
Other expense, net	(3)	(3)
Loss from operations before income tax expense	(160)	(167)
Income tax expense		15
Net loss from discontinued operations	$ (160)	$ (182)

The following table shows the assets and liabilities of the electronic products segment at March 31, 2010 and December 31, 2009 (in thousands):

	2010	2009
Cash	$ 4	$ 5
Accounts receivable, net	801	757
Inventory, net	396	332
Other current assets	41	46
Current assets of discontinued operations	1,242	1,140
Property and equipment, net	98	116
Other assets of discontinued operations	26	26
Accounts payable	346	351
Accrued compensation and other liabilities	688	575
Current liabilities of discontinued operations	$ 1,034	$ 926

Information regarding the nonrecurring fair value measurement completed during the three month period ended December 31, 2009 was as follows:

2009 (in thousands):	Fair Value as of measurement date	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Impairment Charge
Long-lived assets and goodwill of discontinued operations	$ 116	$	$	$ 116	$ 910

There were no additional impairments identified for the three months ended March 31, 2010.

4. Acquisition

On August 13, 2009, the Company acquired all of the outstanding stock of Jon Barron, Inc. doing business as Datrix (Datrix), a privately held developer, manufacturer, tester and marketer of medical devices and related software products, based in Escondido, California. The acquisition provided the Company entry into the ambulatory electrocardiograph (AECG) and event recording markets.

The purchase price included a closing cash payment of $1,225,000, issuance of 75,000 shares of restricted common stock of the Company, valued at $270,000 based on the fair value of the common stock on August 13, 2009, and the issuance of a promissory note in the amount of $1,050,000 bearing annual interest at 6%, subject to adjustment. In addition, the Company paid off Datrix s outstanding line of credit with Wells Fargo of $130,000 at closing.

The principal amount of the promissory note is payable in three installments of $350,000 on August 13, 2010, August 13, 2011 and August 13, 2012. The note bears annual interest at 6% and is payable with each installment of principal as set forth above.

The assets and liabilities of Datrix were recorded as of the acquisition date at their respective fair values and consolidated with those of the Company. Likewise, the results of operations of the Datrix operations since August 13, 2009 have been included in the accompanying consolidated statements of operations. The allocation of the net purchase price of the acquisition resulted in goodwill of approximately $2,128,000. The goodwill represents operating and market synergies that the Company expects to be realized as a result of the acquisition and future opportunities and is not tax deductible. The purchase price allocation is based on estimates of fair values of assets acquired and liabilities assumed. The valuation required the use of significant assumptions and estimates. These estimates were based on assumptions the Company believed to be reasonable.

The purchase price was as follows as of August 13, 2009 (amounts in thousands):

Cash paid to seller at closing	$	1,225
Cash paid to Wells Fargo at closing		130
Stock consideration		270
Seller note at close		1,050
Total purchase price	$	2,675

The following table summarizes the purchase price allocation for the Datrix acquisition (amounts in thousands):

Cash	$	13
Other current assets		522
Intangible assets (weighted average life of 2.4 years)		125
Goodwill Body-Worn Segment		2,128
Current liabilities		(113)
Total preliminary purchase price allocation	$	2,675

Results from operations of Datrix are not considered material to the financial statements for 2009. Proforma results are also not considered material for 2009. Acquisition costs of $277,000 were primarily incurred and recorded in the three month period ended September 30, 2009.

5. Product Warranty

In general, the Company warrants its products to be free from defects in material and workmanship and will fully conform to and perform to specifications for a period of one year. The following table presents changes in the Company s warranty liability for the three months ended March 31, 2010:

		Three months ended March 31, 2010
Beginning balance (December 31, 2009)	$	70,700
Warranty expense		27,700
Closed warranty claims		
Ending balance (March 31, 2010)	$	98,400

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6. Geographic Information

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

	March 31, 2010	December 31, 2009
United States	$ 5,636,000	$ 5,893,000
Other	1,187,000	1,229,000
Consolidated	$ 6,823,000	$ 7,122,000

Long-lived assets consist of property and equipment as they are difficult to move and relatively illiquid. 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 months ended March 31, 2010 and 2009 were as follows:

	Three months ended March 31, 2010	Three months ended March 31, 2009
Net Sales to Geographical Areas:		
United States	$ 10,022,135	$ 8,380,328
Germany	887,381	572,849
China	839,557	532,923
Switzerland	201,518	162,611
Japan	267,589	424,175
France	394,588	422,988
Singapore	459,950	299,899
United Kingdom	76,811	150,019
Vietnam	272,993	163,703
Hong Kong	175,548	150,896
All other countries	955,394	583,571
Consolidated	$ 14,553,464	$ 11,843,962

Geographic net sales are allocated based on the location of the customer. All other countries include net sales primarily to various countries in Europe and in the Asian Pacific.

For the three months ended March 31, 2010, one customer accounted for 24 percent of the Company s consolidated net sales. For the three months ended March 31, 2009, two customers accounted for 16 percent and 13 percent of the Company s consolidated net sales, respectively.

At March 31, 2010, two customers accounted for 11 percent and 10 percent of the Company s consolidated accounts receivable, respectively. At December 31, 2009, two customers accounted for 16 percent and 11 percent of the Company s consolidated accounts receivable, respectively.

7. Inventories

Inventories consisted of the following at:

	Raw materials	Work-in process	Finished products and components	Total
March 31, 2010				
Domestic	$ 3,543,699	$ 1,638,338	$ 1,092,801	$ 6,274,838
Foreign	1,366,626	398,319	257,302	2,022,247
Total	$ 4,910,326	$ 2,036,657	$ 1,350,103	$ 8,297,085
December 31, 2009				
Domestic	$ 3,650,572	$ 1,679,985	$ 934,554	$ 6,265,111
Foreign	1,515,502	216,577	223,806	1,955,885
Total	$ 5,166,074	$ 1,896,562	$ 1,158,360	$ 8,220,996

8. Short and Long Term Debt

Short and long term debt is summarized as follows:

	March 31, 2010	December 31, 2009
Domestic Asset-Based Revolving Credit Facility	$ 3,985,000	$ 4,450,000
Foreign Overdraft and Letter of Credit Facility	708,000	678,000
Domestic Term Loan	3,075,000	3,250,000
Domestic Capital Equipment Leases	6,000	11,000
Note Payable Datrix Purchase	1,050,000	1,050,000
Total Debt	8,824,000	9,439,000
Less: Current maturities	(1,715,000)	(1,709,000)
Total Long Term Debt	$ 7,109,000	$ 7,730,000

To finance a portion of the Datrix acquisition and replace the Company s existing credit facilities with Bank of America, including capital leases, the Company and its domestic subsidiaries entered into a new three year credit facility with The PrivateBank and Trust Company on August 13, 2009. The credit facility provides for:

§ an $8,000,000 revolving credit facility, with a $200,000 subfacility 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 $3,500,000 term loan.

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 predefined levels of Funded Debt / EBITDA, at the option of the Company, at:

§ the London InterBank Offered Rate (LIBOR) plus 3.00% - 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 0.25% - 1.25%.

Weighted average interest on the new domestic asset-based revolving credit facility was 4.41% for the three months ended March 31, 2010 and 4.07% for the year ended December 31, 2009. The outstanding balance of the revolving credit facility was $3,985,000 and $4,450,000 at March 31, 2010 and December 31, 2009, respectively. The total remaining availability on the revolving credit facility was approximately $2,796,000 and $2,821,000 at March 31, 2010 and December 31, 2009, respectively.

The outstanding principal balance of the term loan is payable in quarterly installments of varying amounts ranging from $168,750 to $187,500. Any remaining principal and accrued interest is payable on August 13, 2012. 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.

In March 2010, the Company entered into an amendment with the PrivateBank to waive certain covenant violations at December 31, 2009 and January 31, 2010 and reset certain covenant thresholds defined in the original agreement. The Company was in compliance with all applicable covenants under the credit facility, as amended, as of March 31, 2010.

Upon termination of the Bank of America credit facility, the Company was required to settle the outstanding obligations of $121,000 for the liability related to its interest rate swap agreement with Bank of America and recognize the corresponding charge of $121,000 in interest expense in the three month period ended September 30, 2009, which was previously included in accumulated other comprehensive loss. In addition, the Company expensed the remaining deferred financing costs of $86,000 related to the Bank of America facility, which was also included in interest expense in the three month period ended September 30, 2009.

The prior credit facility provided for:

§ a $10,000,000 revolving credit facility, with a $200,000 subfacility for letters of credit. Under the revolving credit facility, the availability of funds depends on a borrowing base composed of stated percentages of our eligible trade receivables and eligible inventory, less a reserve.

§ a $4,500,000 term loan, which was used to fund the Company s May, 2007 acquisition of Tibbetts Industries, Inc.

Loans under the credit facility were secured by a security interest in substantially all of the assets of the borrowers including a pledge of the stock of the subsidiaries. All of the borrowers were jointly and severally liable for all borrowings under the credit facility.

In June 2008, the Company completed a sale-leaseback of machinery and equipment with Bank of America. The transaction generated proceeds of $1,098,000, of which $1,013,000 was used to pay down the domestic term loan. The facility was repaid on August 13, 2009 with proceeds borrowed under the new PrivateBank 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 a $1.8 million 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 4.04% for the three months ended March 31, 2010 and the outstanding balance was $708,000 and $678,000 at March 31, 2010 and December 31, 2009, respectively. The total remaining availability on the international senior secured credit agreement was approximately $1,150,000 and $1,177,000 at March 31, 2010 and December 31, 2009, respectively.

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9. Income Taxes

Income tax expense for the three months ended March 31, 2010 was $11,000 compared to benefit of $50,000 for the same period in 2009. The expense (benefit) for the three months ended March 31, 2010 and 2009 were primarily due to foreign operating income (loss). 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 that the Company has operations for the three months ended March 31, 2010 and 2009:

	Three months ended	
	March 31, 2010	March 31, 2009
United States	$ 157,879	$ (596,219)
Singapore	(26,090)	(220,393)
Germany	51,176	(40,092)
Income (loss) before income taxes and discontinued operations	$ 188,965	$ (856,704)

10. Stockholders Equity and Stock-based Compensation

The Company has a 1994 stock option plan, a 2001 stock option plan, a non-employee directors stock option plan and a 2006 equity incentive plan. New grants may not be made under the 1994, the 2001 and the non-employee directors stock option plans; however certain option grants under these plans remain exercisable as of March 31, 2010. The aggregate number of shares of common stock for which awards could be granted under the 2006 Equity Incentive Plan as of the date of adoption was 698,500 shares. Additionally, as outstanding options under the 2001 stock option plan and non-employee directors stock option plan expire, the shares of the Company s common stock subject to the expired options will become available for issuance under the 2006 Equity Incentive Plan. On April 21, 2010, the Company s shareholders approved an amendment to the 2006 Equity Incentive Plan to increase (i) the authorized number of shares of the Company s common stock reserved and issuable under the plan by an additional 250,000 shares and (ii) the maximum number of incentive stock options that may be granted under the plan to be the same as the maximum number of shares that may be granted under the plan. The amendment was approved by the Company s board of directors in March, 2010 and subsequently approved by shareholders.

Under the various plans, executives, employees and outside directors receive awards of options to purchase common stock. Under the 2006 Equity Incentive Plan, 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 programs discussed in the next two paragraphs, had been granted as of March 31, 2010. Under all awards, the terms are fixed on the grant date. Generally, the exercise price 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 2006 equity incentive plan. The director program gives each non-employee director the right under the 2006 equity incentive plan to elect to have some or all of his quarterly director fees paid in common shares rather than cash. There were 785 and 827 shares issued in lieu of cash for director fees under the director program for the three months ended March 31, 2010 and 2009, 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 2006 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 $100,000 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, 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 three months ended March 31, 2010 and 2009, respectively.

Stock option activity as of and during the three months ended March 31, 2010 was as follows:

	Number of Shares	Weighted-average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2009	1,053,800	$ 5.67	
Options forfeited			
Options granted	85,000	3.16	
Options exercised			
Outstanding at March 31, 2010	1,138,800	$ 5.49	$
Exercisable at March 31, 2010	822,100	$ 5.28	$
Available for future grant at December 31, 2009	161,404		
Available for future grant at March 31, 2010	75,814		

The number of shares available for future grant at March 31, 2010 does not include a total of up to 397,700 shares subject to options outstanding under the 2001 stock option plan and non-employee directors stock option plan as of March 31, 2010, which will become available for grant under the 2006 Equity Incentive Plan in the event of the expiration of such options.

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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 $1.71, respectively, for options granted during the three months ended March 31, 2010. The weighted average fair value of options granted was $1.83 for options granted during the three months ended March 31, 2009.

The Company calculates expected volatility for stock options and awards using both historical volatility as well as the average volatility of our peer competitors. The Company s historical volatility is not the sole input due to the material changes in the Company s operations as a result of the sales of business segments that occurred in 2005 and May 2010.

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

The Company also has an Employee Stock Purchase Plan (the Purchase Plan). A maximum of 100,000 shares may be sold under the Purchase Plan. There were 3,765 shares purchased under the plan for the three months ended March 31, 2010 and a total of 9,740 shares purchased for the three months ended March 31, 2009.

The risk-free rates for the expected terms of the stock options and awards and the Purchase Plan is 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 March 31, 2010 was 5.1 years.

The Company recorded $119,000 and $137,000 of non-cash stock option expense for the three months ended March 31, 2010 and 2009, respectively. As of March 31, 2010, there was $560,000 of total unrecognized compensation costs related to non-vested awards that are expected to be recognized over a weighted-average period of 1.4 years.

11. Income Per Share

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Numerators:		
Income (loss) before discontinued operations	$ 178,274	$ (807,176)
Loss from discontinued operations, net of taxes	(159,978)	(182,114)
Net income (loss)	$ 18,296	$ (989,290)
Denominator:		
Basic weighted shares outstanding	5,470,858	5,343,033
Weighted shares assumed upon exercise of stock options		
Diluted weighted shares outstanding	5,470,858	5,343,033
Basic and diluted (loss) earnings per share:		
Continuing operations	$ 0.03	$ (0.15)
Discontinued operations	(0.03)	(0.04)
Basic and diluted (loss) earnings per share:	$ 0.00	$ (0.19)

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 market method when computing the diluted earnings per share.

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Excluded from the computation of diluted earnings per share for the three months ended March 31, 2010 and 2009, were options out of the money with rights to purchase approximately 651,100 and 990,650 common shares, respectively, with an average exercise price of $7.61 and $5.86, respectively, because the effect would have been anti-dilutive.

12. Derivative Financial Instruments

Derivative financial instruments are used by the Company in the management of its interest rate and foreign currency exposure. There were no foreign currency derivative financial instruments for the periods presented. The Company does not hold or issue derivative financial instruments for trading purposes. When entered into, the Company formally designates the derivative financial instrument as a hedge of a specific underlying exposure if such criteria are met, and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally assesses, both at inception and at least quarterly thereafter, whether the derivative financial instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Because of the high correlation between the derivative financial instrument and the underlying exposure being hedged, fluctuations in the value of the derivative financial instruments are generally offset by changes in the fair values or cash flows of the underlying exposures being hedged. Any ineffective portion of a derivative financial instrument s change in fair value is immediately recognized in earnings.

The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in accumulated other comprehensive loss and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or accounts receivable and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated.

Upon termination of the Bank of America credit facility, the Company was required to settle the outstanding obligations of $121,000 for the liability related to its interest rate swap agreement with Bank of America and recognize the corresponding charge of $121,000 in interest expense in the three month period ended September 30, 2009, which was previously included in other comprehensive income.

In conjunction with the new credit facility, the Company entered into an interest rate swap agreement with The Private Bank and Trust Company. At March 31, 2010, the Company had a United States Dollar (USD) denominated interest rate swap outstanding which effectively fixed the interest rate on floating rate debt, exclusive of lender spreads, at 5.36% for a notional principal amount of $2,000,000 through September 2010.

Interest rate swaps, which are considered derivative instruments, of $0 and $35,000 are reported on the balance sheet at fair value in other current liabilities at March 31, 2010 and December 31, 2009, respectively.

13. Comprehensive Income (Loss)

The components of comprehensive (loss) income were as follows:

	Three months ended March 31, 2010	Three months ended March 31, 2009
Net income (loss)	$ 18,296	$ (989,290)
Change in fair value of interest rate swap	34,600	12,256
(Loss) gain on foreign currency translation adjustment	(42,104)	(26,468)
Comprehensive (loss) income	$ 10,792	$ (1,003,502)

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14. Legal Proceedings

We are a defendant along with a number of other parties in approximately 122 lawsuits as of March 31, 2010, (approximately 122 lawsuits as of December 31, 2009) 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. Due to the noninformative nature of the complaints, we do not know whether any of the complaints state valid claims against us. Certain insurance carriers have informed us that the primary policies for the period August 1, 1970-1973, have been exhausted and that the carriers will no longer provide a defense under those policies. We have requested that the carriers substantiate this situation. We believe we have additional policies available for other years which have been ignored by the carriers. Because settlement payments are applied to all years a litigant was deemed to have been exposed to asbestos, we believe when settlement payments are applied to these additional policies, we will have availability under the years deemed exhausted. We do not believe that the asserted exhaustion of the primary insurance coverage for this period will have a material adverse effect on our 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, to which these insurance carriers are insuring us, make the ultimate disposition of these lawsuits not material to our consolidated financial position or results of operations.

The Company s former wholly owned French subsidiary, Selas SAS, filed for insolvency in France and is being managed by a court appointed administrator. The Company may be subject to additional litigation or liabilities as a result of the French insolvency proceeding.

We are 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.

15. 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. In the opinion of management, the terms of the lease agreement are comparable to those which could be obtained from unaffiliated third parties. The total base rent expense, real estate taxes and other charges incurred under the lease was approximately $121,000 and $119,000 for each of the three months ended March 31, 2010 and 2009, respectively. Annual lease commitments, which include base rent expense, real estate taxes and other charges, approximate $477,000 through October 2011.

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 months ended March 31, 2010 and 2009, the Company paid that firm approximately $16,000 and $20,000, respectively, for legal services and costs. The Chairman of our Board of Directors is considered independent under applicable Nasdaq and SEC 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.

16. Statements of Cash Flows

The following table provides supplemental disclosures of cash flow information:

	Three months ended March 31, 2010	Three months ended March 31, 2009
Interest received	$ 304	$ 439
Interest paid	114,474	79,921
Income taxes paid	6,537	75,784

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17. Investment in Partnerships

The Company owns a 9% partnership interest in the Hearing Instrument Manufacturers Patent Partnership (HIMPP), and is a party to a license agreement that grants the Company access to over 45 US registered patents. The Company recorded a $37,000 decrease in the carrying amount of the investment, reflecting amortization of the patents, other intangibles and the Company s portion of the partnership s operating results for each of the three months ended March 31, 2010 and 2009, respectively.

The Company s subsidiary, IntriCon Tibbetts Corporation, owns a 50% interest in a joint venture with a Swiss company to market, design, manufacture, and sell audio coils to the hearing health industry. The Company has recorded a $25,000 increase and a $50,000 decrease in the carrying amount of the investment, reflecting the Company s portion of the joint venture s operating results for the three months ended March 31, 2010 and 2009, respectively.

Condensed financial information of the unaudited joint venture was as follows:

	March 31, 2010	December 31, 2009
Balance Sheet:		
Current assets	$ 806,000	$ 833,000
Non-current assets	262,000	224,000
Total assets	$ 1,068,000	$ 1,057,000
Current liabilities	565,000	604,000
Non-current liabilities		
Stockholders equity	503,000	453,000
Total liabilities and stockholders equity	$ 1,068,000	$ 1,057,000

	Three Months Ended	
	March 31, 2010	March 31, 2009
Income Statement:		
Net revenues	$ 839,000	$ 446,000
Net income (loss)	$ 50,000	$ (100,000)

18. Revenue by Market

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

	Three Months Ended	
	March 31, 2010	March 31, 2009
Hearing Health	$ 5,370,000	$ 4,411,000
Medical	6,508,000	5,285,000
Professional Audio Communications	2,675,000	2,148,000
Total Revenue	$ 14,553,000	$ 11,844,000

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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 our) is an international firm engaged in designing, developing, engineering and manufacturing body-worn devices.

In addition to its operations in Minnesota, the Company has facilities in Maine, Singapore and Germany.

Currently, the Company operates in one business segment, the body-worn device segment. In 2009, the Company decided to exit its non-core electronic products segment, to allow for greater focus on its body-worn device segment. The Company is in the process of disposing the assets relating to the electronic products segment. For all periods presented, the Company classified its former electronics products segment as discontinued operations.

Market Overview: Body-Worn Devices

Products and Industries Served

IntriCon designs, develops and manufactures miniature and micro-miniature body-worn products based on its proprietary technology to meet the rising demand for smaller, portable and more advanced devices. 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 that enhances the performance of body-worn devices.

Medical

In the medical market, the Company is focused on sales of multiple bio-telemetry devices from life-critical diagnostic monitoring devices to drug-delivery systems. Using our nanoDSP and ULP nanoLink technology, 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. Targeted customers include medical product manufacturers of portable and lightweight battery powered devices, as well as a variety of sensors designed to connect a patient to an electronic device.

The medical industry is faced with pressures to reduce the costs of healthcare. IntriCon currently serves this market by offering medical manufacturers the capabilities to design, develop and manufacture components for medical devices that are easier to use, more miniature, use less power, and lighter. These devices measure with greater accuracy and provide more functions while reducing the costs to manufacture these devices. IntriCon manufactures and supplies bubble sensors and flow restrictors that monitor and control the flow of fluid in an intravenous infusion system. IntriCon also manufactures 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. Other examples include sensors used to detect pathologies in specific organs of the body and monitoring devices to detect cardiac, respiratory functions, and blood glucose levels. The early and accurate detection of pathologies allows for increased likelihood for successful treatment of chronic diseases and cancers. Accurate monitoring of multiple functions of the body, such as heart rate, breathing and blood glucose levels, aids in generating more accurate diagnosis and treatments for patients.

In addition, there has been an industry-wide trend toward further miniaturization and ambulatory operation enabled by wireless connectivity, which is also referred to as bio-telemetry. Through the further development of our ULP BodyNet family, a series of wirelessly enabled products including our new wireless nanoLink and physioLink families, we believe the bio-telemetry offers a significant future opportunity. Increasingly, the medical industry is looking for wireless, low-power capabilities in their devices. We believe our strategic partnership with Advanced Medical Electronics Corp. (AME) will allow us to develop new bio-telemetry devices that better connect patients and care givers, providing critical information and feedback. Current examples of IntriCon bio-telemetry products used by medical device manufacturers include components found in wireless glucose sensor pumps that introduce drugs into the bloodstream. In 2009, we also entered the cardiac diagnostic monitoring (CDM) market with our acquisition of Datrix, a supplier of patient monitoring devices. We are leveraging Datrix s cardiac monitoring capabilities and incorporating IntriCon s core competencies to develop and launch a new line of CDM devices, including a wireless CDM device that we call Centauri (formerly referred to as MPETS), which we anticipate will be available for sale later in 2010.

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Hearing Health

IntriCon manufactures hybrid amplifiers and integrated circuit components (hybrid amplifiers), along with faceplates for in-the-ear and in-the-canal hearing instruments. IntriCon is a leading manufacturer and supplier of microminiature electromechanical components to hearing instrument manufacturers. These components consist of volume controls, microphones, receivers, trimmer potentiometers and switches. Components are offered in a variety of sizes, colors and capacities in order to accommodate a hearing manufacturer s individualized specifications.

Hearing instruments, which fit behind or in a person s ear to amplify and process sound for a hearing impaired person, generally are composed of four basic parts and several supplemental components for control or fitting purposes. The four basic parts are microphones, amplifier circuits, miniature receivers/speakers and batteries, all of which IntriCon manufactures, with the exception of the battery. IntriCon s hybrid amplifiers are a type of amplifier circuit. Supplemental components include volume controls, trimmer potentiometers, which shape sound frequencies to respond to the particular nature of a person s hearing loss, and switches used to turn the instrument on and off and to go from telephone to normal speech modes. Faceplates and an ear shell, molded to fit the user s ear, often serve as housing for hearing instruments. IntriCon manufactures its components on a short lead-time basis in order to supply just-in-time delivery to its customers and, consequently, order backlog amounts are not meaningful.

Using our ULP BodyNet family technology, specifically nanoDSP and our new wireless nanoLink and physioLink technologies, IntriCon is building a new generation of affordable, high-quality hearing aids and similar amplifier devices under contracts for OEM s. DSP devices have better clarity, attractive pricing points and an improved ability to filter out background noise. During 2009, we introduced our Scenic DSP amplifier with acoustic scene analysis, our new high-performance adaptive DSP hearing instrument amplifier. In our view, Scenic advanced capabilities are ideally suited for the hearing health market. Additionally, in 2010 we introduced the Overtus DSP amplifier. The Overtus DSP amplifier is designed to optimize open in the canal (ITC) type fittings. The amplifier algorithm contains two patented features, an advanced adaptive feedback canceller optimized for open ITC fittings and an acoustic switch eliminating the need for a mechanical switch and allowing for further miniaturization. We believe the introduction of both Scenic and Overtus solidifies our position as a leader of high-performance adaptive DSP hearing instrument amplifiers. Furthermore, we believe our strategic alliance with Dynamic Hearing will allow us to develop new body-worn applications and further expand both our hearing health and professional audio product portfolio.

Overall, we believe the hearing health market holds significant opportunities for the Company. In the United States, Europe and Japan, the 65-year-old-plus age demographic is the fastest growing segment of the population, and many of those individuals could, at some point, benefit from a hearing device that uses IntriCon s proprietary technology.

While it harbors great potential, the hearing health market is experiencing slowness due to macroeconomic conditions. In general, the U.S. market does not provide insurance reimbursement for hearing aid purchases. People can defer their hearing aid purchase. We believe the hearing health market will experience slow, steady growth in 2010. Reimbursement trends in Europe are more favorable, with insurers and the governments covering more devices.

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 homeland security and 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. Our May 2007 acquisition of Tibbetts Industries provided the Company access to homeland security agencies in this market. 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.

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In 2010, we plan to introduce a line of situational listening devices (SLD s) intended to help hearing impaired people hear in noisy environments like restaurants and automobiles, and to listen to television and music by direct wireless connection. Such devices are intended to be supplements to their conventional hearing aids, which do not handle those situations well. The SLD s will be based on our ULP wireless nanoLink technology and our physioLink technology, which was recently demonstrated at the annual convention of the American Academy of Audiology. The product line consists of an earpiece, TV transmitter, companion microphone, iPod/iPhone transmitter, and USB transmitter.

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 , expect , should , optimi continue or the 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, 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:

§ the ability to successfully implement the Company s 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 therewith;

§ the volume and timing of orders received by the Company;

§ changes in estimated future cash flows;

§ ability to collect on our accounts receivable;

§ foreign currency movements in markets the Company services;

§ changes in the global economy and financial markets;

§ weakening demand for the Company s products due to general economic conditions;

§ changes in the mix of products sold;

§ ability to meet demand;

§ changes in customer requirements;

§ timing and extent of research and development expenses;

§ acceptance of the Company s products;

§ competitive pricing pressures;

§ pending and potential future litigation;

§ cost and availability of electronic components and commodities for the Company s products;

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

§ ability to comply with covenants in our debt agreements;

§ ability to repay debt when it comes due;

§ the loss of one or more of our major customers;

§ ability to identify and integrate Datrix and other acquisitions;

§ effects of legislation;

§ effects of foreign operations;

§ foreign currency risks;

§ ability to recruit and retain engineering and technical personnel;

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- the costs and risks associated with research and development investments;
- our ability and the ability of our customers to protect intellectual property;
- loss of members of our senior management team; and
- our ability to liquidate the assets marked as discontinued operations

For a description of these and other risks, see Risk Factors in Part I, Item 1A: Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, 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.

Results of Operations

Sales, net

Consolidated net sales for the three months ended March 31, were as follows (in thousands):

	2010	2009	Change Dollars	Change Percent
Consolidated net sales	$ 14,553	$ 11,844	$ 2,709	22.9%

Our net sales are comprised of three main markets: hearing health, medical and professional audio device. Below is a summary of our sales by main markets for the three months ended March 31, 2010 and 2009 (in thousands):

	2010	2009	Change Dollars	Change Percent
Medical	$ 6,508	$ 5,285	$ 1,223	23.1%
Hearing Health	$ 5,370	$ 4,411	$ 959	21.7%
Professional Audio Communications	$ 2,675	$ 2,148	$ 527	24.5%

For the three months ended March 31, 2010, we experienced an increase of 23 percent in net sales in the medical equipment market as a direct result of increased sales to existing OEM customers. Management believes there is an industry-wide trend toward further miniaturization and ambulatory operation enabled by wireless connectivity, referred to as bio-telemetry, which resulted in further growth in our medical business. We have experienced solid growth in our most advanced biotelemetry device, a continuous wireless glucose monitor, which we manufacture for a major medical OEM. We are also working with our strategic partner, AME, on proprietary biotelemetry technologies that will enable us to develop new devices that connect patients and care givers, providing critical information and feedback.In 2009, we also entered the cardiac diagnostic monitoring (CDM) market, with our acquisition of Datrix, a supplier of patient monitoring devices.

Net sales in our hearing health business for the three months ended March 31, 2010 increased 22 percent from the same period in 2009, primarily due to higher demand from our customers and general pickup in the economy. We believe our longer term prospects in our hearing health business remain strong as we continue to develop advanced technologies, such as our nanoDSP , which will enhance the performance of hearing devices. In addition, we believe the market indicators in the hearing health industry, including the aging world population, suggest long-term industry growth.

Net sales to the professional audio device sector increased 25 percent for the three month period ended March 31, 2010 compared to the same period in 2009, primarily due to higher demand from our customers and general pickup in the economy. We believe our extensive portfolio of communication devices that are portable and perform well in noisy or hazardous environments will provide for future long-term growth in this market. These products are well suited for applications in fire, law enforcement, safety, aviation and military markets.

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Gross profit

Gross profit, both in dollars and as a percent of sales, for the three months ended March 31, was as follows (in thousands):

	2010		2009		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Gross profit	$ 3,676	25.3%	$ 2,176	18.4%	$ 1,500	68.9%

In 2010, gross profit increased primarily due to higher sales volume and product mix. We have various activities underway to further increase our gross profit, such as transferring our microphone and receiver production from our Maine operation to our lower cost Singapore facility, increasing the percentage of IntriCon proprietary content in the devices we manufacture and working to introduce Six Sigma lean manufacturing methods into key medical device product lines.

Selling, general and administrative expenses

Selling, general and administrative expenses (SG&A) for the three months ended March 31 were as follows (in thousands):

	2010		2009		Change	
	Dollars	Percent of Sales	Dollars	Percent of Sales	Dollars	Percent
Operating expenses:						
Selling	$ 787	5.4%	$ 619	5.2%	$ 168	27.1%
General and Administrative	1,444	9.9	1,378	11.6	66	4.8%
Research and Development	1,119	7.7	881	7.4	238	27.0%

The increased selling expenses for the three months ended March 31, 2010 as compared to the prior year period were driven by increases in royalties and commissions as a result of higher revenues and additional sales expense from the August 2009 acquisition of Datrix. The slight increase in general and administrative expenses was primarily driven by additional operating expenses from the acquisition of Datrix. The increased research and development expenses as compared to the prior year were due to our continued emphasis on investing in research and development projects to develop new products and technology to further enhance our product portfolio.

Interest expense

Net interest expense for the three months ended March 31, 2010 was $170,000 compared to $125,000 for the same period in 2009. The increase in interest expense was due primarily to the August 13, 2009 debt financing with The PrivateBank and Trust Company including both higher interest rates and borrowings.

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Equity in earnings (loss) of partnerships

The equity in (loss) earnings of partnerships for the three months ended March 31, 2010 was ($12,000) compared to ($87,000) for the same period in 2009, due to changes in carrying amounts described below.

The Company recorded a $37,000 decrease in the carrying amount of the HIMPP investment, reflecting amortization of the patents, other intangibles and the Company s portion of the partnership s operating results for both the three months ended March 31, 2010 and 2009, respectively.

The Company recorded a $25,000 increase and a $50,000 decrease in the carrying amount of IntriCon Tibbetts Corporation s investment in joint venture, reflecting the Company s portion of the joint venture s operating results for the three months ended March 31, 2010 and 2009, respectively.

Other income, net

Other income, net for the three months ended March 31, 2010, was $45,000, compared to other income, net of $57,000 for the same period in 2009.

Income taxes

Income tax expense (benefit) for the three months ended March 31, 2010, was $11,000, compared to a benefit of ($50,000) and for the same period in 2009. The expense and (benefit) for the three months ended March 31, 2010 and 2009 were primarily due to foreign operating income (loss).

Liquidity and Capital Resources

As of March 31, 2010, we had approximately $0.5 million of cash on hand. Sources of our cash for the three months ended March 31, 2010 have been from our operations, 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 (in thousands):

	Three months Ended March 31, 2010	Three months Ended March 31, 2009
Cash provided by (used in):		
Operating activities	$ 965	$ 435
Investing activities	(462)	(159)
Financing activities	(390)	(277)
Effect of exchange rate changes on cash	(7)	(5)
Increase (decrease) in cash and cash equivalents	$ 106	$ (6)

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The most significant items that contributed to the $1.0 million of cash provided by operating activities were changes in operating assets and liabilities of $0.1 million and improved net income. The change in operating assets and liabilities was primarily due to increases in accounts receivable, partially offset by increases in accrued expenses. The change in accounts receivable was due to higher revenue and the timing of sales and customer payments. The change in accrued expenses was primarily due to more accrued expense for commissions, salary and benefits.

Net cash used by investing of activities consisted of purchases of property, plant and equipment of $0.5 million.

Net cash used by financing activities of $0.4 million was comprised primarily of net payments of debt of $0.6 million.

The Company had the following bank arrangements (in thousands):

	March 31, 2010	December 31, 2009
Total borrowing capacity under existing facilities	$ 11,713	$ 12,376
Facility Borrowings:		
Domestic revolving credit facility	3,985	4,450
Domestic term loan	3,075	3,250
Foreign overdraft and letter of credit facility	708	678
Total borrowings and commitments	7,768	8,378
Remaining availability under existing facilities	$ 3,945	$ 3,998

To finance a portion of the Datrix acquisition and replace the Company s existing credit facilities with Bank of America, including capital leases, the Company and its domestic subsidiaries entered into a new three year credit facility with The PrivateBank and Trust Company on August 13, 2009. The credit facility provides for:

§ an $8,000,000 revolving credit facility, with a $200,000 subfacility 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 $3,500,000 term loan.

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 predefined levels of Funded Debt / EBITDA, at the option of the Company, at:

§ the London InterBank Offered Rate (LIBOR) plus 3.00% - 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 0.25% - 1.25%.

Weighted average interest on the new domestic asset-based revolving credit facility was 4.41% for the three months ended March 31, 2010 and 4.07% for the year ended December 31, 2009. The outstanding balance of the revolving credit facility was $3,985,000 and $4,450,000 at March 31, 2010 and December 31, 2009, respectively. The total remaining availability on the revolving credit facility was approximately $2,796,000 and $2,821,000 at March 31, 2010 and December 31, 2009, respectively.

The outstanding principal balance of the term loan is payable in quarterly installments of varying amounts ranging from $168,750 to $187,500. Any remaining principal and accrued interest is payable on August 13, 2012. 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.

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In March 2010, the Company entered into an amendment with the PrivateBank to waive certain covenant violations at December 31, 2009 and January 31, 2010 and reset certain covenant thresholds defined in the original agreement. The Company was in compliance with all applicable covenants under the credit facility, as amended, as of March 31, 2010.

Upon termination of the Bank of America credit facility, the Company was required to settle the outstanding obligations of $121,000 for the liability related to its interest rate swap agreement with Bank of America and recognize the corresponding charge of $121,000 in interest expense in the three month period ended September 30, 2009, which was previously included in other accumulated comprehensive loss. In addition, the Company expensed the remaining deferred financing costs of $86,000 related to the Bank of America facility, which was also included in interest expense in the three month period ended September 30, 2009.

The prior credit facility provided for:

- a $10,000,000 revolving credit facility, with a $200,000 subfacility for letters of credit. Under the revolving credit facility, the availability of funds depends on a borrowing base composed of stated percentages of our eligible trade receivables and eligible inventory, less a reserve.
- a $4,500,000 term loan, which was used to fund the Company s May, 2007 acquisition of Tibbetts Industries, Inc.

Loans under the credit facility were secured by a security interest in substantially all of the assets of the borrowers including a pledge of the stock of the subsidiaries. All of the borrowers were jointly and severally liable for all borrowings under the credit facility.

In June 2008, the Company completed a sale-leaseback of machinery and equipment with Bank of America. The transaction generated proceeds of $1,098,000, of which $1,013,000 was used to pay down the domestic term loan. The facility was repaid on August 13, 2009 with proceeds borrowed under the new PrivateBank 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 a $1.8 million 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 4.04% for the three months ended March 31, 2010 and the outstanding balance was $708,000 and $678,000 at March 31, 2010 and December 31, 2009, respectively. The total remaining availability on the international senior secured credit agreement was approximately $1,150,000 and $1,177,000 at March 31, 2010 and December 31, 2009, respectively.

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 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. 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.

Recent Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, which amends ASC 820, Fair Value Measurements, by requiring additional disclosures for transfers in and out of levels 1 and 2 and activity in level 3 fair value measurements. Additionally, the amendment clarifies existing disclosure requirements surrounding the level of disaggregation and valuation techniques and inputs. This guidance became effective for us January 1, 2010 and did not have a material impact on our consolidated financial statements.

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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, 2009.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

For information regarding the Company s exposure to certain market risks, see Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. There have been no material changes in the Company s market risk exposures which have occurred since December 31, 2009.

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 March 31, 2010 (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 March 31, 2010, 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.

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PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

The information contained in note 14 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 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, 2009, 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. (Removed and Reserved)

ITEM 5. Other Information

None.

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ITEM 6. Exhibits

(a) Exhibits

10.1	First Amendment and Waiver dated March 12, 2010 to Loan and Security Agreement dated as of August 13, 2009 by and among IntriCon Corporation, RTI Electronics, Inc., IntriCon Tibbetts Corporation, IntriCon Datrix Corporation and The PrivateBank and Trust Company.
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

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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: May17, 2010	By: /s/ Mark S. Gorder Mark S. Gorder President and Chief Executive Officer (principal executive officer)
Date: May 17, 2010	By: /s/ Scott Longval Scott Longval Chief Financial Officer and Treasurer (principal financial officer)

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