INVACARE CORP
Form 10-Q
August 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 001-15103

INVACARE CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	95-2680965
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One Invacare Way, P.O. Box 4028, Elyria, Ohio	44036
(Address of principal executive offices)	(Zip Code)

(440) 329-6000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 (the “Exchange Act”) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “small reporting company” in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 8, 2013, the registrant had 30,918,692 Common Shares and 1,084,747 Class B Common Shares outstanding.

Table of Contents

INVACARE CORPORATION
INDEX

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

INVACARE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statement of Comprehensive Income (Loss) (unaudited)

(In thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales	$351,796	$372,719	$689,412	$727,819
Cost of products sold	255,716	256,935	497,554	501,438
Gross Profit	96,080	115,784	191,858	226,381
Selling, general and administrative expenses	104,929	104,461	208,948	205,174
Charges related to restructuring activities	2,592	2,006	5,114	2,567
Loss on debt extinguishment including debt finance charges and associated fees	—	312	—	312
Interest expense	1,024	2,299	2,351	4,650
Interest income	(74)	(143)	(181)	(444)
Earnings (loss) from Continuing Operations Before Income Taxes	(12,391)	6,849	(24,374)	14,122
Income tax (benefit) provision	10,650	11,155	3,200	12,823
Net Earnings (loss) from Continuing Operations	(23,041)	(4,306)	$(27,574)	$1,299
Net Earnings from Discontinued Operations (Net of tax amounts of $0; $1,370; $10 and $1,852)	—	2,329	392	4,957
Gain on Sale of Discontinued Operations (Net of tax amounts of ($10,580) and $9,500)	10,580	—	49,902	—
Total Net Earnings from Discontinued Operations	10,580	2,329	50,294	4,957
Net Earnings	$(12,461)	$(1,977)	22,720	6,256
Dividends Declared per Common Share	$0.0125	$0.0125	$0.0250	$0.0250
Net Earnings per Share—Basic				
Net Earnings (loss) from Continuing Operations	$(0.72)	$(0.14)	$(0.86)	$0.04
Net Earnings from Discontinued Operations	$0.33	$0.07	$1.58	$0.16
Net Earnings per Share—Basic	$(0.39)	$(0.07)	$0.72	$0.20
Weighted Average Shares Outstanding—Basic	31,902	31,818	31,902	31,819
Net Earnings per Share—Assuming Dilution				
Net Earnings (loss) from Continuing Operations	$(0.72)	$(0.14)	$(0.86)	$0.04
Net Earnings from Discontinued Operations	$0.33	$0.07	$1.57	$0.16
Net Earnings per Share—Assuming Dilution	$(0.39)	$(0.07)	$0.71	$0.20
Weighted Average Shares Outstanding—Assuming Dilution	32,024	31,822	31,980	31,822
Net Earnings	$(12,461)	$(1,977)	$22,720	$6,256
Other comprehensive income (loss):				
Foreign currency translation adjustments	(7,738)	(40,386)	(9,236)	(40,052)
Defined Benefit Plans:				
Amortization of prior service costs and unrecognized gains	236	(130)	536	98
Amounts arising during the year, primarily due to the addition of new participants	—	(133)	(166)	(168)
	(80)	37	(128)	26

Deferred tax adjustment resulting from defined benefit plan activity				
Valuation reserve associated with defined benefit plan activity	74	(41)	124	(30)
Current period unrealized gain on cash flow hedges	(694)	253	883	1,046
Deferred tax loss related to unrealized gain on cash flow hedges	39	23	(42)	(111)
Other Comprehensive Income	(8,163)	(40,377)	(8,029)	(39,191)
Comprehensive Income	$(20,624)	$(42,354)	$14,691	$(32,935)

See notes to condensed consolidated financial statements.

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (unaudited)

	June 30, 2013	December 31, 2012
	(In thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$21,447	$38,791
Trade receivables, net	205,369	198,791
Installment receivables, net	1,814	2,188
Inventories, net	174,607	183,246
Deferred income taxes	1,140	—
Other current assets	36,645	41,776
Assets held for sale - current	—	103,157
Total Current Assets	441,022	567,949
Other Assets	42,467	42,262
Other Intangibles	66,599	71,652
Property and Equipment, net	112,442	118,231
Goodwill	459,867	462,200
Total Assets	$1,122,397	$1,262,294
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$115,891	$133,048
Accrued expenses	131,835	135,189
Accrued income taxes	9,240	2,713
Short-term debt and current maturities of long-term obligations	1,778	5,427
Liabilities held for sale - current	—	23,358
Total Current Liabilities	258,744	299,735
Long-Term Debt	113,274	229,375
Other Long-Term Obligations	112,916	112,195
Shareholders' Equity		
Preferred Shares (Authorized 300 shares; none outstanding)	—	—
Common Shares (Authorized 100,000 shares; 34,054 and 33,952 issued in 2013 and 2012, respectively)—no par	8,531	8,503
Class B Common Shares (Authorized 12,000 shares; 1,085 and 1,086 issued and outstanding in 2013 and 2012, respectively)—no par	272	272
Additional paid-in-capital	230,734	228,187
Retained earnings	386,475	364,546
Accumulated other comprehensive earnings	104,714	112,743
Treasury shares	(93,263)	(93,262)
Total Shareholders' Equity	637,463	620,989
Total Liabilities and Shareholders' Equity	$1,122,397	$1,262,294

See notes to condensed consolidated financial statements.

FS-2

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Cash Flows (unaudited)

	Six Months Ended June 30,	
	2013	2012
Operating Activities	(In thousands)	
Net earnings	$22,720	$6,256
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of business (pre-tax)	(59,402)	—
Depreciation and amortization	18,929	19,448
Provision for losses on trade and installment receivables	1,603	2,828
Provision (Benefit) for deferred income taxes	(163)	68
Provision for other deferred liabilities	126	557
Provision for stock-based compensation	2,574	2,990
Loss on disposals of property and equipment	135	72
Loss on debt extinguishment including debt finance charges and associated fees	—	312
Amortization of convertible debt discount	307	285
Changes in operating assets and liabilities:		
Trade receivables	(8,429)	(13,089)
Installment sales contracts, net	(134)	3,508
Inventories	3,405	(29,571)
Other current assets	4,009	304
Accounts payable	(18,852)	9,142
Accrued expenses	3,004	(4,831)
Other long-term liabilities	204	9,469
Net Cash Provided (Used) by Operating Activities	(29,964)	7,748
Investing Activities		
Purchases of property and equipment	(7,666)	(9,794)
Proceeds from sale of property and equipment	9	49
Proceeds from sale of business	144,681	—
Increase in other long-term assets	(422)	(150)
Other	(30)	(265)
Net Cash Provided (Used) by Investing Activities	136,572	(10,160)
Financing Activities		
Proceeds from revolving lines of credit and long-term borrowings	196,399	170,808
Payments on revolving lines of credit and long-term borrowings	(318,963)	(176,334)
Payment of financing costs	—	(1)
Payment of dividends	(791)	(787)
Net Cash Used by Financing Activities	(123,355)	(6,314)
Effect of exchange rate changes on cash	(597)	(703)
Decrease in cash and cash equivalents	(17,344)	(9,429)
Cash and cash equivalents at beginning of year	38,791	34,924
Cash and cash equivalents at end of period	$21,447	$25,495

See notes to condensed consolidated financial statements.

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

Accounting Policies

Nature of Operations: Invacare Corporation is a leading manufacturer and distributor of medical equipment and supplies used in the home based upon the company’s distribution channels, breadth of product line and net sales. The company designs, manufactures and distributes an extensive line of health care products for the non-acute care environment, including the home health care, retail and extended care markets.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries and include all adjustments, which were of a normal recurring nature, necessary to present fairly the financial position of the company as of June 30, 2013, the results of its operations for the three and six months ended June 30, 2013 and changes in its cash flow for the six months ended June 30, 2013 and 2012, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using a May 31 quarter end in order to meet filing deadlines. No material subsequent events have occurred related to the European segment, which would require disclosure or adjustment to the company's financial statements. All significant intercompany transactions are eliminated. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates: The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

Stock-Based Compensation Plans: The company accounts for share-based compensation under the provisions of Compensation-Stock Compensation, ASC 718. The company has not made any modifications to the terms of any previously granted options and no significant changes have been made regarding the valuation methodologies used to determine the fair value of options granted. The company continues to use a Black-Scholes valuation model.
The substantial majority of the options awarded have been granted at exercise prices equal to the market value of the underlying stock on the date of grant. Restricted stock awards granted without cost to the recipients are expensed on a straight-line basis over the vesting periods. The amounts of stock-based compensation expense recognized were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Stock-based compensation expense recognized as part of selling, general and administrative expense	$1,414	$1,456	$2,574	$2,990

The amounts above reflect compensation expense related to restricted stock awards and nonqualified stock options awarded under the 2003 Performance Plan (the “2003 Plan”). Stock-based compensation is not allocated to the business segments, but is reported as part of All Other as shown in the company's Business Segment Note to the Consolidated Financial Statements.

Recent Accounting Pronouncements: In February, 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income
(ASU 2013-02 or the ASU). ASU 2013-02 requires companies to report, in one place, changes in and reclassifications out of accumulated other comprehensive income (OCI). The ASU does not change what is required to be reported in OCI. The company adopted ASU 2013-02 in the first quarter of 2013 with no impact on the company's Condensed Consolidated Statement of Comprehensive Income (Loss), Balance Sheets or Statement of Cash Flows. See

Accumulated Other Comprehensive Income (Loss) in the Notes to these Consolidated Financial Statements.

In December, 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, and in January, 2013, issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities (ASU 2013-01). ASU 2013-01 is intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on an entity's financial position and requires companies to disclose both gross and net information about both instruments and transactions eligible for offset in the financial position; and to disclose instruments and transactions subject to an agreement similar to a master netting agreement. The company adopted ASU 2013-01 in the first quarter of 2013 with no impact on the company's Condensed Consolidated Statement of Comprehensive Income (Loss), Balance Sheets or Statement of Cash Flows. See Derivatives in the Notes to these Consolidated Financial Statements. See Accumulated Other Comprehensive Income (Loss) in the Notes to these Consolidated Financial Statements.

Table of Contents

Discontinued Operations

On December 21, 2012, as part of the company's globalization strategy, and to allow it to focus on its core equipment product lines, the company's board of directors approved of the company entering into an agreement to sell Invacare Supply Group (ISG) and accordingly the company determined on that date that the "held for sale" criteria of ASC 360-10-45-9 were met. Accordingly, the assets and liabilities of ISG (long-lived asset disposal group) are shown at their carrying amounts, which are lower than the fair values less cost to sale as of December 31, 2012.

On January 18, 2013, the company completed the sale of the ISG medical supplies business for a purchase price of approximately $150,800,000 in cash, which is subject to final post-closing adjustments. ISG had been operated on a standalone basis and reported as a reportable segment of the company. The company recorded a gain of approximately $59,402,000 pre-tax in the first quarter of 2013 which represents the excess of the net sales price over the book value of the assets and liabilities of ISG. The sale of this business is dilutive to the Company's results. The Company utilized the proceeds from the sale to reduce debt outstanding under its revolving credit facility in the first quarter of 2013. The company recorded expenses related to the sale of approximately $5,350,000 of which $3,225,000 were paid out as of June 30, 2013. The gain recorded by the company reflects the company's estimated final purchase adjustments. The company recorded an intra-period tax allocation expense to discontinued operations in the first quarter based on the company's estimate of projected domestic loss related to continuing operations for 2013. A change in estimate of the continuing domestic loss for the year occurred in the second quarter principally related to the receipt of foreign dividends. Accordingly, an adjustment was required in the second quarter related to intra-period tax expense allocation to discontinued operations which reduced expense resulting in a benefit of $10,580,000 recorded in the quarter ended June 30, 2013.

The assets and liabilities of ISG that were sold are shown as held for sale in the company's Consolidated Balance Sheets and are comprised of the following (in thousands):

	December 31, 2012
Trade receivables, net	$44,196
Inventories, net	25,165
Other current assets	9,355
Property and Equipment, net	1,368
Goodwill	23,073
Assets held for sale - current	$103,157
Accounts payable	$17,692
Accrued expenses	4,602
Accrued income taxes	1,064
Liabilities held for sale - current	$23,358

The net sales of the discontinued operation were $0 and $18,498,000 for the three and six months ended June 30, 2013 and $82,205,000 and $160,670,000 for the three and six months ended June 30, 2012, respectively. Earnings before income taxes for the discontinued operation were $0 and $402,000 for the three and six months ended June 30, 2013 and $3,699,000 and $6,809,000 for the three and six months ended June 30, 2012, respectively.

The company will continue to sell product to the acquirer of ISG and expects to provide certain transitional services to the acquirer over a period of less than one year from the date of sale. The net cash flows expected to be paid and received related to such product sales and transitional services are not expected to be significant.

The company has classified ISG as a discontinued operation for all periods presented.

Table of Contents

Receivables

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the company’s receivables are due from health care, medical equipment providers and long term care facilities located throughout the United States, Australia, Canada, New Zealand and Europe. A significant portion of products sold to providers, both foreign and domestic, is ultimately funded through government reimbursement programs such as Medicare and Medicaid in the U.S. As a consequence, changes in these programs can have an adverse impact on dealer liquidity and profitability. The estimated allowance for uncollectible amounts ($22,158,000 at June 30, 2013 and $22,213,000 at December 31, 2012) is based primarily on management’s evaluation of the financial condition of specific customers. In addition, as a result of the company's third party financing arrangement with De Lage Landen, Inc. ("DLL"), a third party financing company which the company has worked with since 2000, management monitors the collection status of these contracts in accordance with the company’s limited recourse obligations and provides amounts necessary for estimated losses in the allowance for doubtful accounts and establishing reserves for specific customers as needed. The company charges off uncollectible trade accounts receivable after such receivables are moved to collection status and legal remedies are exhausted. See Concentration of Credit Risk in the Notes to the Consolidated Financial Statements for a description of the financing arrangement. Long-term installment receivables are included in “Other Assets” on the consolidated balance sheet.

The company’s U.S. customers electing to finance their purchases can do so using DLL. In addition, the company often provides financing directly for its Canadian customers for which DLL is not an option. The installment receivables recorded on the books of the company represent a single portfolio segment of finance receivables to the independent provider channel. The portfolio segment is comprised of two classes of receivables distinguished by geography and credit quality. The U.S. installment receivables are the first class and represent installment receivables re-purchased from DLL because the customers were in default. Default with DLL is defined as a customer being delinquent by 3 payments. The Canadian installment receivables represent the second class of installment receivables which were originally financed by the company because third party financing was not available to the HME providers. The Canadian installment receivables are typically financed for 12 months and historically have had a very low risk of default.

The estimated allowance for uncollectible amounts and evaluation for impairment for both classes of installment receivables is based on the company’s quarterly review of the financial condition of each individual customer with the allowance for doubtful accounts adjusted accordingly. Installments are individually and not collectively reviewed for impairment. The company assesses the bad debt reserve levels based upon the status of the customer’s adherence to a legally negotiated payment schedule and the company’s ability to enforce judgments, liens, etc.

For purposes of granting or extending credit, the company utilizes a scoring model to generate a composite score that considers each customer’s consumer credit score and/or D&B credit rating, payment history, security collateral and time in business. Additional analysis is performed for customers desiring credit greater than $250,000 which includes a detailed review of the customer’s financials as well as consideration of other factors such as exposure to changing reimbursement laws.

Interest income is recognized on installment receivables based on the terms of the installment agreements. Installment accounts are monitored and if a customer defaults on payments and is moved to collection, interest income is no longer recognized. Subsequent payments received once an account is put on non-accrual status are generally first applied to the principal balance and then to the interest. Accruing of interest on collection accounts would only be restarted if the account became current again. All installment accounts are accounted for using the same methodology regardless of the duration of the installment agreements. When an account is placed in collection status, the company goes through a legal process of adjudication which typically approximates 18 months. Any write-offs are made after the legal process has been completed. The company has not made any changes to either its accounting policies or methodology to estimation allowances for doubtful accounts in the last twelve months. Installment receivables consist of the following (in thousands):

	June 30, 2013			December 31, 2012		
	Current	Long-Term	Total	Current	Long-Term	Total
Installment receivables	$4,093	$1,933	$6,026	$4,982	$1,506	$6,488
Less: Unearned interest	(65)	—	(65)	(71)	—	(71)
	4,028	1,933	5,961	4,911	1,506	6,417
Allowance for doubtful accounts	(2,214)	(1,399)	(3,613)	(2,723)	(1,100)	(3,823)
	$1,814	$534	$2,348	$2,188	$406	$2,594

FS-6

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

Installment receivables purchased from DLL during the six months ended June 30, 2013 increased the gross installment receivables balance by $1,265,000. No sales of installment receivables were made by the company during the quarter.

The movement in the installment receivables allowance for doubtful accounts was as follows (in thousands):

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
Balance as of beginning of period	$3,823	$4,273
Current period provision	307	458
Direct write-offs charged against the allowance	(517)	(908)
Balance as of end of period	$3,613	$3,823

Installment receivables by class as of June 30, 2013 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
U.S.				
Impaired Installment receivables with a related allowance recorded	$4,422	$4,422	$3,352	$—
Canada				
Non-Impaired Installment receivables with no related allowance recorded	1,343	1,278	—	54
Impaired Installment receivables with a related allowance recorded	261	261	261	—
Total Canadian Installment Receivables	$1,604	$1,539	$261	$54
Total				
Non-Impaired Installment receivables with no related allowance recorded	1,343	1,278	—	54
Impaired Installment receivables with a related allowance recorded	4,683	4,683	3,613	—
Total Installment Receivables	$6,026	$5,961	$3,613	$54

Installment receivables by class as of December 31, 2012 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
U.S.				
Impaired Installment receivables with a related allowance recorded	$4,508	$4,508	$3,365	$—
Canada				
Non-Impaired Installment receivables with no related allowance recorded	1,522	1,451	—	120
Impaired Installment receivables with a related allowance recorded	458	458	458	—
Total Canadian Installment Receivables	$1,980	$1,909	$458	$120
Total				
Non-Impaired Installment receivables with no related allowance recorded	1,522	1,451	—	120
Impaired Installment receivables with a related allowance recorded	4,966	4,966	3,823	—
Total Installment Receivables	$6,488	$6,417	$3,823	$120

Installment receivables with a related allowance recorded as noted in the table above represent those installment receivables on a non-accrual basis in accordance with ASU 2010-20. As of June 30, 2013, the company had no U.S. installment receivables past due of 90 days or more for which the company is still accruing interest. Individually, all U.S. installment receivables are assigned a specific allowance for doubtful accounts based on management's review when the company does not expect to receive both the contractual principal and interest payments as specified in the loan agreement. However, while the full balance may be deemed to be impaired, the company has historically collected a large percentage of the principal of its U.S. installment receivables.

The company had an immaterial amount of Canadian installment receivables which were past due of 90 days or more as of June 30, 2013 and December 31, 2012 for which the company is still accruing interest. The aging of the company's installment receivables was as follows (in thousands):

	June 30, 2013			December 31, 2012		
	Total	U.S.	Canada	Total	U.S.	Canada
Current	$1,377	$—	$1,377	$1,467	$—	$1,467
0-30 Days Past Due	14	—	14	43	—	43
31-60 Days Past Due	2	—	2	2	—	2
61-90 Days Past Due	—	—	—	—	—	—
90+ Days Past Due	4,633	4,422	211	4,976	4,508	468
	$6,026	$4,422	$1,604	$6,488	$4,508	$1,980

Inventories

Inventories consist of the following (in thousands):

June 30, 2013

		December 31, 2012
Finished goods	$97,215	$94,675
Raw materials	62,271	71,596
Work in process	15,121	16,975
	$174,607	$183,246

FS-8

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

Other Current Assets

Other current assets consist of the following (in thousands):

	June 30, 2013	December 31, 2012
Value added tax receivables	$15,831	$18,002
Recoverable income taxes	3,519	6,192
Derivatives (foreign currency forward contracts)	1,496	1,062
Prepaid insurance	921	2,241
Prepaids and other current assets	14,878	14,279
	$36,645	$41,776

Property and Equipment

Property and equipment consist of the following (in thousands):

	June 30, 2013	December 31, 2012
Machinery and equipment	$357,126	$356,512
Land, buildings and improvements	95,103	95,047
Furniture and fixtures	13,151	13,397
Leasehold improvements	14,749	14,975
	480,129	479,931
Less allowance for depreciation	(367,687)	(361,700)
	$112,442	$118,231

Goodwill
The change in goodwill reflected on the balance sheet from December 31, 2012 to June 30, 2013 was the result of foreign currency translation.

Other Intangibles

All of the company’s other intangible assets have been assigned definite lives and continue to be amortized over their useful lives, except for $30,772,000 related to trademarks, which have indefinite lives. The changes in intangible balances reflected on the balance sheet from December 31, 2012 to June 30, 2013 were the result of foreign currency translation and amortization.

The company's intangibles consist of the following (in thousands):

	June 30, 2013		December 31, 2012	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer Lists	$90,357	$59,060	$93,572	$58,447
Trademarks	30,772	—	31,280	—
License Agreements	3,127	3,127	3,212	3,212
Developed Technology	9,603	5,871	9,650	5,588
Patents	5,959	5,348	6,060	5,234

Other	7,434	7,247	7,571	7,212
	$147,252	$80,653	$151,345	$79,693

FS-9

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

Amortization expense related to other intangibles was $4,515,000 in the first six months of 2013 and is estimated to be $9,078,000 in 2013, $8,623,000 in 2014, $7,116,000 in 2015, $5,571,000 in 2016, $2,290,000 in 2017 and $2,290,000 in 2018. Amortized intangibles are being amortized on a straight-line basis for periods from 3 to 20 years with the majority of the intangibles being amortized over a life of between 10 and 13 years.

Current Liabilities

Accrued expenses consist of accruals for the following (in thousands):

	June 30, 2013	December 31, 2012
Salaries and wages	$33,671	$41,813
Taxes other than income taxes, primarily Value Added Taxes	23,442	24,600
Warranty cost	25,060	21,451
Freight	9,333	7,853
Professional	6,668	7,595
Product liability, current portion	3,417	3,323
Rebates	2,607	3,635
Insurance	2,693	2,674
Interest	1,065	1,268
Derivative liability (foreign forward exchange contracts)	1,213	1,373
Severance	4,920	5,211
Other items, principally trade accruals	17,746	14,393
	$131,835	$135,189

Accrued rebates relate to several volume incentive programs the company offers its customers. The company accounts for these rebates as a reduction of revenue when the products are sold in accordance with the guidance in ASC 605-50, Customer Payments and Incentives.

Generally, the company's products are covered from the date of sale to the customer by warranties against defects in material and workmanship for various periods depending on the product. Certain components carry a lifetime warranty. A provision for estimated warranty cost is recorded at the time of sale based upon actual experience. The company continuously assesses the adequacy of its product warranty accrual and makes adjustments as needed. Historical analysis is primarily used to determine the company's warranty reserves. Claims history is reviewed and provisions are adjusted as needed. However, the company does consider other events, such as a product recall, which could warrant additional warranty reserve provision. The increase in the liability for pre-existing warranties in 2013 is primarily the result of product recalls. The warranty accrual for the quarter ended June 30, 2013 includes anticipated warranty expense related to a power wheelchair component performance issue of $3,800,000. The increase in the warranty accrual is primarily in the Asia/Pacific segment. The company expects to work closely with the FDA to finalize its action plan related to the power wheelchair performance issue. Warranty expense was also reversed in the North America/HME segment for the closure of prior field actions.

The following is a reconciliation of the changes in accrued warranty costs for the reporting period (in thousands):

Balance as of January 1, 2013	$21,451
Warranties provided during the period	5,569
Settlements made during the period	(6,263)
Changes in liability for pre-existing warranties during the period, including expirations	4,303

Balance as of June 30, 2013	$25,060

FS-10

Long-Term Debt

Debt consists of the following (in thousands):

	June 30, 2013	December 31, 2012
Senior secured revolving credit facility, due in October 2015	$97,959	$217,494
Convertible senior subordinated debentures at 4.125%, due in February 2027	10,316	10,009
Other notes and lease obligations	6,777	7,299
	115,052	234,802
Less current maturities of long-term debt	(1,778)	(5,427)
	$113,274	$229,375

The reduction in debt during the year was the result of utilizing the proceeds from the sale of the discontinued operation ISG to reduce borrowing under the company's revolving credit agreement. On May 30, 2013, the company entered into a Fourth Amendment ("the Amendment") to its Credit Agreement (the “Credit Agreement”). Pursuant to the Amendment, the Credit Agreement was amended to, for the following: (i) decrease the aggregate principal amount of the revolving credit facility to $250,000,000 from $400,000,000, and limit the Company's borrowings under the revolving credit facility to an amount not to exceed $200,000,000 aggregate principal amount through December 31, 2013; (ii) increase the maximum leverage ratio (consolidated funded indebtedness to consolidated EBITDA, each as defined in the Credit Agreement, as amended) to 4.00 to 1.00 from 3.50 to 1.00 until January 1, 2014, when the maximum leverage ratio will revert back to 3.50 to 1.00; (iii) decrease the minimum interest coverage ratio (consolidated EBITDA to consolidated interest charges, each as defined in the Credit Agreement, as amended) to 3.00 to 1.00 from 3.50 to 1.00 until January 1, 2014, when the minimum interest coverage ratio will revert back to 3.50 to 1.00; (iv) in calculating consolidated EBITDA for purposes of determining the ratios, provide for the add back to consolidated EBITDA of up to an additional $15,000,000 for future one-time cash restructuring charges and (v) provide for an increase of (A) 25 basis points in the margin applicable to determining the interest rate on borrowings under the revolving credit facility and letter of credit fees and (B) 10 basis points in the commitment fee, all during periods when the leverage ratio exceeds 3.50 to 1.00. As a result, the company incurred $436,000 in fees which were capitalized and are being amortized through October, 2015. In addition, as a result of reducing the capacity of the facility from $400,000,000 to $250,000,000, the company wrote-off $1,216,000 in fees previously capitalized, which is reflected in the expense of the North America / HME segment.

In 2007, the company issued $135,000,000 principal amount of Convertible Senior Subordinated Debentures due 2027. The debentures are unsecured senior subordinated obligations of the company guaranteed by substantially all of the company’s domestic subsidiaries, pay interest at 4.125% per annum on each February 1 and August 1, and are convertible upon satisfaction of certain conditions into cash, common shares of the company, or a combination of cash and common shares of the company, subject to certain conditions. The debentures allow the company to satisfy the conversion using any combination of cash or stock, and at the company’s discretion. The company intends to satisfy the accreted value of the debentures using cash. Assuming adequate cash on hand at the time of conversion, the company also intends to satisfy the conversion spread using cash, as opposed to stock.

The company may from time to time seek to retire or purchase its 4.125% Convertible Senior Subordinated Debentures due 2027, in open market purchases, privately negotiated transactions or otherwise. Such purchases or exchanges, if any, will depend on prevailing market conditions, the company's liquidity requirements, contractual restrictions and other factors. The amounts involved in any such transactions, individually or in the aggregate, may be material.

The liability components of the company's convertible debt consist of the following (in thousands):

	June 30, 2013	December 31, 2012
Principal amount of liability component	$13,350	$13,350
Unamortized discount	(3,034)	(3,341)
Net carrying amount of liability component	$10,316	$10,009

The company is a party to interest rate swap agreements to effectively convert a portion of floating rate revolving credit facility debt to fixed rate debt to avoid the risk of changes in market interest rates. Specifically, interest rate swap agreements for notional amounts of $22,000,000 through September 2013 and $12,000,000 through April 2014 were entered into that fix the LIBOR component of the interest rate on that portion of the revolving credit facility debt at rates of 0.46% and 0.54% respectively, for effective aggregate rates of 2.46% and 2.54%, respectively. As of June 30, 2013, the weighted average floating interest rate on borrowing was 2.14% compared to 2.21% as of December 31, 2012.

Shareholders' Equity Transactions

On May 16, 2013 shareholders approved the Invacare Corporation 2013 Equity Compensation Plan (the “2013 Plan”), which was adopted on March 27, 2013 by the company's Board of Directors (the “Board”). The Board adopted the 2013 Plan because the ten-year term of the company's prior equity plan, the Invacare Corporation Amended and Restated 2003 Performance Plan (the “2003 Plan”), expired on May 21, 2013. No new awards will be granted under the 2003 Plan following its expiration, but awards granted prior to its expiration will remain in effect under their original terms. The 2013 Plan uses a fungible share-counting method, under which each common share underlying an award of stock options or SARs will count against the number of total shares available under the 2013 Plan as one share; and each common share underlying any award other than a stock option or a stock appreciation rights (“SAR”) will count against the number of total shares available under the 2013 Plan as two shares. Any common shares that are added back to the 2013 Plan as the result of the cancellation or forfeiture of an award granted under the 2013 Plan will be added back in the same manner such shares were originally counted against the total number of shares available under the 2013 Plan. Each common share that is added back to the 2013 Plan due to a cancellation or forfeiture of an award granted under the 2003 Plan will be added back as one common share.
The Compensation and Management Development Committee of the Board (the “Committee”), in its discretion, may grant an award under the 2013 Plan to any director or employee of the company or an affiliate. The 2013 Plan initially allows the Committee to grant up to 4,460,337 Common Shares in connection with the following types of awards with respect to shares of the company's common shares: incentive stock options, nonqualified stock options, SARs, restricted stock, restricted stock units, unrestricted stock, and performance shares. The Committee also may grant performance units that are payable in cash. The Committee has the authority to determine which participants will receive awards, the amount of the awards and the other terms and conditions of the awards.

During the six months ended June 30, 2013, the Committee granted 756,700 non-qualified stock options, each having a term of ten years and generally granted at the fair market value of the company’s Common Shares on the date of grant. In addition, restricted stock awards for 114,700 shares were granted without cost to the recipients which vest ratably over the four years after the award date. Compensation expense of $1,014,000 was recognized during the six months ended June 30, 2013 related to restricted stock awards and there were outstanding restricted stock awards totaling 362,323 shares that were not vested.

As of June 30, 2013, there was $15,825,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the plan, which is related to non-vested options and shares, and includes $4,722,000 related to restricted stock awards. The company expects the compensation expense to be recognized over a weighted-average period of approximately two years.

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

The following table summarizes information about stock option activity for the six months ended June 30, 2013:

	June 30, 2013	Weighted Average Exercise Price
Options outstanding at January 1, 2013	4,664,634	$26.21
Granted	756,700	14.47
Exercised	—	—
Canceled	(351,541)	22.81
Options outstanding at June 30, 2013	5,069,793	$24.70
Options exercise price range at June 30, 2013	$ 12.42 to 47.80	
Options exercisable at June 30, 2013	2,902,760	
Options available for grant at June 30, 2013*	4,459,337	

* Options available for grant as of June 30, 2013 reduced by net restricted stock award activity of 793,351.

The following table summarizes information about stock options outstanding at June 30, 2013:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding At 6/30/13	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable At 6/30/13	Weighted Average Exercise Price
$ 12.42 – $15.00	1,404,086	9.4	$13.95	1,986	$13.37
$ 15.01 – $25.00	1,646,829	5.9	22.52	1,126,899	22.16
$ 25.01 – $35.00	964,437	6.0	25.78	719,435	25.91
$ 35.01 – $47.80	1,054,441	1.1	41.42	1,054,440	41.43
Total	5,069,793	5.9	$24.70	2,902,760	$30.08

When stock options are awarded, they generally become exercisable over a four-year vesting period whereby options vest in equal installments each year. Options granted with graded vesting are accounted for as single options. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate and expected life. The assumed expected life is based on the company's historical analysis of option history. The expected stock price volatility is also based on actual historical volatility, and expected dividend yield is based on historical dividends as the company has no current intention of changing its dividend policy.

The 2013 Plan provides that shares granted come from the company's authorized but unissued Common Shares or treasury shares. In addition, the company's stock-based compensation plans allow employee participants to exchange shares for minimum withholding taxes, which results in the company acquiring treasury shares.

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

Accumulated Other Comprehensive Income (Loss) by Component

Changes in accumulated other comprehensive income (Loss) ("OCI") during the quarter ended June 30, 2013 were as follows (in thousands):

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
March 31, 2013	117,659	1,153	(6,649)	714	112,877
OCI before reclassifications	158	(7,896)	362	(396)	(7,772)
Amount reclassified from accumulated OCI	—	—	(132)	(259)	(391)
Net current-period OCI	158	(7,896)	230	(655)	(8,163)
June 30, 2013	117,817	(6,743)	(6,419)	59	104,714

Changes in OCI during the six months ended June 30, 2013 were as follows (in thousands):

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
December 31, 2012	117,465	2,845	(6,785)	(782)	112,743
OCI before reclassifications	352	(9,588)	485	847	(7,904)
Amount reclassified from accumulated OCI	—	—	(119)	(6)	(125)
Net current-period OCI	352	(9,588)	366	841	(8,029)
June 30, 2013	117,817	(6,743)	(6,419)	59	104,714

Reclassifications out of accumulated OCI for the three and six months ended June 30, 2013 were as follows (in thousands):

	Amount reclassified from OCI		Affected line item in the Statement of Comprehensive Income (Loss)
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	
Defined Benefit Plans			
Service and interest costs	(138)	(123)	Selling, General and Administrative
Tax	6	4	Income Taxes
Total after tax	(132)	(119)	
Derivatives			
Foreign currency forward contracts hedging sales	(306)	(442)	Net Sales
Foreign currency forward contracts hedging purchases	(31)	325	Cost of Products Sold
Interest rate swaps	59	126	Interest Expense
Total before tax	(278)	9	
Tax	19	(15)	Income Taxes
Total after tax	(259)	(6)	

Charges Related to Restructuring Activities

Historically, the company's restructuring charges were necessitated primarily by continued declines in Medicare and Medicaid reimbursement by the U.S. government, as well as similar healthcare reimbursement pressures abroad, which negatively affect the company's customers (e.g. home health care providers) and continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations. In addition, restructuring actions principally in the North America/HME segment have been precipitated by the negative impact on the business related to the consent decree which has resulted in a sales decline in customer power wheelchairs, which is one of the company's higher margin product lines. While the company's restructuring efforts have been executed on a timely basis resulting in operating cost savings, the savings have been more than offset by continued margin decline, principally as a result of volume declines, unfavorable product mix, and higher regulatory and compliance costs related to quality system improvements. The company expects any near-term cost savings from restructuring will be offset by higher regulatory and compliance costs related to quality system improvements at least until the company has completed its quality systems remediation efforts.

The company's restructuring commenced in the second quarter of 2011 with the company's decision to close the Hong, Denmark assembly facility as part of the company's ongoing globalization initiative to reduce complexity in the company's supply chain which is intended to reduce expenses to help offset pricing pressures. In the third quarter of 2011, the company continued to execute on the closure of the Hong, Denmark assembly facility and initiated the closure of a smaller facility in the U.S. Charges for the quarter ended December 31, 2011 were primarily incurred at the company's corporate headquarters for severance, with additional costs incurred as a result of the closure of the Hong, Denmark facility. The facility closures were completed in 2012 in addition to the elimination of various positions principally in the North America/Home Medical Equipment (HME) and Asia/Pacific segments.

Charges for the year ended December 31, 2011 totaled $10,534,000 including charges for severance ($8,352,000), contract exit costs primarily related to the closure of the Hong, Denmark assembly facility ($1,788,000) and inventory write-offs ($277,000) recorded in cost of products sold and miscellaneous costs ($117,000). The majority of the 2011 North America/HME charges were incurred for severance, primarily at the corporate headquarters as the result of the elimination of various positions principally in sales and administration in Elyria, Ohio. These eliminations were permanent reductions in workforce which primarily resulted in reduced selling, general and administrative expenses. In Europe, the charges were the result of the closure of the company's Hong, Denmark facility. The assembly activities were transferred to other company facilities or outsourced to third parties. This closure enabled the company to reduce fixed operating costs related to the facility and reduce headcount with the transfer of a portion of the production to other company facilities. The 2011 charges have now been paid out and were funded with operating cash flows.

Charges for the year ended December 31, 2012 totaled $11,395,000 including charges for severance ($6,775,000), lease termination costs ($1,725,000), building and asset write-downs, primarily related to the closure of the Hong, Denmark assembly facility, and other miscellaneous charges in Europe and Asia/Pacific ($2,404,000) and inventory write-offs ($491,000) in Asia/Pacific recorded in cost of products sold. Severance charges were primarily incurred in the North America/HME segment ($4,242,000), Asia/Pacific segment ($1,681,000) and Europe segment ($817,000). The charges were incurred as a result of the elimination of various positions as part of the company's globalization initiatives. In addition, a portion of the North America/HME segment severance was related to positions eliminated, principally in sales and marketing as well as manufacturing, at the company's Taylor Street facility as a result of the FDA consent decree. The savings from these charges will be reflected primarily in reduced selling, general and administrative expenses and manufacturing expenses for the company. In Europe, positions were eliminated as a result of finalizing the exit from the manufacturing facility in Denmark and an elimination of a senior management position in Switzerland. In Asia/Pacific, the company's management approved in the fourth quarter of 2012 a plan to restructure the company's operations in this segment. In Australia, the company consolidated offices / warehouses, decreased staffing and exited various activities while returning to a focus on distribution. At the company's subsidiary, which produces microprocessor controllers, the company decided to cease the contract manufacturing business for companies outside of the healthcare industry. Payments for the year ended December 31, 2012 were $9,381,000 and were funded with operating cash flows. The majority of the 2012 charges are expected to be paid out during 2013.

Restructuring continued during 2013 resulting in restructuring charges of $5,114,000 in the first six months of 2013 principally for severance in NA/HME and Asia/Pacific and to a lesser extent Europe and IPG as a result of the permanent elimination of certain positions. Payments for the six months ended June 30, 2013 were $6,205,000 and were funded with the company's credit facility. The majority of the outstanding charge accruals at June 30, 2013 are expected to be paid out within the next twelve months.

There have been no material changes in accrued balances related to the charges, either as a result of revisions in the plan or changes in estimates. In addition, the savings anticipated as a result of the company's restructuring plans have been or are expected to be achieved, primarily resulting in reduced salary and benefit costs principally impacting selling, general and administrative expenses, and to a lesser extent, costs of products sold. However, these savings have been more than offset by continued margin decline, principally as a result of volume declines, unfavorable product mix, and higher regulatory and compliance costs related to quality system improvements. To date, the company's liquidity has not been materially impacted by the company's restructuring charges.

A progression by reporting segment of the accruals recorded as a result of the restructuring is as follows (in thousands):

	Severance	Product Line Discontinuance	Contract Terminations	Other	Total
December 31, 2010 Balance					
Total	$—	$—	$—	$—	$—
Charges					
NA/HME	4,755	—	—	4	4,759
IPG	123	—	—	—	123
Europe	3,288	277	1,788	113	5,466
Asia/Pacific	186	—	—	—	186
Total	8,352	277	1,788	117	10,534
Payments					
NA/HME	(1,663)	—	—	(4)	(1,667)
IPG	(52)	—	—	—	(52)
Europe	(1,546)	(277)	(1,714)	(113)	(3,650)
Asia/Pacific	(186)	—	—	—	(186)
Total	(3,447)	(277)	(1,714)	(117)	(5,555)
December 31, 2011 Balance					
NA/HME	3,092	—	—	—	3,092
IPG	71	—	—	—	71
Europe	1,742	—	74	—	1,816
Asia/Pacific	—	—	—	—	—
Total	4,905	—	74	—	4,979
Charges					
NA/HME	4,242	—	5	—	4,247
IPG	35	—	—	—	35
Europe	817	—	53	1,223	2,093
Asia/Pacific	1,681	491	1,667	1,181	5,020
Total	6,775	491	1,725	2,404	11,395
Payments					
NA/HME	(3,587)	—	(5)	—	(3,592)
IPG	(106)	—	—	—	(106)
Europe	(1,964)	—	(127)	(1,223)	(3,314)
Asia/Pacific	(812)	(340)	(42)	(1,175)	(2,369)
Total	(6,469)	(340)	(174)	(2,398)	(9,381)

FS-16

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

	Severance	Product Line Discontinuance	Contract Terminations	Other	Total
December 31, 2012 Balance					
NA/HME	3,747	—	—	—	3,747
IPG	—	—	—	—	—
Europe	595	—	—	—	595
Asia/Pacific	869	151	1,625	6	2,651
Total	5,211	151	1,625	6	6,993
Charges					
NA/HME	1,679	—	—	—	1,679
IPG	189	—	—	—	189
Europe	115	—	—	—	115
Asia/Pacific	453	—	86	—	539
Total	2,436	—	86	—	2,522
Payments					
NA/HME	(2,005)	—	—	—	(2,005)
IPG	(17)	—	—	—	(17)
Europe	(461)	—	—	—	(461)
Asia/Pacific	(618)	(151)	(766)	(4)	(1,539)
Total	(3,101)	(151)	(766)	(4)	(4,022)
March 31, 2013 Balance					
NA/HME	3,421	—	—	—	3,421
IPG	172	—	—	—	172
Europe	249	—	—	—	249
Asia/Pacific	704	—	945	2	1,651
	4,546	—	945	2	5,493
Charges					
NA/HME	1,948	—	—	—	1,948
IPG	13	—	—	—	13
Europe	65	—	—	—	65
Asia/Pacific	480	—	86	—	566
Total	2,506	—	86	—	2,592
Payments					
NA/HME	(1,795)	—	—	—	(1,795)
IPG	(26)	—	—	—	(26)
Europe	(182)	—	—	—	(182)
Asia/Pacific	(129)	—	(49)	(2)	(180)
Total	(2,132)	—	(49)	(2)	(2,183)
June 30, 2013 Balance					
NA/HME	3,574	—	—	—	3,574
IPG	159	—	—	—	159
Europe	132	—	—	—	132
Asia/Pacific	1,055	—	982	—	2,037
	$4,920	$—	$982	$—	$5,902

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

Income Taxes

The company had an effective tax rate of 85.9% and 13.1% on losses before tax from continuing operations for the three and six month periods ended June 30, 2013, respectively, compared to an expected benefit at the U.S. statutory rate of 35%. The company's effective tax rate for the three and six months ended June 30, 2013 was greater than the U.S. federal statutory rate, principally due to losses overseas without tax benefit due to valuation allowances and an adjustment to the intraperiod tax allocation due to the impact of a discrete tax expense related to dividends for earnings previously deemed permanently reinvested overseas received in the U.S. during the second quarter of $9,702,000 ($0.30 per share). The rate was benefited by taxes outside the United States, excluding countries with valuation allowances that are in losses in 2013, recorded at a lower effective rate than the U.S. statutory rate. The company had an effective tax rate of 162.9% and 90.8% on earnings before tax from continuing operation for the three and six month period ended June 30, 2012, respectively, compared to an expected rate at the U.S. statutory rate of 35%. The company's effective tax rate for the three and six months ended June 30, 2012 was greater than the U.S. federal statutory rate, principally due to a foreign discrete tax adjustment of $9,010,000 ($0.28 per share), recorded in the second quarter of 2012, of which $3,014,000 was interest, related to prior year periods under audit, which is being contested by the company. This adjustment was partially offset by foreign earnings taxed at an effective rate lower than the U.S. statutory rate principally due to foreign taxes recognized at rates below the U.S. statutory rate.

Net Earnings (Loss) Per Common Share

The following table sets forth the computation of basic and diluted net earnings (loss) per common share for the periods indicated.

(In thousands except per share data)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Basic				
Average common shares outstanding	31,902	31,818	31,902	31,819
Net earnings (loss) from continuing operations	$(23,041)	$(4,306)	$(27,574)	$1,299
Net earnings from discontinued operations	$10,580	$2,329	$50,294	$4,957
Net earnings	$(12,461)	$(1,977)	$22,720	$6,256
Net earnings (loss) per common share from continuing operations	$(0.72)	$(0.14)	$(0.86)	$0.04
Net earnings per common share from discontinued operations	$0.33	$0.07	$1.58	$0.16
Net earnings per common share	$(0.39)	$(0.07)	$0.72	$0.20
Diluted				
Average common shares outstanding	31,902	31,818	31,902	31,819
Shares related to convertible debt	—	—	—	—
Stock options and awards	122	4	78	3
Average common shares assuming dilution	32,024	31,822	31,980	31,822
Net earnings (loss) from continuing operations	$(23,041)	$(4,306)	$(27,574)	$1,299
Net earnings from discontinued operations	$10,580	$2,329	$50,294	$4,957
Net earnings	$(12,461)	$(1,977)	$22,720	$6,256

Net earnings (loss) per common share from continuing operations *	$(0.72)	$(0.14)	$(0.86)	$0.04
Net earnings per common share from discontinued operations	$0.33	$0.07	$1.57	$0.16
Net earnings per common share *	$(0.39)	$(0.07)	$0.71	$0.20

* Net loss per common share assuming dilution calculated utilizing weighted average shares outstanding-basic for the period in which there was a net loss.

At June 30, 2013, 4,929,913 and 4,861,512 shares associated with stock options were excluded from the average common shares assuming dilution for the three and six months ended June 30, 2013 as they were anti-dilutive. At June 30, 2013, the majority of the anti-dilutive shares were granted at an exercise price of $41.87, which was higher than the average fair market value prices of $13.85 and $14.60 for the three and six months ended June 30, 2013. At June 30, 2012, 4,262,816 and 4,273,588 shares associated with stock options were excluded from the average common shares assuming dilution for the three and six months ended June 30, 2012 as they were anti-dilutive. At June 30, 2012, the majority of the anti-dilutive shares were granted at an exercise price of $41.87, which was higher than the average fair market value prices of $15.21 and $15.97 for the three and six months ended June 30, 2012. For both the three and six months ended June 30, 2013 and June 30, 2012, there were no shares necessary to settle a conversion spread on the convertible notes to be included in the common shares assuming dilution as the average market price of the company stock for these periods did not exceed the conversion price.

Concentration of Credit Risk

The company manufactures and distributes durable medical equipment and supplies to the home health care, retail and extended care markets. The company performs credit evaluations of its customers' financial condition. The company utilizes De Lage Landen, Inc. ("DLL"), a third party financing company, to provide the majority of future lease financing to the company's North America customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The company retains a recourse obligation which was $6,294,000 at June 30, 2013 to DLL for events of default under the leasing contracts, which total $53,568,000 at June 30, 2013. The company monitors the collections status of these contracts and has provided amounts for estimated losses in its allowances for doubtful accounts in accordance with Receivables, ASC 310-10-05-4. Credit losses are provided for in the financial statements.

Substantially all of the company's receivables are due from health care, medical equipment providers and long term care facilities located throughout the United States, Australia, Canada, New Zealand and Europe. A significant portion of products sold to dealers, both foreign and domestic, is ultimately funded through government reimbursement programs such as Medicare and Medicaid. The company has also seen a significant shift in reimbursement to customers from managed care entities. As a consequence, changes in these programs can have an adverse impact on dealer liquidity and profitability. In addition, reimbursement guidelines in the home health care industry have a substantial impact on the nature and type of equipment an end user can obtain as well as the timing of reimbursement and, thus, affect the product mix, pricing and payment patterns of the company's customers.

Derivatives

ASC 815 requires companies to recognize all derivative instruments in the consolidated balance sheet as either assets or liabilities at fair value. The accounting for changes in fair value of a derivative is dependent upon whether or not the derivative has been designated and qualifies for hedge accounting treatment and the type of hedging relationship. For derivatives designated and qualifying as hedging instruments, the company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

Cash Flow Hedging Strategy

The company uses derivative instruments in an attempt to manage its exposure to foreign currency exchange risk and interest rate risk. Foreign currency forward exchange contracts are used to manage the price risk associated with forecasted sales denominated in foreign currencies and the price risk associated with forecasted purchases of inventory over the next twelve months. Interest rate swaps are, at times, utilized to manage interest rate risk associated with the company's fixed and floating-rate borrowings.

The company recognizes its derivative instruments as assets or liabilities in the consolidated balance sheet measured at fair value. A majority of the company's derivative instruments are designated and qualify as cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the fair value of the hedged item, if any, is recognized in current earnings during the period of change.

During the first six months of 2013 and 2012, the company was a party to interest rate swap agreements that qualified as cash flow hedges and effectively converted floating-rate debt to fixed-rate debt, so the company could avoid the risk of changes in market interest rates. The gains or losses on interest rate swaps are reflected in interest expense on the consolidated statement of comprehensive income (loss).

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

To protect against increases/decreases in forecasted foreign currency cash flows resulting from inventory purchases/sales over the next year, the company utilizes foreign currency forward contracts to hedge portions of its forecasted purchases/sales denominated in foreign currencies. The gains and losses are included in cost of products sold and selling, general and administrative expenses on the consolidated statement of comprehensive income (loss). If it is later determined that a hedged forecasted transaction is unlikely to occur, any prospective gains or losses on the forward contracts would be recognized in earnings. The company does not expect any material amount of hedge ineffectiveness related to forward contract cash flow hedges during the next twelve months.

The company has historically not recognized any material amount of ineffectiveness related to forward contract cash flow hedges because the company generally limits its hedges to between 60% and 90% of total forecasted transactions for a given entity's exposure to currency rate changes and the transactions hedged are recurring in nature. Furthermore, the majority of the hedged transactions are related to intercompany sales and purchases for which settlement occurs on a specific day each month. Forward contracts with a total notional amount in USD of $47,178,000 and $80,673,000 matured during the three and six months ended June 30, 2013 compared to forward contracts with a total notional amount in USD of $47,191,000 and $84,158,000 that matured during the three and six months ended June 30, 2012.

Outstanding foreign currency forward exchange contracts qualifying and designated for hedge accounting treatment were as follows (in thousands USD):

	June 30, 2013		December 31, 2012	
	Notional Amount	Unrealized Net Gain (Loss)	Notional Amount	Unrealized Net Gain (Loss)
USD / AUD	$1,019	$103	$—	$—
USD / CAD	18,714	(195)	17,620	(6)
USD / CNY	7,015	31	—	—
USD / CHF	476	26	—	—
USD / EUR	31,565	(266)	59,510	(797)
USD / GBP	1,321	67	2,519	(3)
USD / NZD	1,615	(29)	—	—
USD / SEK	3,960	187	—	—
USD / MXP	5,437	38	6,954	141
EUR / CAD	791	(2)	—	—
EUR / CHF	3,109	4	—	—
EUR / GBP	10,607	(34)	2,077	46
EUR / SEK	950	25	—	—
EUR / NZD	3,293	(84)	5,749	105
GBP / CHF	590	(18)	—	—
GBP / SEK	2,189	143	4,154	25
DKK / SEK	2,167	11	6,397	(47)
NOK / SEK	1,797	62	3,428	(4)
	$96,615	$69	$108,408	$(540)

Derivatives Not Qualifying or Designated for Hedge Accounting Treatment

The company also utilizes foreign currency forward contracts that are not designated as hedges in accordance with ASC 815. These contracts are entered into to eliminate the risk associated with the settlement of short-term intercompany trading receivables and payables between Invacare Corporation and its foreign subsidiaries. The currency forward contracts are entered into at the same time as the intercompany receivables or payables are created so that upon settlement, the gain/loss on the settlement is offset by the gain/loss on the foreign currency forward contract. No material net gain or loss was realized by the company in 2013 or 2012 related to these forward contracts and the associated short-term intercompany trading receivables and payables.

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

Foreign currency forward exchange contracts not qualifying or designated for hedge accounting treatment entered into in 2013 and 2012, respectively, and outstanding were as follows (in thousands USD):

	June 30, 2013		June 30, 2012	
	Notional Amount	Gain (Loss)	Notional Amount	Gain (Loss)
CAD / USD	$1,911	$(8)	$12,678	$70
EUR / USD	434	(3)	597	53
CHF / USD	—	—	1,611	(1)
DKK / USD	—	—	1,343	(3)
GBP / USD	—	—	2,651	(14)
NOK / USD	—	—	1,326	(5)
NZD / USD	3,113	(2)	2,020	(16)
EUR / CAD	—	—	384	(11)
EUR / DKK	—	—	7,662	(7)
AUD / CAD	400	15	1,551	(67)
AUD / EUR	1,500	216	—	—
AUD / GBP	455	38	—	—
AUD / NZD	—	—	1,048	(4)
EUR / NZD	—	—	174	(13)
	$7,813	$256	$33,045	$(18)

The fair values of the company's derivative instruments were as follows (in thousands):

	June 30, 2013		December 31, 2012	
	Assets	Liabilities	Assets	Liabilities
Derivatives designated as hedging instruments under ASC 815				
Foreign currency forward contracts	$1,199	$1,130	$375	$915
Interest rate swap contracts	—	42	—	316
Derivatives not designated as hedging instruments under ASC 815				
Foreign currency forward contracts	297	41	687	142
Total derivatives	$1,496	$1,213	$1,062	$1,373

The fair values of the company's foreign currency forward assets and liabilities are included in Other Current Assets and Accrued Expenses, respectively in the Consolidated Balance Sheets.

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

The effect of derivative instruments on the Statement of Comprehensive Income (Loss) and Other Comprehensive Income (OCI) was as follows (in thousands):

Derivatives in ASC 815 cash flow hedge relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Three months ended June 30, 2013			
Foreign currency forward contracts	$(889)	$117	$(22)
Interest rate swap contracts	137	(59)	—
	$(752)	$58	$(22)
Six months ended June 30, 2013			
Foreign currency forward contracts	$712	$(103)	$35
Interest rate swap contracts	400	(126)	—
	$1,112	$(229)	$35
Three months ended June 30, 2012			
Foreign currency forward contracts	$(424)	$663	$28
Interest rate swap contracts	14	—	—
	$(410)	$663	$28
Six months ended June 30, 2012			
Foreign currency forward contracts	$(434)	$1,576	$28
Interest rate swap contracts	(96)	—	—
	$(530)	$1,576	$28

Derivatives not designated as hedging instruments under ASC 815	Amount of Gain (Loss) Recognized in Income on Derivatives
Three months ended June 30, 2013	
Foreign currency forward contracts	$1,427
Six months ended June 30, 2013	
Foreign currency forward contracts	$256
Three months ended June 30, 2012	
Foreign currency forward contracts	$(102)
Six months ended June 30, 2012	
Foreign currency forward contracts	$(18)

The pre-tax gains or losses recognized as the result of the settlement of cash flow hedge foreign currency forward contracts are recognized in net sales for hedges of inventory sales or cost of product sold for hedges of inventory purchases. For the three and six months ended June 30, 2013, net sales were increased by $317,000 and $453,000 and cost of product sold was decreased by $20,000 and increased by $336,000 for net realized gains of $337,000 and $117,000. For the three and six months ended June 30, 2012, net sales were decreased by $63,000 and increased by $195,000 and cost of product sold was decreased by $753,000 and $1,317,000 for net realized gains of $690,000 and $1,512,000.

The company recognized expense of $80,000 and $306,000 for the three and six months ended June 30, 2013, respectively, compared to expense of $147,000 and $273,000 for the three and six months ended June 30, 2012, respectively, related to interest rate swap agreements, which is reflected in interest expense on the consolidated statement of comprehensive income (loss).

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

Gains of $1,427,000 and $256,000 versus losses of $102,000 and $18,000 were recognized in selling, general and administrative (SG&A) expenses for the three months ended June 30, 2013 and June 30, 2012, respectively, on ineffective forward contracts and forward contracts not designated as hedging instruments that are entered into to offset gains/losses also recorded in SG&A expenses on intercompany trade payables. Any gains/losses on the non designated hedging instruments were substantially offset by gains/losses also recorded in SG&A expenses on intercompany trade payables.

The company has entered into foreign exchange forward contracts and interest rate swap contracts (the “agreements”) with various bank counterparties, each of which are subject to provisions which are similar to a master netting agreement. The agreements provide for a net settlement payment in a single currency upon a default by the company. Furthermore, the agreements provide the counterparty with a right of set off in the event of a default that would enable the counterparty to offset any net payment due by the counterparty to the company under the applicable agreement by any amount due by the company to the counterparty under any other agreement. For example, the terms of the agreement would permit a counterparty to a derivative contract that is also a lender under the company's Credit Agreement to reduce any derivative settlement amounts owed to the company under the derivative contract by any amounts owed to the counterparty by the company under the Credit Agreement. In addition, the agreements contain cross-default provisions that could trigger a default by the company under the agreement in the event of a default by the company under another agreement with the same counterparty. The company does not present any derivatives on a net basis in its financial statements and all derivative balances presented are subject to provisions that are similar to master netting agreements.

Fair Values

Pursuant to ASC 820, the inputs used to derive the fair value of assets and liabilities are analyzed and assigned a level I, II or III priority, with level I being the highest and level III being the lowest in the hierarchy. Level I inputs are quoted prices in active markets for identical assets or liabilities. Level II inputs are quoted prices for similar assets or liabilities in active markets: quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets. Level III inputs are based on valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The following table provides a summary of the company’s assets and liabilities that are measured on a recurring basis (in thousands).

		Basis for Fair Value Measurements at Reporting Date		
	Total	Quoted Prices in Active Markets for Identical Assets / (Liabilities) Level I	Significant Other Observable Inputs Level II	Significant Other Unobservable Inputs Level III
June 30, 2013:				
Forward Exchange Contracts—net	$325	—	$325	—
Interest Rate Swap Agreements—net	(42)	—	(42)	—
December 31, 2012:				
Forward Exchange Contracts—net	$5	—	$5	—
Interest Rate Swap Agreements—net	(316)	—	(316)	—

Forward Contracts: The company operates internationally and as a result is exposed to foreign currency fluctuations. Specifically, the exposure includes intercompany and third party sales or payments as well as intercompany loans. In an attempt to reduce this exposure, foreign currency forward contracts are utilized and accounted for as hedging instruments. The forward contracts are used to hedge the following currencies: AUD, CAD, CHF, CNY, DKK, EUR, GBP, MXP, NOK, NZD, SEK and USD. The company does not use derivative financial instruments for speculative purposes. Fair values for the company's foreign currency forward exchange contracts are based on quoted market prices for contracts with similar maturities.

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

The carrying values and fair values of the company's financial instruments are as follows (in thousands):

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$21,447	$21,447	$38,791	$38,791
Other investments	1,201	1,201	1,171	1,171
Installment receivables, net of reserves	2,348	2,348	2,594	2,594
Long-term debt (including current maturities of long-term debt)	(115,052)	(114,376)	(234,802)	(234,072)
Forward contracts in Other Current Assets	1,496	1,496	1,062	1,062
Forward contracts in Accrued Expenses	(1,171)	(1,171)	(1,057)	(1,057)
Interest rate swap agreements in Accrued Expenses	(42)	(42)	(316)	(316)

The company, in estimating its fair value disclosures for financial instruments, used the following methods and assumptions:

Cash, cash equivalents: The carrying value reported in the balance sheet for cash, cash equivalents equals its fair value.
Other investments: The company has made other investments in limited partnerships and non-marketable equity securities, which are accounted for using the cost method, adjusted for any estimated declines in value. These investments were acquired in private placements and there are no quoted market prices or stated rates of return and the company does not have the ability to easily sell these investments.
Installment receivables: The carrying value reported in the balance sheet for installment receivables approximates its fair value. The interest rates associated with these receivables have not varied significantly since inception. Management believes that after consideration of the credit risk, the net book value of the installment receivables approximates market value.
Long-term debt: Fair values for the company's convertible debt and revolving credit facility are based upon the company's estimate of the market for similar borrowing arrangements.
Forward contracts and interest rate swaps: Fair values for the company's forward contracts are based on quoted market prices, while the fair values of the interest rate swaps are based on model-derived calculations using inputs that are observable in active markets.

Business Segments

The company operates in four primary business segments: North America/Home Medical Equipment (North America/HME), Institutional Products Group (IPG), Europe and Asia/Pacific. The North America/HME segment sells each of three primary product lines, which includes: lifestyle, mobility and seating and respiratory therapy products. IPG sells or rents long-term care medical equipment, health care furnishings and accessory products. Europe and Asia/Pacific sell product lines similar to North America/HME and IPG. Each business segment sells to the home health care, retail and extended care markets.

The company evaluates performance and allocates resources based on profit or loss from operations before income taxes for each reportable segment. The accounting policies of each segment are the same as those described in the summary of significant accounting policies for the company's consolidated financial statements. Intersegment sales and transfers are based on the costs to manufacture plus a reasonable profit element. Therefore, intercompany profit or loss on intersegment sales and transfers is not considered in evaluating segment performance except for Asia/Pacific due to its significant intercompany sales volume relative to the segment.

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

The information by segment is as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues from external customers				
North America/HME	$159,491	$180,365	$311,648	$356,484
Institutional Products Group	36,700	37,519	71,828	73,657
Europe	141,751	134,713	279,385	260,016
Asia/Pacific	13,854	20,122	26,551	37,662
Consolidated	$351,796	$372,719	$689,412	$727,819
Intersegment revenues				
North America/HME	$20,398	$28,062	$39,234	$57,173
Institutional Products Group	2,045	1,790	3,428	3,614
Europe	2,313	3,231	4,266	5,209
Asia/Pacific	6,124	8,910	13,006	19,440
Consolidated	$30,880	$41,993	$59,934	$85,436
Restructuring charges before income taxes				
North America/HME	$1,948	$1,745	$3,627	$1,862
Institutional Products Group	13	—	201	35
Europe	65	—	180	291
Asia/Pacific	566	261	1,106	379
Consolidated	$2,592	$2,006	$5,114	$2,567
Earnings (loss) before income taxes				
North America/HME	$(12,398)	$2,044	$(23,750)	$7,740
Institutional Products Group	2,120	3,507	3,967	6,885
Europe	8,365	7,801	14,208	13,286
Asia/Pacific	(5,377)	(777)	(7,638)	(1,838)
All Other (1)	(5,101)	(5,726)	(11,161)	(11,951)
Consolidated	$(12,391)	$6,849	$(24,374)	$14,122

(1) Consists of un-allocated corporate SG&A costs and intercompany profits, which do not meet the quantitative criteria for determining reportable segments. In addition, the “All Other” earnings (loss) before income taxes includes loss on debt extinguishment including debt finance charges, interest and fees.

Contingencies

General

In the ordinary course of its business, the company is a defendant in a number of lawsuits, primarily product liability actions in which various plaintiffs seek damages for injuries allegedly caused by defective products. All of the product liability lawsuits in the United States have been referred to the company's captive insurance company and/or excess insurance carriers while all non-U.S. lawsuits have been referred to the company's commercial insurance carriers. All such lawsuits are generally contested vigorously. The coverage territory of the company's insurance is worldwide with the exception of those countries with respect to which, at the time the product is sold for use or at the time a claim is made, the U.S. government has suspended or prohibited diplomatic or trade relations. The amount recorded for identified contingent liabilities is based on estimates. Amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. Actual costs to be incurred in future periods may vary from the estimates, given the inherent uncertainties in evaluating certain exposures.

As a medical device manufacturer, the company is subject to extensive government regulation, including numerous laws directed at preventing fraud and abuse and laws regulating reimbursement under various government programs. The marketing, invoicing, documenting and other practices of health care suppliers and manufacturers are all subject to government scrutiny. Violations of law or regulations can result in administrative, civil and criminal penalties and sanctions, including disqualification from Medicare and other reimbursement programs, which could have a material adverse effect on the company's business.

FDA Matters

The FDA regulates virtually all aspects of the development, testing, manufacturing, labeling, promotion, distribution and marketing of a medical device. The company's failure to comply with the regulatory requirements of the FDA and other applicable U.S. medical device regulatory requirements may subject the company to administrative or judicially imposed sanctions. These sanctions include warning letters, civil penalties, criminal penalties, injunctions, consent decrees, product seizure or detention, product recalls and total or partial suspension of production.

As previously disclosed, in December 2011, the FDA requested that the company agree to a consent decree of injunction with respect to the company's Corporate facility and its Taylor Street wheelchair manufacturing facility in Elyria, Ohio. In December 2012, the company reached agreement with the FDA on the terms of the consent decree, which was approved and made effective by the U.S. District Court for the Northern District of Ohio on December 21, 2012. The consent decree limits the company's manufacture and distribution of power and manual wheelchairs, wheelchair components and wheelchair sub-assemblies at or from its Taylor Street manufacturing facility. The decree also temporarily had limited design activities related to wheelchairs and power beds that take place at the impacted Elyria, Ohio facilities, and these design restrictions were removed on July 15, 2013. The company is entitled to continue to produce from the Taylor Street manufacturing facility certain medically necessary products, as well as ongoing replacement, service and repair of products already in use, under terms delineated in the consent decree and is able to fulfill purchase orders and quotes that were in the company's order fulfillment system prior to the effective date of the decree. Under the terms of the consent decree, in order to resume full operations at the impacted facilities, the company must successfully complete a third-party expert certification audit and receive written notification from the FDA. The certification audit is comprised of three distinct reports. The expert certification audit will be followed by an FDA inspection of the company's compliance with the quality system regulations. Each of the three audits will result in a third-party expert report that will be reviewed by the FDA which will complete its own review procedures. The FDA has the authority to reinspect at any time. Once satisfied with the company's compliance, the FDA will provide written notification that the company is permitted to resume full operations at the impacted facilities.

At the time of filing this Quarterly Report on Form 10-Q, the company has completed the first two of its third-party expert certification audits, and the FDA has found the results of both to be acceptable. In these reports, the third-party expert certified that the company's equipment and process validation procedures and its design control systems are compliant with the FDA's Quality System Regulation. As a result of the FDA's approval of the first certification audit, the Taylor Street facility was able to resume supplying parts and components for the further manufacturing of medical devices at other company facilities. The company's receipt of the FDA's approval on the second certification report resulted in the company being able to resume design activities related to power wheelchairs and power beds. The third, most comprehensive third-party certification audit is a comprehensive review of the company's compliance with the FDA's Quality System Regulation at the impacted Elyria facilities.

The company began its third, final and most comprehensive third party certification audit in late March, and, in light of the scope and complexity of the audit, the company now expects the third-party certification report to be completed and filed with the FDA by mid-November 2013. Once completed, according to the consent decree, the FDA has thirty (30) days after receipt of the third expert certification audit results to commence its own inspection. However, it is possible that the FDA could ask questions or seek additional information concerning the third certification report. It is not possible for the company to estimate the timing or potential response of the FDA's inspection and subsequent written notifications. Following successful completion of the FDA inspection and the company's receipt of written notification from the FDA that the Corporate and Taylor Street facilities appear to be in compliance, the company may resume full operations at those facilities.

As described above, because the limitations on production will only be temporary in nature, and partial production will be allowed, the company does not anticipate any major repair, replacement or scrapping of its fixed assets at the Taylor Street manufacturing facility. Based on the company's expectations at the time of filing of this Quarterly Report on Form 10-Q with respect to the time frame for completion of the third-party expert certifications audits and FDA inspection and with respect to future cash flows from production at the Taylor Street manufacturing facility, the company concluded that there is no impairment in the value of the fixed assets related to the Taylor Street manufacturing facility at June 30, 2013.

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

The majority of the production from the Taylor Street facility is "made to order" custom wheelchairs for customers and, as a result, there was not a significant amount of finished goods inventory on hand at June 30, 2013. At the time of filing this Quarterly Report on Form 10-Q, the company believed that it would be able to obtain substantially all of the documentation required under the consent decree in order to complete the manufacture and shipment from the Taylor Street facility of the orders in the company's order fulfillment system and thus, the company concluded that there was not an impairment of the work in process and finished goods at the Taylor Street facility at June 30, 2013. Further, based on its analysis of the raw material inventory at the Taylor Street facility and the company's expectations at the time of filing of this Quarterly Report on Form 10-Q with respect to the time frame for completion of the third-party expert certification audits and FDA inspection, the company concluded that the value of the inventory was not excessive or impaired at June 30, 2013. However, if the company's expectations regarding the impacts of the limitations in the consent decree or the time frame for completion of the third-party expert certification audits and FDA inspection were to change, the company may, in future periods, conclude that an impairment exists with respect to its fixed assets or inventory at the Taylor Street facility.

The North America/HME segment is the segment primarily impacted by the limitations in the consent decree. During 2012, before the effectiveness of the consent decree, the company started to experience decreases in net sales in this segment. Those decreases were primarily related to delays in new product introductions, uncertainty on the part of the company's customers as they coped with prepayment reviews and post-payment audits by the Centers for Medicare and Medicaid Services ("CMS") and contemplated their participation in the next round of National Competitive Bidding ("NCB"), and, the company believes, uncertainty regarding the resolution of the consent decree which limited the company's ability to renegotiate and bid on certain customer contracts and otherwise led to a decline in customer orders. The negative effect of the consent decree on customer orders and net sales has been considerable, and the company expects to experience further declines in net sales as a result of the limitations imposed by the consent decree. The company expects to continue to experience decreased net sales in the segment at least until it has successfully completed the previously-described third-party expert certification audit and FDA inspection and has received written notification from the FDA that the company may resume full operations at the Corporate and Taylor Street facilities. Even after the company is permitted to resume full operations at the affected facilities, it is uncertain as to whether, or how quickly, the company will be able to rebuild net sales to more typical historical levels, irrespective of market conditions. Accordingly, the limitations in the consent decree had, and likely will continue to have, a material adverse effect on the company's business, financial condition and results of operations.

In the second quarter of 2013, the company recorded a warranty reserve of $3,800,000 related to a power wheelchair component performance issue. This estimate was calculated based on discussions with the FDA and the company's resultant expectation that an end user notification will not be adequate, and that a recall is probable which would involve the repair or replacement of the potentially affected components, which are sold globally. The power wheelchair component performance issue relates to an anomaly discovered in a fraction of a percentage of the components in the field. The company's warranty reserve for this power wheelchair component performance issue is based upon the company's actual experience with repairs and replacements in prior recalls. Any warranty reserve recorded related to this issue would be subject to adjustment as new developments or experiences change the company's estimate of the total cost of this matter. The company expects to work closely with the FDA to finalize its action plan related to the power wheelchair performance issue.

For additional information regarding the consent decree, please see the following sections of the company's Annual Report on Form 10-K for the period ending December 31, 2012: Item 1. Business - Government Regulation and Item 1A. Risk Factors and the following sections of this Quarterly Report on Form 10-Q: Item 1. Legal Proceedings; and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Outlook and - Liquidity and Capital Resources.

In addition, in December 2010, the company received a warning letter from the FDA related to quality system processes and procedures at the company's Sanford, Florida facility. The company has taken actions which it believes address all of the FDA's concerns in the warning letter. However, the results of regulatory claims, proceedings, investigations, or litigation are difficult to predict. An unfavorable resolution or outcome of the FDA warning letter could materially and adversely affect the company's business, financial condition, and results of operations.

Any of the above contingencies could have an adverse impact on the company's financial condition or results of operations.

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

Subsequent Event

On August 7, 2013, the company sold Champion Manufacturing Inc. (Champion), its domestic medical recliner business for dialysis clinics, to Champion Equity Holdings, LLC for approximately $45,000,000 in cash, subject to certain post-closing adjustments. This divestiture is consistent with the company's focus on its globalization strategy to harmonize core global product lines and reduce complexity within its business.

Subject to certain post-closing adjustments and any restructuring charges, the company preliminarily estimates that it will realize net proceeds from the sale of the Champion business of approximately $43,000,000, net of tax and expenses. The company will use the net proceeds to reduce debt outstanding under its revolving credit facility.

Supplemental Guarantor Information

Effective February 12, 2007, substantially all of the domestic subsidiaries (the “Guarantor Subsidiaries”) of the company became guarantors of the indebtedness of Invacare Corporation under its 4.125% Convertible Senior Subordinated Debentures due 2027 (the “Debentures”) with an original aggregate principal amount of $135,000,000. The majority of the company’s subsidiaries are not guaranteeing the indebtedness of the Debentures (the “Non-Guarantor Subsidiaries”). Each of the Guarantor Subsidiaries has fully and unconditionally guaranteed, on a joint and several basis, to pay principal, premium, and interest related to the Debentures and each of the Guarantor Subsidiaries are directly or indirectly wholly-owned subsidiaries of the company.

Presented below are the consolidating condensed financial statements of Invacare Corporation (Parent), its combined Guarantor Subsidiaries and combined Non-Guarantor Subsidiaries with their investments in subsidiaries accounted for using the equity method. The company does not believe that separate financial statements of the Guarantor Subsidiaries are material to investors and accordingly, separate financial statements and other disclosures related to the Guarantor Subsidiaries are not presented.

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Three month period ended June 30, 2013	(in thousands)				
Net sales	$64,903	$133,056	$ 177,582	$(23,745)	$351,796
Cost of products sold	55,077	96,187	128,350	(23,898)	255,716
Gross Profit	9,826	36,869	49,232	153	96,080
Selling, general and administrative expenses	35,407	24,819	43,353	1,350	104,929
Charge related to restructuring activities	1,810	13	769	—	2,592
Income (loss) from equity investee	25,370	6,729	(180)	(31,919)	—
Interest expense (income)—net	(399)	1,329	20	—	950
Earnings (Loss) from Continuing Operations before Income Taxes	(1,622)	17,437	4,910	(33,116)	(12,391)
Income taxes (benefit)	10,839	—	(189)	—	10,650
Net Earnings (Loss) from Continuing Operations	(12,461)	17,437	5,099	(33,116)	(23,041)

Net Earnings from Discontinued Operations	—	10,580	—	—	10,580
Net Earnings (loss)	$(12,461)	$28,017	$ 5,099	$(33,116)	$(12,461)
Other Comprehensive Income (Loss), Net of Tax	(8,163)	1,551	(9,694)	8,143	(8,163)
Comprehensive Income (Loss)	$(20,624)	$29,568	$ (4,595)	$(24,973)	$(20,624)

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Three month period ended June 30, 2012	(in thousands)				
Net sales	$95,304	$125,956	$ 183,346	$(31,887)	$372,719
Cost of products sold	72,564	90,439	125,587	(31,655)	256,935
Gross Profit	22,740	35,517	57,759	(232)	115,784
Selling, general and administrative expenses	33,253	22,914	47,655	639	104,461
Charge related to restructuring activities	1,745	—	261	—	2,006
Loss on debt extinguishment including debt finance charges and associated fees	312	—	—	—	312
Income (loss) from equity investee	9,626	5,174	(36)	(14,764)	—
Interest expense (income)—net	(1,147)	2,459	844	—	2,156
Earnings (Loss) from Continuing Operations before Income Taxes	(1,797)	15,318	8,963	(15,635)	6,849
Income taxes (benefit)	180	(959)	11,934	—	11,155
Net Earnings (Loss) from Continuing Operations	(1,977)	16,277	(2,971)	(15,635)	(4,306)
Net Earnings from Discontinued Operations	—	2,329	—	—	2,329
Net Earnings (loss)	$(1,977)	$18,606	$ (2,971)	$(15,635)	$(1,977)
Other Comprehensive Income (Loss), Net of Tax	(40,377)	(1,830)	(39,140)	40,970	(40,377)
Comprehensive Income (Loss)	$(42,354)	$16,776	$ (42,111)	$25,335	$(42,354)

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Six month period ended June 30, 2013					
Net sales	$125,812	$257,671	$ 351,507	$(45,578)	$689,412
Cost of products sold	107,430	186,021	250,055	(45,952)	497,554
Gross Profit	18,382	71,650	101,452	374	191,858
Selling, general and administrative expenses	70,270	48,654	87,330	2,694	208,948
Charge related to restructuring activities	3,481	13	1,620	—	5,114
Income (loss) from equity investee	73,388	12,537	(115)	(85,810)	—
Interest expense (income)—net	(444)	1,975	639	—	2,170
Earnings (Loss) from Continuing Operations before Income Taxes	18,463	33,545	11,748	(88,130)	(24,374)
Income taxes (benefit)	(4,257)	—	7,457	—	3,200
Net Earnings (Loss) from Continuing Operations	22,720	33,545	4,291	(88,130)	(27,574)
Net Earnings from Discontinued Operations	—	50,294	—	—	50,294
Net Earnings (loss)	$22,720	$83,839	$ 4,291	$(88,130)	$22,720
Other Comprehensive Income (Loss), Net of Tax	(8,029)	(635)	(7,907)	8,542	(8,029)
Comprehensive Income (Loss)	$14,691	$83,204	$ (3,616)	$(79,588)	$14,691

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Six month period ended June 30, 2012	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
	(in thousands)				
Net sales	$185,336	$250,609	$ 356,734	$(64,860)	$727,819
Cost of products sold	140,516	180,344	245,002	(64,424)	501,438
Gross Profit	44,820	70,265	111,732	(436)	226,381
Selling, general and administrative expenses	66,022	45,796	92,717	639	205,174
Charge related to restructuring activities	1,751	21	795	—	2,567
Loss on debt extinguishment including debt finance charges and associated fees	312	—	—	—	312
Income (loss) from equity investee	27,872	6,218	163	(34,253)	—
Interest expense (income)—net	(2,017)	4,620	1,603	—	4,206
Earnings (Loss) from Continuing Operations before Income Taxes	6,624	26,046	16,780	(35,328)	14,122
Income taxes (benefit)	368	(1,354)	13,809	—	12,823
Net Earnings (Loss) from Continuing Operations	6,256	27,400	2,971	(35,328)	1,299
Net Earnings from Discontinued Operations	—	4,957	—	—	4,957
Net Earnings (loss)	$6,256	$32,357	$ 2,971	$(35,328)	$6,256
Other Comprehensive Income (Loss), Net of Tax	(39,191)	15	(39,290)	39,275	(39,191)
Comprehensive Income (Loss)	$(32,935)	$32,372	$ (36,319)	$3,947	$(32,935)

Table of Contents
INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

CONSOLIDATING CONDENSED BALANCE SHEETS

June 30, 2013	The Company (Parent) (in thousands)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current Assets					
Cash and cash equivalents	$1,764	$471	$19,212	$—	$21,447
Trade receivables, net	70,610	38,737	96,022	—	205,369
Installment receivables, net	—	667	1,147		