

INVACARE CORP
Form 10-Q
November 08, 2011
[Table of Contents](#)

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 September 30, 2011

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)

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Ohio
(State or other jurisdiction of
incorporation or organization)

95-2680965
(IRS Employer Identification No)

One Invacare Way, P.O. Box 4028, Elyria, Ohio
(Address of principal executive offices)

44036
(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 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 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

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

As of November 2, 2011, the registrant had 30,764,596 Common Shares and 1,084,747 Class B Common Shares outstanding.

Table of Contents

INVACARE CORPORATION

INDEX

	Page No.
Part I. <u>FINANCIAL INFORMATION:</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets September 30, 2011 and December 31, 2010</u>	3
<u>Condensed Consolidated Statement of Earnings Three and Nine Months Ended September 30, 2011 and September 30, 2010</u>	4
<u>Condensed Consolidated Statement of Cash Flows Nine Months Ended September 30, 2011 and September 30, 2010</u>	5
<u>Notes to Condensed Consolidated Financial Statements September 30, 2011</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	37
Part II. <u>OTHER INFORMATION:</u>	
Item 1. <u>Legal Proceedings</u>	38
Item 1A. <u>Risk Factors</u>	38
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 6. <u>Exhibits</u>	39
<u>SIGNATURES</u>	39

Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. Financial Statements.****INVACARE CORPORATION AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets (unaudited)

	September 30, 2011	December 31, 2010
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 41,280	\$ 48,462
Trade receivables, net	256,503	252,004
Installment receivables, net	5,988	3,959
Inventories, net	201,857	174,375
Deferred income taxes	9,323	5,778
Other current assets	41,303	41,581
TOTAL CURRENT ASSETS	556,254	526,159
OTHER ASSETS	43,957	45,484
OTHER INTANGIBLES	89,440	70,911
PROPERTY AND EQUIPMENT, NET	134,716	130,763
GOODWILL	571,551	507,083
TOTAL ASSETS	\$ 1,395,918	\$ 1,280,400
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 153,747	\$ 143,753
Accrued expenses	141,999	130,079
Accrued income taxes	1,113	8,502
Short-term debt and current maturities of long-term obligations	939	7,974
TOTAL CURRENT LIABILITIES	297,798	290,308
LONG-TERM DEBT	294,790	238,090
OTHER LONG-TERM OBLIGATIONS	108,010	99,591
SHAREHOLDERS' EQUITY		
Preferred shares	0	0
Common shares	8,470	8,401
Class B common shares	272	272
Additional paid-in-capital	219,738	231,685
Retained earnings	399,725	370,001
Accumulated other comprehensive earnings	159,273	112,631
Treasury shares	(92,158)	(70,579)
TOTAL SHAREHOLDERS' EQUITY	695,320	652,411
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,395,918	\$ 1,280,400

See notes to condensed consolidated financial statements.

Table of Contents**INVACARE CORPORATION AND SUBSIDIARIES**

Condensed Consolidated Statement of Earnings (unaudited)

(In thousands except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net sales	\$ 456,519	\$ 437,476	\$ 1,351,429	\$ 1,270,544
Cost of products sold	325,442	305,909	962,428	894,774
Gross profit	131,077	131,567	389,001	375,770
Selling, general and administrative expense	104,135	101,946	322,329	308,143
Loss on debt extinguishment including debt finance charges and associated fees	7,462	3,711	24,198	22,145
Charge related to restructuring activities	1,311	0	1,742	0
Interest expense	1,644	5,172	6,488	17,334
Interest income	(625)	(185)	(1,171)	(495)
Earnings before income taxes	17,150	20,923	35,415	28,643
Income taxes	4,350	5,325	4,500	10,550
NET EARNINGS	\$ 12,800	\$ 15,598	\$ 30,915	\$ 18,093
DIVIDENDS DECLARED PER COMMON SHARE	.0125	.0125	.0375	.0375
Net earnings per share basic	\$ 0.40	\$ 0.48	\$ 0.97	\$ 0.56
Weighted average shares outstanding basic	31,873	32,431	31,999	32,389
Net earnings per share assuming dilution	\$ 0.40	\$ 0.48	\$ 0.95	\$ 0.56
Weighted average shares outstanding assuming dilution	32,191	32,524	32,711	32,529

See notes to condensed consolidated financial statements.

Table of Contents**INVACARE CORPORATION AND SUBSIDIARIES**

Condensed Consolidated Statement of Cash Flows (unaudited)

	Nine Months Ended September 30,	
	2011	2010
	(In thousands)	
OPERATING ACTIVITIES		
Net earnings	\$ 30,915	\$ 18,093
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of convertible debt discount	1,487	2,487
Loss on debt extinguishment including debt finance charges and associated fees	24,198	22,145
Depreciation and amortization	27,555	27,212
Provision for losses on trade and installment receivables	8,966	12,472
Provision for other deferred liabilities	1,663	2,106
Provision (benefit) for deferred income taxes	(365)	(214)
Provision for stock-based compensation	4,984	5,293
Gain (loss) on disposals of property and equipment	152	20
Changes in operating assets and liabilities:		
Trade receivables	(3,749)	(7,221)
Installment sales contracts, net	(3,161)	(1,730)
Inventories	(21,859)	(17,344)
Other current assets	(2,796)	1,799
Accounts payable	5,189	7,591
Accrued expenses	(8,867)	(387)
Other deferred liabilities	2,276	2,158
NET CASH PROVIDED BY OPERATING ACTIVITIES	66,588	74,480
INVESTING ACTIVITIES		
Purchases of property and equipment	(15,593)	(11,325)
Proceeds from sale of property and equipment	46	26
Other long term assets	(1,018)	1,058
Business acquisitions, net of cash acquired	(41,465)	(13,725)
Other	0	(629)
NET CASH USED FOR INVESTING ACTIVITIES	(58,030)	(24,595)
FINANCING ACTIVITIES		
Proceeds from revolving lines of credit and long-term borrowings	362,958	341,602
Payments on revolving lines of credit and long-term debt and capital lease obligations	(336,950)	(373,583)
Proceeds from exercise of stock options	4,126	1,137
Payment of financing costs	(24,116)	(20,052)
Payment of dividends	(1,191)	(1,212)
Purchase of treasury stock	(21,551)	0
NET CASH USED BY FINANCING ACTIVITIES	(16,724)	(52,108)
Effect of exchange rate changes on cash	984	(3,189)
Decrease in cash and cash equivalents	(7,182)	(5,412)
Cash and cash equivalents at beginning of period	48,462	37,501
Cash and cash equivalents at end of period	\$ 41,280	\$ 32,089

See notes to condensed consolidated financial statements.

Table of Contents**INVACARE CORPORATION AND SUBSIDIARIES**

Notes to Condensed Consolidated

Financial Statements

(Unaudited)

September 30, 2011

Nature of Operations Invacare Corporation is the world's leading manufacturer and distributor in the estimated \$11.0 billion worldwide market for 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 September 30, 2011, the results of its operations for the three and nine months ended September 30, 2011 and changes in its cash flow for the nine months ended September 30, 2011 and 2010, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using an August 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 nine months ended September 30, 2011 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.

Accounting for Stock-Based Compensation 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 and 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		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Stock-based compensation expense recognized as part of selling, general and administrative expense	\$ 2,106	\$ 2,453	\$ 4,984	\$ 5,293

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.

Receivables Accounts receivable and installment receivables 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

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for both trade accounts receivable and installment receivables (\$31,274,000 and \$30,168,000 at September 30, 2011 and December 31, 2010, respectively) is based primarily on management's evaluation of the financial condition of specific customers. In addition, as a result of the 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.

Table of Contents

The Company's U.S. customers electing to finance their purchases can do so using DLL. In addition, Invacare often provides financing directly for its Canadian customers for which DLL is not an option, as DLL typically provides financing to Canadian customers only on a limited basis. 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 three payments. The Canadian installment receivables represent the second class of installment receivables which were financed by Invacare because third party financing was not available to the HME providers. The Canadian installment receivables are typically financed for twelve 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 does not occur and accruing of interest 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 initiates a legal process of adjudication of the delinquency, the duration of which is typically approximately 18 months. Any write-offs of uncollectible amounts are made after the legal process has been completed. The Company has not made any changes to either its accounting policies or methodology to estimate allowances for doubtful accounts in the last twelve months.

Installment receivables consist of the following (in thousands):

	September 30, 2011			December 31, 2010		
	Current	Long-Term	Total	Current	Long-Term	Total
Installment receivables	\$ 7,913	\$ 4,262	\$ 12,175	\$ 5,777	\$ 4,854	\$ 10,631
Less: Unearned interest	(188)	0	(188)	(118)	0	(118)
	7,725	4,262	11,987	5,659	4,854	10,513
Allowance for doubtful accounts	(1,737)	(3,016)	(4,753)	(1,700)	(3,141)	(4,841)
	\$ 5,988	\$ 1,246	\$ 7,234	\$ 3,959	\$ 1,713	\$ 5,672

Installment receivables purchased from DLL during the nine months ended September 30, 2011 increased the gross installment receivables balance by \$3,288,000. No sales of installment receivables were made by the Company during the year.

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

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
	Beginning Balance	\$ 4,841
Current period provision	1,322	4,022

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Direct write-offs charged against the allowance	(1,410)	(5,261)
Ending Balance	\$ 4,753	\$ 4,841

Table of Contents

Installment receivables by class as of September 30, 2011 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	\$ 7,002	\$ 7,002	\$ 4,709	\$ 0
Canada				
Non-Impaired Installment receivables with no related allowance recorded	5,121	4,933	0	162
Impaired Installment receivables with a related allowance recorded	52	52	44	0
Total Canadian Installment Receivables	\$ 5,173	\$ 4,985	\$ 44	\$ 162
Total				
Non-Impaired Installment receivables with no related allowance recorded	5,121	4,933	0	162
Impaired Installment receivables with a related allowance recorded	7,054	7,054	4,753	0
Total Installment Receivables	\$ 12,175	\$ 11,987	\$ 4,753	\$ 162

Installment receivables by class as of December 31, 2010 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	\$ 7,153	\$ 7,153	\$ 4,822	\$ 0
Canada				
Non-Impaired Installment receivables with no related allowance recorded	3,222	3,104	0	109
Impaired Installment receivables with a related allowance recorded	256	256	19	0
Total Canadian Installment Receivables	\$ 3,478	\$ 3,360	\$ 19	\$ 109
Total				
Non-Impaired Installment receivables with no related allowance recorded	3,222	3,104	0	109
Impaired Installment receivables with a related allowance recorded	7,409	7,409	4,841	0
Total Installment Receivables	\$ 10,631	\$ 10,513	\$ 4,841	\$ 109

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 September 30, 2011 and December 31, 2010, 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 does historically collect 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 September 30, 2011 and December 31, 2010, respectively, for which the Company is still accruing interest.

Table of Contents

The aging of the Company's installment receivables was as follows (in thousands):

	September 30, 2011			December 31, 2010		
	Total	U.S.	Canada	Total	U.S.	Canada
Current	\$ 5,028	\$ 0	\$ 5,028	\$ 3,097	\$ 0	\$ 3,097
0-30 Days Past Due	61	0	61	89	0	89
31-60 Days Past Due	28	0	28	31	0	31
61-90 Days Past Due	4	0	4	5	0	5
90+ Days Past Due	7,054	7,002	52	7,409	7,153	256
	\$ 12,175	\$ 7,002	\$ 5,173	\$ 10,631	\$ 7,153	\$ 3,478

Inventories Inventories determined under the first in, first out method consist of the following components (in thousands):

	September 30, 2011	December 31, 2010
Finished goods	\$ 122,942	\$ 101,243
Raw Materials	66,299	59,921
Work in Process	12,616	13,211
	\$ 201,857	\$ 174,375

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

	September 30, 2011	December 31, 2010
Machinery and equipment	\$ 354,321	\$ 332,687
Land, buildings and improvements	98,065	91,956
Furniture and fixtures	27,968	27,775
Leasehold improvements	16,758	15,705
	497,112	468,123
Less allowance for depreciation	(362,396)	(337,360)
	\$ 134,716	\$ 130,763

Acquisitions In September 2011, the Company completed the acquisition of Dynamic Medical Systems (DMS), a solutions-based service organization with a strong presence in the western United States, for \$41,465,000, which was paid in cash. The acquisition gives the Company a national rental footprint, which strategically enhances the Company's ability to service regional and national long-term care providers. DMS has a clinical solution selling approach for wound therapies, safe patient handling and other rental applications in institutional settings. Pursuant to the purchase agreement, the company agreed to pay contingent consideration of up to \$8,000,000 if certain goals were met over the next 24 months, principally earnings projections, for which the company has recorded a liability amount of \$7,300,000 based on the company's estimate of the probable payout.

Goodwill and Other Intangibles The change in goodwill reflected on the balance sheet from December 31, 2010 to September 30, 2011 was the result of foreign currency translation and an increase of \$23,600,000 as the result of the acquisition described above in the third quarter of 2011 included in the Institutional Products Group segment for which the entire amount is deductible for tax purposes.

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All of the Company's other intangible assets have been assigned definite lives and continue to be amortized over their useful lives, except for \$33,446,000 related to trademarks, which have indefinite lives. The changes in intangible balances reflected on the balance sheet from December 31, 2010 to September 30, 2011 were the result of foreign currency translation and amortization, except for \$18,800,000 recorded for customer lists, \$1,000,000 recorded for non-compete agreements (included in Other below) and \$400,000 recorded for trademarks as the result of the acquisition described above made during the third quarter of 2011 which are included in the Institutional Products Group.

Table of Contents

As of September 30, 2011 and December 31, 2010, other intangibles consisted of the following (in thousands):

	September 30, 2011		December 31, 2010	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer lists	\$ 97,968	\$ 49,166	\$ 72,998	\$ 40,071
Trademarks	33,446	0	31,246	0
License agreements	3,127	2,922	3,183	2,958
Developed technology	9,473	4,904	8,521	3,988
Patents	5,936	5,166	7,518	5,863
Other	7,446	5,798	6,092	5,767
	\$ 157,396	\$ 67,956	\$ 129,558	\$ 58,647

Amortization expense related to other intangibles was \$6,649,000 in the first nine months of 2011 and is estimated to be \$10,234,000 in 2012, \$9,568,000 in 2013, \$9,177,000 in 2014, \$7,778,000 in 2015 and \$5,950,000 in 2016. Definite lived 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.

Warranty Costs 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 year to date increase in the liability for pre-existing warranties, as shown below, is the result of product recalls during 2011.

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

Balance as of January 1, 2011	\$ 18,252
Warranties provided during the period	7,653
Settlements made during the period	(8,432)
Changes in liability for pre-existing warranties during the period, including expirations	2,113
Balance as of September 30, 2011	\$ 19,586

Long-Term Debt On May 9, 2008, Staff Position APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1) as codified in *Debt with Conversion and Other Options*, ASC 470-20, was issued to provide clarification of the accounting for convertible debt that can be settled in cash upon conversion. The FASB believed this clarification was needed because the accounting that was being applied for convertible debt prior to FSP APB 14-1 did not fully reflect the true economic impact on the issuer since the conversion option was not captured as a borrowing cost and its full dilutive effect was not included in earnings per share. ASC 470-20 required separate accounting for the liability and equity components of the convertible debt in a manner that would reflect Invacare's nonconvertible debt borrowing rate. Accordingly, the Company initially split the total debt amount of \$135,000,000 attributable to its 4.125% Convertible Senior Subordinated Debentures due 2027 into a convertible debt amount of \$75,988,000 and a stockholders' equity (debt discount) amount of \$59,012,000 as of the retrospective adoption date of February 12, 2007 and is accreting the resulting debt discount as interest expense over a ten year life. The Consolidated Balance Sheet as of September 30, 2011 reflects a decrease in long-term debt of \$4,132,000 and a deferred tax liability of \$1,446,000 compared to comparable amounts of \$25,137,000 and \$8,798,000, respectively, as of December 31, 2010.

During the nine months ended September 30, 2011, the Company repurchased \$63,259,000 (\$42,254,000 reduction of debt and \$21,005,000 reduction of equity) principal amount of its 4.125% Convertible Senior Subordinated Debentures due 2027. The Company retired the debt at a premium above par. In accordance with *Convertible Debt*, ASC 470-20, the Company utilized the inducement method of accounting to calculate

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the loss associated with the early retirement of the convertible debt. For the three and nine months ended September 30, 2011, the Company recorded pre-tax expense of \$7,462,000 and \$24,198,000, respectively, related to the loss on the debt extinguishment including the write-off of \$424,000 and \$1,552,000 of pre-tax of deferred financing fees, which were previously capitalized, for the three and nine months ended September 30, 2011.

Table of Contents

At September 30, 2011, the Company had outstanding \$276,368,000 on its revolving line of credit compared to \$184,932,000 as of December 31, 2010. The increase in revolving line of credit debt outstanding is attributable to the reduction in convertible debt noted above, the purchase of shares for Treasury as well the acquisition of DMS in the third quarter of 2011. During the first nine months of 2011, the Company entered into 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 \$18,000,000 and \$22,000,000 through September 2013, \$20,000,000 and \$25,000,000 through May 2013 and \$15,000,000 through February 2013 were entered into that fix the LIBOR component of the interest rate on that portion of the revolving credit facility debt at rates of 0.625%, 0.46%, 1.08%, 0.73% and 1.05%, respectively, for effective aggregate rates of 2.375%, 2.21%, 2.83%, 2.48% and 2.80%, respectively.

Shareholders Equity Transactions The 2003 Plan allows the Compensation and Management Development Committee of the Board of Directors (the Committee) to grant up to 6,800,000 Common Shares in connection with incentive stock options, non-qualified stock options, stock appreciation rights and stock awards (including the use of restricted stock). The maximum aggregate number of Common Shares that may be granted during the term of the 2003 Plan pursuant to all awards, other than stock options, is 1,300,000 Common Shares. The Committee has the authority to determine which employees and directors will receive awards, the amount of the awards and the other terms and conditions of the awards. During the first nine months of 2011, the Committee granted non-qualified stock options to purchase 603,896 Common Shares with a term of ten years at the fair market value of the Company's Common Shares on the date of grant under the 2003 Plan, which vest ratably in annual installments over the four years following the grant date.

Under the terms of the Company's outstanding restricted stock awards, all of the shares granted vest ratably over the four years after the grant date. Compensation expense of \$1,610,000 was recognized related to restricted stock awards in the first nine months of 2011 and, as of September 30, 2011, outstanding restricted stock awards totaling 338,199 shares were not yet vested.

As of September 30, 2011, there was \$18,013,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the 2003 Plan, which is related to non-vested options and shares, and includes \$5,816,000 related to restricted stock awards. The Company expects the compensation expense to be recognized over a four-year period for a weighted-average period of approximately two years.

Stock option activity during the nine months ended September 30, 2011 was as follows:

	2011	Weighted Average Exercise Price
Options outstanding at January 1	4,484,195	\$ 29.60
Granted	603,896	24.65
Exercised	(178,119)	23.16
Canceled	(85,019)	26.84
Options outstanding at September 30	4,824,953	\$ 29.21
Options price range at September 30	\$ 10.70 to	
	\$ 47.80	
Options exercisable at September 30	3,267,630	
Options available for grant at September 30*	1,833,204	

* Options available for grant as of September 30, 2011 reduced by net restricted stock award activity of 584,007.

The following table summarizes information about stock options outstanding at September 30, 2011:

Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding At 9/30/11	Average Remaining Contractual Life Weighted	Weighted Average Exercise Price	Number Exercisable At 9/30/11	Weighted Average Exercise Price
\$ 10.70 \$15.00	19,630	1.0 years	\$ 10.80	19,130	\$ 10.70
\$ 15.00 \$25.00	1,888,963	7.7	\$ 22.53	923,723	\$ 22.12
\$ 25.01 \$35.00	1,554,269	5.9	\$ 27.53	962,686	\$ 28.74

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\$ 35.01	\$47.80	1,362,091	2.5	\$ 40.67	1,362,091	\$ 40.67
Total		4,824,953	5.6	\$ 29.21	3,267,630	\$ 31.74

Table of Contents

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 2003 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.

Pursuant to the Company's Board of Directors authorized plan to purchase up to 2,500,000 Common Shares, excluding any shares acquired from employees or directors as a result of the exercise of options or vesting of restricted shares pursuant to the Company's performance plans, the Company purchased a total of 750,422 shares for an aggregate purchase price of \$21,551,000 during the first nine months of 2011.

Comprehensive Earnings (loss) Total comprehensive earnings (loss) were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net earnings	\$ 12,800	\$ 15,598	\$ 30,915	\$ 18,093
Foreign currency translation gain (loss)	(11,723)	31,438	49,141	(79,449)
SERP/DBO amortization of prior service costs and unrecognized losses	(152)	29	(572)	337
Current period unrealized gain (loss) on cash flow hedges, net of tax	(757)	(1,056)	(1,927)	1,311
Total comprehensive earnings (loss)	\$ 168	\$ 46,009	\$ 77,557	\$ (59,708)

Income Taxes The Company had an effective tax rate of 25.4% and 12.7% on earnings before tax for the three and nine month periods ended September 30, 2011 compared to an expected rate at the US statutory rate of 35%. The Company's effective tax rate for the three and nine months ended September 30, 2011 was lower than the U.S. federal statutory rate, principally due to foreign taxes recognized at rates below the U.S. statutory rate including a second quarter \$5,100,000 (\$0.16 per share) tax benefit as a result of a tax settlement in Germany as the German government agreed to follow a European Court of Justice case and a German Tax Court case that impacted an open tax return year. The Company also benefitted year to date from countries with valuation allowances included in the combined effective rate due to expected taxes. The Company had an effective tax rate of 25.4% and 36.8% on earnings before tax for the three and nine month periods ended September 30, 2010, respectively, compared to an expected rate at the U.S. statutory rate of 35%. The Company's effective tax rate for the three months ended September 30, 2010 was lower than the U.S. federal statutory rate as a result of foreign earnings taxed at an effective rate lower than the US statutory rate, and a net profit for the quarter related to countries with tax valuation allowances. The Company's effective tax rate for the nine month period ended September 30, 2010 was higher than the US statutory rate due to the negative impact of the Company not being able to record tax benefits related to losses in countries which had tax valuation allowances for the year, more than offsetting the benefit of foreign taxes at rates below the US statutory rate. The Company continued to be in a three-year cumulative loss position in the U.S. principally as a result of recording pre-tax expenses of \$7,462,000 and \$24,198,000 for the three and nine months ended September 30, 2011, respectively, related to the extinguishment of convertible debt at a premium. As a result of the loss position, the majority of the U.S. deferred tax assets continue to be subject to a valuation allowance.

Table of Contents

Net Earnings Per Common Share The following table sets forth the computation of basic and diluted net earnings per common share for the periods indicated (amounts in thousands, except per share amounts).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
(In thousands, except per share data)				
Basic				
Average common shares outstanding	31,873	32,431	31,999	32,389
Net earnings	\$ 12,800	\$ 15,598	\$ 30,915	\$ 18,093
Net earnings per common share	\$ 0.40	\$ 0.48	\$ 0.97	\$ 0.56
Diluted				
Average common shares outstanding	31,873	32,431	31,999	32,389
Stock options and awards	251	93	382	99
Shares related to convertible debt	67	0	330	41
Average common shares assuming dilution	32,191	32,524	32,711	32,529
Net earnings	\$ 12,800	\$ 15,598	\$ 30,915	\$ 18,093
Net earnings per common share	\$ 0.40	\$ 0.48	\$ 0.95	\$ 0.56

At September 30, 2011, 2,760,783 and 2,510,535 shares were excluded from the average common shares assuming dilution for the three and nine months ended September 30, 2011, respectively, as they were anti-dilutive since the majority of the anti-dilutive shares were granted at an exercise price of \$41.87, which was higher than the Company's average stock prices of \$27.18 and \$29.79 for the three and nine months ended September 30, 2011, respectively. At September 30, 2010, 3,877,362 and 3,425,015 shares were excluded from the average common shares assuming dilution for the three and nine months ended September 30, 2010 as they were anti-dilutive since the majority of the anti-dilutive shares were granted at an exercise price of \$25.24, which was higher than the Company's stock prices of \$23.28 and \$24.99 for the three and nine months ended September 30, 2010, respectively.

The Company included the impact of 67,000 and 330,000 shares, for the three and nine months ended September 30, 2011, respectively, necessary to settle the conversion spread related to the Company's 4.125% Senior Subordinated Convertible Debentures due 2027 compared to zero and 41,000 shares for the three and nine months ended September 30, 2010, respectively. This is attributable to the Company's average stock price during the first three and nine months of both years being greater than the conversion price of \$24.79, established under the indenture governing the convertible debentures. The dilutive impact of the convertible debt on diluted earnings per share is directly affected by changes in the Company's stock price and thus increased dilution in the future is possible if the Company's stock price increases.

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. Invacare has an agreement with DLL, a third party financing company, to provide the majority of future lease financing to Invacare's North America customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The Company retains a recourse obligation to DLL, which was \$10,866,000 at September 30, 2011, for events of default under the contracts, which total \$69,310,000 at September 30, 2011. *Guarantees*, ASC 460, requires the Company to record a guarantee liability as it relates to the limited recourse obligation. As such, the Company has recorded a liability of \$596,000 for this guarantee obligation within accrued expenses. 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. In addition, 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.

Table of Contents

Derivatives *Derivatives and Hedging*, 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 commodity price risk, foreign currency exchange risk and interest rate risk. Foreign 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 nine months of 2011, the Company entered into 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 \$18,000,000 and \$22,000,000 through September 2013, \$20,000,000 and \$25,000,000 through May 2013 and \$15,000,000 through February 2013 were entered into that fix the LIBOR component of the interest rate on that portion of the revolving credit facility debt at rates of 0.625%, 0.46%, 1.08%, 0.73% and 1.05%, respectively, for effective aggregate rates of 2.375%, 2.21%, 2.83%, 2.48% and 2.80%, respectively. The realized gains and or losses on interest rate swaps are reflected in interest expense on the consolidated statement of earnings. The Company did not recognize any ineffectiveness during the three or nine months ended September 30, 2011 related to interest rate swap agreements. The Company was not a party to any interest rate swap agreements during 2010.

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 earnings. If it is later determined that a hedged forecasted transaction is unlikely to occur, any gains or losses on the forward contracts associated with the forecasted transactions that are no longer probable of occurring would be reclassified from other comprehensive income into 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 \$50,813,000 and \$139,418,000 matured during the three and nine months ended September 30, 2011, respectively, compared to forward contracts with a total notional amount in USD of \$42,210,000 and \$124,292,000 which matured during the three and nine months ended September 30, 2010, respectively.

Table of Contents

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

	September 30, 2011		December 31, 2010	
	Notional Amount	Unrealized Gain (Loss)	Notional Amount	Unrealized Gain (Loss)
USD / AUD	\$ 768	\$ (39)	\$ 3,072	\$ (223)
USD / CAD	8,552	(1)	32,974	(14)
USD / CNY	4,062	74	0	0
USD / EUR	8,286	(538)	32,419	927
USD / GBP	1,053	(30)	4,212	86
USD / NZD	4,644	106	9,577	202
USD / SEK	2,604	9	10,395	95
USD / MXP	6,857	(417)	0	0
EUR / AUD	329	(8)	0	0
EUR / CHF	1,248	(148)	8,768	54
EUR / GBP	6,394	177	18,068	(577)
EUR / SEK	2,721	54	8,045	92
EUR / NOK	1,062	(22)	0	0
EUR / NZD	2,079	80	2,630	5
GBP / CHF	465	33	770	(3)
GBP / SEK	576	23	2,014	(43)
GBP / DKK	337	11	1,016	(27)
CHF / SEK	115	(13)	6,937	(3)
DKK / CHF	143	(17)	514	1
DKK / NOK	446	(10)	0	0
DKK / SEK	2,072	32	1,465	18
NOK / SEK	183	(5)	0	0
	\$ 54,996	\$ (649)	\$ 142,876	\$ 590

Fair Value Hedging Strategy

In 2011 and 2010, the Company did not utilize any derivatives designated as fair value hedges. However, the Company has in the past utilized fair value hedges in the form of forward contracts to manage the foreign exchange risk associated with certain firm commitments and has entered into interest rate swaps to effectively convert fixed-rate debt to floating-rate debt in an attempt to avoid paying higher than market interest rates. For derivative instruments designated and qualifying as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item associated with the hedged risk are recognized in the same line item associated with the hedged item in earnings.

Derivatives Not Qualifying or Designated for Hedge Accounting Treatment

The Company utilizes foreign currency forward or option contracts that do not qualify for hedge accounting treatment in an attempt to manage the risk associated with the conversion of earnings in foreign currencies into U.S. Dollars. While these derivative instruments do not qualify for hedge accounting treatment in accordance with ASC 815, these derivatives do provide the Company with a means to manage the risk associated with currency translation. These instruments are recorded at fair value in the consolidated balance sheet and any gains or losses are recorded as part of earnings in the current period. An immaterial gain was recorded by the Company for the nine months ended September 30, 2011, related to these derivatives not qualifying for hedge accounting treatment, while no such derivatives existed for the three and nine months ended September 30, 2010.

The Company also utilizes foreign currency forward contracts that are not designated as hedges in accordance with ASC 815 although they could qualify for hedge accounting treatment. 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 for the three or nine month periods ended September 30, 2011 and 2010, respectively, related to these forward contracts and the associated short-term intercompany trading receivables and payables.

Table of Contents

Foreign exchange forward contracts not qualifying or designated for hedge accounting treatment entered into and outstanding as of September 30, 2011 and 2010 were as follows (in thousands USD):

	September 30, 2011		September 30, 2010	
	Notional Amount	Gain (Loss)	Notional Amount	Gain (Loss)
CAD / USD	\$ 0	\$ 0	\$ 10,414	\$ 281
CHF / USD	915	2	0	0
CHF / GBP	0	0	0	0
NZD / USD	0	0	13,403	18
NOK / USD	6,252	(262)	1,327	35
SEK / USD	0	0	13,380	426
DKK / USD	0	0	4,233	161
DKK / NOK	74	(2)	0	0
EUR / GBP	0	0	839	(59)
EUR / SEK	9	0	72	(5)
EUR / CAD	26,500	37	0	0
EUR / USD	0	0	16,948	789
EUR / NOK	118	(3)	0	0
	\$ 33,868	\$ (228)	\$ 60,616	\$ 1,646

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

	September 30, 2011		December 31, 2010	
	Assets	Liabilities	Assets	Liabilities
Derivatives designated as hedging instruments under ASC 815				
Foreign currency forward contracts	\$ 900	\$ (1,549)	\$ 2,518	\$ (1,928)
Interest rate swap contracts	0	(533)	0	0
Derivatives not designated as hedging instruments under ASC 815				
Foreign currency forward contracts	199	(427)	366	(1)
Total derivatives	\$ 1,099	\$ (2,509)	\$ 2,884	\$ (1,929)

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

Table of Contents

The effect of derivative instruments on the Statement of Earnings 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)
Quarter ended September 30, 2011:			
Foreign currency forward contracts	\$ (354)	\$ (104)	\$ 0
Interest rate swap contracts	(117)	0	0
	\$ (471)	\$ (104)	\$ 0
Nine months ended September 30, 2011:			
Foreign currency forward contracts	\$ (1,192)	\$ (47)	\$ 3
Interest rate swap contracts	(533)	0	0
	\$ (1,725)	\$ (47)	\$ 3
Quarter ended September 30, 2010:			
Foreign currency forward contracts	\$ (2,429)	\$ 1,065	\$ (29)
Nine months ended September 30, 2010:			
Foreign currency forward contracts	\$ (1,091)	\$ 1,844	\$ (68)

Derivatives not designated as hedging instruments under ASC 815	Amount of Gain (Loss) Recognized in Income on Derivatives
Quarter ended September 30, 2011:	
Foreign currency forward contracts	\$ (814)
Nine months ended September 30, 2011:	
Foreign currency forward contracts	\$ (228)
Quarter ended September 30, 2010:	
Foreign currency forward contracts	\$ 1,901
Nine months ended September 30, 2010:	
Foreign currency forward contracts	\$ 1,389

The 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 nine months ended September 30, 2011, net sales were increased by \$1,212,000 and \$2,466,000, respectively, and cost of product sold was increased by \$1,316,000 and \$2,513,000 resulting in net realized losses of \$104,000 and \$47,000, respectively. For the three and nine months ended September 30, 2010, net sales were increased by \$187,000 and \$734,000, respectively, and cost of product sold was decreased by \$878,000 and \$1,110,000 resulting in net realized gains of \$1,065,000 and \$1,844,000, respectively. As the result of swap agreements outstanding in 2011, losses of \$135,000 and \$253,000 were recorded for the three and nine months ended September 30, 2011 which were recorded in interest expense. No swap agreements were outstanding in 2010.

Table of Contents

Losses of \$814,000 and \$228,000 were recognized in selling, general and administrative (SG&A) expenses for the three and nine months ended September 30, 2011, respectively, compared to gains of \$1,901,000 and \$1,389,000 for the three and nine months ended September 30, 2010 on foreign currency forward contracts not designated as hedging instruments, which were substantially offset by foreign currency gains/losses also recorded in SG&A expenses on the intercompany trade payables for which the derivatives were entered into to offset. In addition, gains of \$0 and \$3,000 were recognized for the three and nine months ended September 30, 2011, respectively, compared to losses of \$29,000 and \$68,000 for the three and nine months ended September 30, 2010, respectively, related to derivatives no longer qualifying for hedge accounting treatment as the forecasted transactions hedged by those derivatives were no longer probable of occurring and as a result, the hedging relationship was ineffective.

Fair Value Measurements - Pursuant to ASC 820, the inputs used to derive the fair value of assets and liabilities are analyzed and assigned a level of I, II or III, 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	Significant Other Observable Inputs	Significant Other Unobservable Inputs
		/ (Liabilities) Level I	Level II	Level III
September 30, 2011				
Foreign currency forward contracts-net	\$ (877)	\$ 0	\$ (877)	\$ 0
Interest rate swaps	(533)	0	(533)	0
December 31, 2010				
Foreign currency forward contracts-net	\$ 955	\$ 0	\$ 955	\$ 0

Forward Contracts: The Company operates internationally and as a result is exposed to foreign currency fluctuations. Specifically, the exposure includes intercompany trade receivables/payables and loans as well as third party and intercompany sales or purchases. 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 various currencies. The Company does not use derivative financial instruments for speculative purposes. Fair values for the Company's foreign exchange forward contracts are based on quoted market prices for contracts with similar maturities.

The carrying amounts and fair values of the Company's financial instruments at September 30, 2011 and December 31, 2010 are as follows (in thousands):

	September 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 41,280	\$ 41,280	\$ 48,462	\$ 48,462
Other investments	1,578	1,578	1,588	1,588
Installment receivables, net	7,234	7,234	5,672	5,672
Long-term debt (including current maturities of long-term debt) *	(295,729)	(295,819)	(246,064)	(264,382)
Foreign currency forward contracts in other current assets	1,099	1,099	2,884	2,884
Interest rate swap agreements in accrued expenses	(533)	(533)	0	0
Foreign currency forward contracts in accrued expenses	(1,976)	(1,976)	(1,929)	(1,929)

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* The carrying amounts and fair values exclude convertible debt classified as equity in accordance with FSP APB 14-1 (\$4,132,000 and \$25,137,000 as of September 30, 2011 and December 31, 2010, respectively).

Table of Contents

Business Segments - The Company operates in five primary business segments: North America/Home Medical Equipment (NA/HME), Invacare Supply Group (ISG), Institutional Products Group (IPG), Europe and Asia/Pacific. The NA/HME segment sells each of three primary product lines, which includes: standard, rehab and respiratory products. Invacare Supply Group sells distributed product and the Institutional Products Group sells or rents health care furnishings and accessory products. Europe and Asia/Pacific sell the same product lines as NA/HME and the Institutional Products Group. 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.

During the quarter and as a result of an acquisition that expanded the Company's North American rental operations, management re-evaluated its rental operations and determined that sales are more closely aligned with institutional customers and as a result, these operations are now included and evaluated as part of the Institutional Products Group. As a result of this change, IPG revenues for the quarter and nine months ended September 30, 2010 were increased by \$3,496,000 and \$5,489,000, respectively, with an offsetting decrease in revenues for the North America / HME segment. In addition, earnings before income taxes for the quarter and nine months ended September 30, 2010 were decreased by \$21,000 and \$275,000, respectively, with an offsetting increase in earnings before income taxes for the North America / HME segment. The information by segment is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues from external customers				
North America / HME	\$ 188,428	\$ 187,429	\$ 564,996	\$ 550,511
Invacare Supply Group	74,197	75,201	223,980	217,745
Institutional Products Group	28,048	23,273	89,579	70,244
Europe	142,107	128,613	405,354	369,446
Asia/Pacific	23,739	22,960	67,520	62,598
Consolidated	\$ 456,519	\$ 437,476	\$ 1,351,429	\$ 1,270,544
Intersegment Revenues				
North America / HME	\$ 21,699	\$ 20,717	\$ 64,766	\$ 64,060
Invacare Supply Group	18	29	58	61
Institutional Products Group	1,450	1,335	4,765	4,332
Europe	2,635	2,036	7,267	7,369
Asia/Pacific	7,407	8,821	25,350	24,605
Consolidated	\$ 33,209	\$ 32,938	\$ 102,206	\$ 100,427
Restructuring charges before income taxes				
North America / HME	\$ 406	\$ 0	\$ 406	\$ 0
Invacare Supply Group	59	0	59	0
Europe	846	0	1,277	0
Consolidated	\$ 1,311	\$ 0	\$ 1,742	\$ 0
Earnings (loss) before income taxes				
North America / HME	\$ 11,454	\$ 15,112	\$ 38,332	\$ 37,392
Invacare Supply Group	2,302	2,249	4,986	4,448
Institutional Products Group	3,865	1,843	11,448	6,727
Europe	11,379	12,769	25,819	26,596
Asia/Pacific	933	2,893	3,826	6,244

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All Other *	(12,783)	(13,943)	(48,996)	(52,764)
Consolidated	\$ 17,150	\$ 20,923	\$ 35,415	\$ 28,643

* All Other consists of un-allocated corporate selling, general and administrative costs, which do not meet the quantitative criteria for determining reportable segments. In addition, All Other loss before income taxes includes loss on debt extinguishment including finance charges and associated fees.

Table of Contents

Charges Related to Restructuring Activities During the quarter ended September 30, 2011, the Company continued to execute the closure of a European assembly facility and initiated the closure of an additional smaller facility in the U.S. as part of the Company's ongoing globalization initiative to reduce complexity within the Company's global supply chain footprint. The restructuring was necessitated by the continued decline in reimbursement by the U.S. government as well as similar reimbursement pressures abroad and continued pricing pressures faced by the Company as a result of outsourcing by competitors to lower cost locations. The Company intends to transfer assembly activities to other Company facilities or outsource them to third parties. To date, the Company has recorded restructuring charges of \$1,742,000, principally for severance which are expected to be utilized during the next twelve months. The Company will have additional charges related to the closing of the European facility, as it is not expected to be complete until the first quarter of 2012. There have been no material changes in accrued balances related to the charge, either as a result of revisions in the plan or changes in estimates. A progression by reporting segment of the accruals recorded as a result of the restructuring is as follows (in thousands):

	Severance	Other	Total
Charges			
North America / HME	\$ 365	\$ 40	\$ 405
Europe	1,230	48	1,278
ISG	59	0	59
Consolidated	\$ 1,654	\$ 88	\$ 1,742
Payments			
North America / HME	\$ 0	\$ 0	\$ 0
Europe	(1,230)	(48)	(1,278)
ISG	0	0	0
Consolidated	\$ (1,230)	\$ (48)	\$ (1,278)
Balance			
North America / HME	\$ 365	\$ 40	\$ 405
Europe	0	0	0
ISG	59	0	59
Consolidated	\$ 424	\$ 40	\$ 464

Contingencies 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 have been referred to the company's captive insurance company and/or excess insurance carriers and generally are 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. Subject to the imprecision in estimating future contingent liability costs, the company does not expect that any sum it may have to pay in connection with these matters in excess of the amounts recorded will have a materially adverse effect on its financial position, results of operations or liquidity.

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, documentation and other practices of health care suppliers and manufacturers are all subject to government scrutiny. Violations of law, regulations, licensing or registration requirements can result in administrative, civil and criminal penalties and sanctions, including disqualification from the licensing or certification required for the sale of products or for the reimbursement therefore, in the U.S., Canada, Australia, New Zealand, relevant European countries and China, which could have a material adverse effect on the Company's business. In the United States, the Food & Drug Administration (FDA) regulates virtually all aspects of a medical device's development, testing, manufacturing, labeling, promotion, distribution and marketing in the U.S. Any failure by the Company to comply with the regulatory requirements of the FDA or other applicable 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 seizures or detention, and total or partial suspensions of production.

Table of Contents

As previously disclosed, Invacare received a warning letter from the FDA following its inspection in the fall of 2010 of the Company's Sanford, Florida bed plant. The Company also has received inspectional observations (known as form FDA-483s) in connection with inspections in 2010 and 2011 of its corporate facility and a manufacturing facility in Elyria, Ohio, as well as the Sanford, Florida facility (collectively, the Sites). Over the past year, the Company has been actively making systemic improvements in its reporting processes and enhancing its documentation and tools for capturing, investigating and assessing product complaints and quality data. The Company also has engaged outside experts with proven quality systems and regulatory experience in the medical device industry in order to accelerate these improvements. The Company is working with the FDA to resolve the inspectional observations identified in the warning letter and in the FDA-483s for the Sites. If the FDA determines that the Company has not adequately addressed the inspectional observations or has not remained in compliance with the quality systems regulations, the FDA could pursue a range of enforcement actions, including issuing a corporate warning letter, seeking a consent decree, bringing an action for injunction or seizing or detaining the Company's products.

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

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% Senior Subordinated Debentures due 2027 (the Convertible Notes) with an initial aggregate principal amount of \$135,000,000. The majority of the Company's subsidiaries, which are primarily foreign subsidiaries of the Company, are not guaranteeing the repayment of the Convertible Notes (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 Convertible Notes 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.

Table of Contents**CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS**

(in thousands)	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
<u>Three month period ended September 30, 2011</u>					
Net sales	\$ 96,992	\$ 191,595	\$ 193,007	\$ (25,075)	\$ 456,519
Cost of products sold	70,548	149,783	130,001	(24,890)	325,442
Gross Profit	26,444	41,812	63,006	(185)	131,077
Selling, general and administrative expenses	30,314	14,069	47,145	12,607	104,135
Loss on debt extinguishment including debt finance charges and associated fees	7,462	0	0	0	7,462
Charges related to restructuring activities	0	465	846	0	1,311
Income (loss) from equity investee	24,452	8,210	8	(32,670)	0
Interest expense net	(180)	363	836	0	1,019
Earnings (loss) before Income Taxes	13,300	35,125	14,187	(45,462)	17,150
Income taxes	500	100	3,750	0	4,350
Net Earnings (loss)	\$ 12,800	\$ 35,025	\$ 10,437	\$ (45,462)	\$ 12,800
<u>Three month period ended September 30, 2010</u>					
Net sales	\$ 105,143	\$ 180,297	\$ 176,793	\$ (24,757)	\$ 437,476
Cost of products sold	73,400	139,855	117,485	(24,831)	305,909
Gross Profit	31,743	40,442	59,308	74	131,567
Selling, general and administrative expenses	32,911	28,784	40,251	0	101,946
Loss on debt extinguishment including debt finance charges and associated fees	3,711	0	0	0	3,711
Income (loss) from equity investee	25,227	8,973	6	(34,206)	0
Interest expense net	4,170	227	590	0	4,987
Earnings (loss) before Income Taxes	16,178	20,404	18,473	(34,132)	20,923
Income taxes	580	109	4,636	0	5,325
Net Earnings (loss)	\$ 15,598	\$ 20,295	\$ 13,837	\$ (34,132)	\$ 15,598

Table of Contents**CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS**

(in thousands)	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
<u>Nine month period ended September 30, 2011</u>					
Net sales	\$ 286,969	\$ 576,799	\$ 562,331	\$ (74,670)	\$ 1,351,429
Cost of products sold	208,162	449,838	378,691	(74,263)	962,428
Gross Profit	78,807	126,961	183,640	(407)	389,001
Selling, general and administrative expenses	99,464	44,186	141,955	36,724	322,329
Loss on debt extinguishment including debt finance charges and associated fees	24,198	0	0	0	24,198
Charges related to restructuring activities	0	465	1,277	0	1,742
Income (loss) from equity investee	78,902	26,271	1,065	(106,238)	0
Interest expense net	1,532	1,144	2,641	0	5,317
Earnings (loss) before Income Taxes	32,515	107,437	38,832	(143,369)	35,415
Income taxes	1,600	300	2,600	0	4,500
Net Earnings (loss)	\$ 30,915	\$ 107,137	\$ 36,232	\$ (143,369)	\$ 30,915
<u>Nine month period ended September 30, 2010</u>					
Net sales	\$ 300,383	\$ 535,735	\$ 509,575	\$ (75,149)	\$ 1,270,544
Cost of products sold	212,173	418,825	339,008	(75,232)	894,774
Gross Profit	88,210	116,910	170,567	83	375,770
Selling, general and administrative expenses	100,124	81,987	126,032	0	308,143
Loss on debt extinguishment including debt finance charges and associated fees	22,145	0	0	0	22,145
Income (loss) from equity investee	67,674	17,807	(377)	(85,104)	0
Interest expense net	13,950	536	2,353	0	16,839
Earnings (loss) before Income Taxes	19,665	52,194	41,805	(85,021)	28,643
Income taxes	1,572	662	8,316	0	10,550
Net Earnings (loss)	\$ 18,093	\$ 51,532	\$ 33,489	\$ (85,021)	\$ 18,093

Table of Contents**CONSOLIDATING CONDENSED BALANCE SHEETS**

(in thousands)	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
September 30, 2011					
Assets					
Current Assets					
Cash and cash equivalents	\$ 5,329	\$ 2,601	\$ 33,350	\$ 0	\$ 41,280
Trade receivables, net	87,000	71,657	97,846	0	256,503
Installment receivables, net	0	1,183	4,805	0	5,988
Inventories, net	47,677	44,175	111,690	(1,685)	201,857
Deferred income taxes	5,314	0	4,009	0	9,323
Other current assets	7,544	5,049	37,230	(8,520)	41,303
Total Current Assets	152,864	124,665	288,930	(10,205)	556,254
Investment in subsidiaries	1,615,511	574,717	0	(2,190,228)	0
Intercompany advances, net	78,154	813,831	203,972	(1,095,957)	0
Other Assets	41,599	1,111	1,247	0	43,957
Other Intangibles	985	27,439	61,016	0	89,440
Property and Equipment, net	46,397	16,731	71,588	0	134,716
Goodwill	5,023	57,982	508,546	0	571,551
Total Assets	\$ 1,940,533	\$ 1,616,476	\$ 1,135,299	\$ (3,296,390)	\$ 1,395,918
Liabilities and Shareholders Equity					
Current Liabilities					
Accounts payable	\$ 74,584	\$ 16,680	\$ 62,483	\$ 0	\$ 153,747
Accrued expenses	36,222	27,899	86,398	(8,520)	141,999
Accrued income taxes	734	0	379	0	1,113
Short-term debt and current maturities of long-term obligations	177	64	698	0	939
Total Current Liabilities	111,717	44,643	149,958	(8,520)	297,798
Long-Term Debt	283,892	249	10,649	0	294,790
Other Long-Term Obligations	51,123	2,111	54,776	0	108,010
Intercompany advances, net	798,481	200,488	96,990	(1,095,959)	0
Total Shareholders Equity	695,320	1,368,985	822,926	(2,191,911)	695,320
Total Liabilities and Shareholders Equity	\$ 1,940,533	\$ 1,616,476	\$ 1,135,299	\$ (3,296,390)	\$ 1,395,918

Table of Contents**CONSOLIDATING CONDENSED BALANCE SHEETS**

(in thousands)	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
December 31, 2010					
Assets					
Current Assets					
Cash and cash equivalents	\$ 4,036	\$ 2,476	\$ 41,950	\$ 0	\$ 48,462
Trade receivables, net	95,673	68,504	87,827	0	252,004
Installment receivables, net	0	876	3,083	0	3,959
Inventories, net	72,499	39,299	63,873	(1,296)	174,375
Deferred income taxes	3,289	0	2,489	0	5,778
Other current assets	12,274	6,895	27,685	(5,273)	41,581
Total Current Assets	187,771	118,050	226,907	(6,569)	526,159
Investment in subsidiaries	1,489,732	594,690	0	(2,084,422)	0
Intercompany advances, net	77,990	745,991	226,421	(1,050,402)	0
Other Assets	42,782	1,881	821	0	45,484
Other Intangibles	1,241	8,590	61,080	0	70,911
Property and Equipment, net	46,791	12,093	71,879	0	130,763
Goodwill	5,023	34,388	467,672	0	507,083
Total Assets	\$ 1,851,330	\$ 1,515,683	\$ 1,054,780	\$ (3,141,393)	\$ 1,280,400
Liabilities and Shareholders Equity					
Current Liabilities					
Accounts payable	\$ 73,468	\$ 14,923	\$ 55,362	\$ 0	\$ 143,753
Accrued expenses	39,090	20,690	75,572	(5,273)	130,079
Accrued income taxes	5,633	0	2,869	0	8,502
Short-term debt and current maturities of long-term obligations	7,149	83	742	0	7,974
Total Current Liabilities	125,340	35,696	134,545	(5,273)	290,308
Long-Term Debt	217,164	0	20,926	0	238,090
Other Long-Term Obligations	48,645	1,123	49,823	0	99,591
Intercompany advances, net	807,770	180,743	61,889	(1,050,402)	0
Total Shareholders Equity	652,411	1,298,121	787,597	(2,085,718)	652,411
Total Liabilities and Shareholders Equity	\$ 1,851,330	\$ 1,515,683	\$ 1,054,780	\$ (3,141,393)	\$ 1,280,400

Table of Contents**CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS**

(in thousands)

	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Nine month period ended September 30, 2011					
Net Cash Provided (Used) by Operating Activities	\$ 12,235	\$ 49,075	\$ 42,002	\$ (36,724)	\$ 66,588
Investing Activities					
Purchases of property and equipment	(5,751)	(3,127)	(6,715)	0	(15,593)
Proceeds from sale of property and equipment	0	15	31	0	46
(Increase) decrease in other long-term assets	(1,021)	0	3	0	(1,018)
Business acquisitions, net of cash acquired	0	(41,465)	0	0	(41,465)
Other	(26)	(2)	28	0	0
Net Cash Used for Investing Activities	(6,798)	(44,579)	(6,653)	0	(58,030)
Financing Activities					
Proceeds from revolving lines of credit and long-term borrowings	362,958	0	0	0	362,958
Payments on revolving lines of credit and long-term debt and capital lease obligations	(324,370)	(4,371)	(8,209)	0	(336,950)
Proceeds from exercise of stock options	4,126	0	0	0	4,126
Payment of financing costs	(24,116)	0	0	0	(24,116)
Payment of dividends	(1,191)	0	(36,724)	36,724	(1,191)
Purchase of treasury stock	(21,551)	0	0	0	(21,551)
Net Cash Provided (Used) by Financing Activities	(4,144)	(4,371)	(44,933)	36,724	(16,724)
Effect of exchange rate changes on cash	0	0	984	0	984
Increase (decrease) in cash and cash equivalents	1,293	125	(8,600)	0	(7,182)
Cash and cash equivalents at beginning of period	4,036	2,476	41,950	0	48,462
Cash and cash equivalents at end of period	\$ 5,329	\$ 2,601	\$ 33,350	\$ 0	\$ 41,280

Table of Contents

CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

Nine month period ended September 30,	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non- Guarantor Subsidiaries	Eliminations	Total
2010					
Net Cash Provided (Used) by Operating Activities	\$ 58,306	\$ 14,311	\$ 1,863	\$ 0	\$ 74,480
Investing Activities					
Purchases of property and equipment	(5,251)	(442)	(5,632)	0	(11,325)
Proceeds from sale of property and equipment		(2)	28	0	26
(Increase) decrease in other long-term assets	549	(11)	520	0	1,058
Business acquisitions, net of cash acquired		(13,725)	0	0	(13,725)
Other	316	(517)	(428)	0	(629)
Net Cash Used for Investing Activities	(4,386)	(14,697)	(5,512)	0	(24,595)
Financing Activities					
Proceeds from revolving lines of credit and long-term borrowings	337,225	0	4,377	0	341,602
Payments on revolving lines of credit and long-term debt and capital lease obligations	(373,583)	0	0	0	(373,583)
Proceeds from exercise of stock options	1,137	0	0	0	1,137
Payment of financing costs	(20,052)	0	0	0	(20,052)
Payment of dividends	(1,212)	0	0	0	(1,212)
Net Cash Provided (Used) by Financing Activities	(56,485)	0	4,377	0	(52,108)
Effect of exchange rate changes on cash	0	0	(3,189)	0	(3,189)
Increase (decrease) in cash and cash equivalents	(2,565)	(386)	(2,461)	0	(5,412)
Cash and cash equivalents at beginning of period	6,569	2,526	28,406	0	37,501
Cash and cash equivalents at end of period	\$ 4,004	\$ 2,140	\$ 25,945	\$ 0	\$ 32,089

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the Company's Condensed Consolidated Financial Statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the Company's Current Report on Form 8-K as furnished to the Securities and Exchange Commission on October 27, 2011.

OUTLOOK

With difficult economic conditions around the world and ongoing uncertainty related to healthcare reform in the United States, the Company experienced unexpected weakness in organic net sales in the United States, Europe and Asia/Pacific in the third quarter. Customers are being cautious about their spending, opting to delay purchases, refurbish equipment and/or rent equipment when appropriate. In regards to National Competitive Bidding (NCB), which went into effect on January 1, 2011 in the United States, the Company has seen slowness in sales of the NCB products in the nine metropolitan statistical areas (MSA) consistent with the rest of the country. However, NCB comparisons are hard to measure, as the Company does not have zip code level visibility into customers' sales, rental data or Medicare fulfillment data. The Company will remain judicious in its extension of credit to customers in or near these MSAs. In Europe, governments are closely monitoring their healthcare spending which is resulting in slowing market conditions.

In response to these challenges, the Company has action plans in place that are anticipated to improve organic net sales and expand gross margins. For example, at Medtrade in October, the home medical equipment industry's largest tradeshow in the United States, the Company introduced several new product platforms that stem from its globalization program. These products are among the portfolio of new global platforms that are beginning to launch in the fourth quarter of 2011, but mainly throughout the first half of 2012. In addition, the Company is in the process of standardizing major sub-components that will be implemented globally. For example, the Company introduced the new Single Stage Drive (SSD) motor gearbox for power wheelchairs at Medtrade. This standardization of motor sub-components for the Company's power wheelchair platforms around the globe reduces complexity from 96 unique pairings of motors to less than ten. This will significantly reduce cost and complexity in the Company's supply chain.

In order to address margin pressures beyond introducing new products and standardizing sub-components, the Company is continuing to reduce complexity within its facilities around the globe. For example, the Company is on track with the two previously announced facility closures. When the closures are completed, annualized savings are expected to be approximately \$3.5 million.

The Company completed the acquisition of Dynamic Medical Systems, which will geographically expand its current rental capabilities for long-term care providers. The Company expects this acquisition to be accretive within the first year.

In addition, the Company recently acquired the technology and assets of a negative pressure wound therapy system currently in development. This line of products will add to the Company's current offering of wound therapy solutions available through Invacare's rental services to long-term care providers. The Company anticipates this to be a long-term growth platform.

The Company continues to work with the Food & Drug Administration (FDA) regarding the improvements that it is making related to the regulatory compliance concerns raised by the FDA over the past year. The Company is actively making systemic improvements across its quality and regulatory systems.

Organic net sales growth, earnings and cash flow for 2011 are expected to be consistent with the guidance provided in the Company's October 27, 2011 press release announcing third quarter 2011 results. The guidance should be read in conjunction with the information referenced herein under "Risk Factors."

RESULTS OF OPERATIONS

NET SALES

Net sales for the quarter increased 4.4% to \$456,519,000 versus \$437,476,000 for the same period last year. Foreign currency translation increased net sales by 4.7 percentage points and an acquisition increased net sales by 0.5 of a percentage point. Organic net sales for the quarter decreased 0.8% over the same period last year caused by declines in Europe, Asia/Pacific and the Invacare Supply Group (ISG) segments. For the nine months ended September 30, 2011, net sales increased 6.4% to \$1,351,429,000 versus \$1,270,544,000 for the same period a year ago. Foreign currency translation increased net sales by 3.0 percentage points while acquisitions increased net sales by 0.5 of a percentage point. Organic sales increased 2.9% over the same period last year driven by increases in all business segments except Asia/Pacific. Business segment reporting was changed during the third quarter as a result of the Dynamic Medical Systems acquisition, which expanded the Company's North

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American rental operations. Management re-evaluated its rental operations and determined that sales are most closely aligned with institutional customers and as a result, these operations are now included and evaluated as part of the Institutional Products Group (IPG).

Table of Contents**North American/Home Medical Equipment (NA/HME)**

NA/HME net sales increased 0.5% for the quarter to \$188,428,000 as compared to \$187,429,000 for the same period a year ago, driven by increases in respiratory products partially offset by declines in rehab products. Foreign currency translation increased net sales by 0.5 of a percentage point. Organic net sales were comparable to last year as increases in net sales of stationary and portable oxygen concentrators and therapeutic support systems were offset by declines in custom power wheelchairs, consumer power wheelchairs and patient aid products. For the nine months ended September 30, 2011, net sales increased 2.6% to \$564,996,000 as compared to \$550,511,000 for the same period last year. Organic sales increased 2.1% as foreign currency increased net sales by 0.5 of a percentage point in the first nine months of 2011.

Invacare Supply Group (ISG)

ISG net sales for the quarter decreased 1.3% to \$74,197,000 compared to \$75,201,000 for the same period last year. The net sales decline occurred in enteral nutrition and infusion products. For the first nine months of 2011, net sales increased 2.9% to \$223,980,000 as compared to \$217,745,000 for the same period last year.

Institutional Products Group (IPG)

IPG net sales for the third quarter increased by 20.5% to \$28,048,000 compared to \$23,273,000 for the third quarter last year. Foreign currency translation increased net sales by 0.4 of a percentage point and acquisitions increased net sales by 8.8 percentage points in the quarter. Organic net sales increased 11.3% driven primarily by strong net sales of dialysis chairs, respiratory and wheelchair products. For the first nine months of 2011, net sales increased 27.5% to \$89,579,000 as compared to \$70,244,000 for the same period a year ago. Organic sales increased 17.3% as foreign currency increased net sales by 0.6 of a percentage point and acquisitions increased net sales by 9.6 percentage points in the first nine months of 2011.

Europe

For the third quarter, European net sales increased 10.5% to \$142,107,000 versus \$128,613,000 for the third quarter last year. Foreign currency translation increased net sales by 12.9 percentage points. Organic net sales for the quarter decreased by 2.4%, primarily from declines in rehab products, including power wheelchairs and power add-on products. For the first nine months of 2011, European net sales increased 9.7% to \$405,354,000 compared to \$369,446,000 for the same period last year. Organic net sales increased 2.8% for the first nine months of the year as foreign currency translation increased net sales by 6.9 percentage points.

Asia/Pacific

Asia/Pacific net sales increased 3.4% for the quarter to \$23,739,000 as compared to \$22,960,000 for the same period a year ago. Foreign currency translation increased net sales by 13.5 percentage points. The organic net sales for the quarter decreased 10.1% in the Company's Australian and New Zealand distribution businesses and the Company's subsidiary which produces microprocessor controllers. For the first nine months of 2011, net sales increased 7.9% to \$67,520,000 as compared to \$62,598,000 for the same period a year ago. Organic net sales decreased 5.1% for the first nine months of the year as foreign currency translation increased net sales by approximately 13.0 percentage points.

GROSS PROFIT

Gross profit as a percentage of net sales for the three and nine-month periods ended September 30, 2011 was 28.7% and 28.8%, respectively, compared to 30.1% and 29.6%, respectively, in the same periods last year. The margin decline was related to sales mix favoring lower margin product lines and lower margin customers, pricing pressures primarily in the European segment, increased warranty expense and higher research and development expenses.

For the first nine months of the year, NA/HME gross margin as a percentage of net sales decreased by 2.4 of a percentage point compared to the same period last year primarily due to sales mix favoring lower margin product lines and customers, and increased warranty and freight costs. ISG gross margin as a percentage of net sales increased by 0.1 of a percentage point primarily the result of volume increases and cost reduction initiatives partially offset by sales mix favoring lower margin product lines. IPG gross margin as a percentage of net sales increased by 4.4 percentage points due primarily to volume increases and cost reduction initiatives. In Europe, gross margin as a percentage of net sales decreased by 0.3 of a percentage point primarily caused by unfavorable sales mix favoring lower margin product lines and lower margin customers and pricing pressures in patient aid products. Gross margin as a percentage of net sales in Asia/Pacific decreased by 1.5 percentage points, primarily as a result of volume declines and sales mix favoring lower margin product lines.

Table of Contents**SELLING, GENERAL AND ADMINISTRATIVE**

Selling, general and administrative (SG&A) expense as a percentage of net sales for the three and nine months ended September 30, 2011 was 22.8% and 23.9%, respectively, compared to 23.3% and 24.3%, respectively, for each of the same periods a year ago. SG&A expense increased \$2,189,000 and \$14,186,000, or 2.1% and 4.6%, respectively, for the quarter and first nine months of the year, as compared to the same periods a year ago. Acquisitions increased these expenses by \$1,142,000 in the quarter and \$4,790,000 in the first nine months of the year, while foreign currency translation increased these expenses by \$5,972,000 in the quarter and \$11,760,000 in the first nine months of the year compared to the same periods a year ago. Excluding the impact of foreign currency translation and acquisitions, SG&A expense decreased 4.8% for the quarter and 0.8% for the first nine months of 2011 as compared to the same periods a year ago. The dollar decrease, excluding foreign currency translation and acquisitions, was \$4,926,000 and \$2,364,000 for the quarter and first nine months of the year, as compared to the same periods a year ago. The year to date decrease in SG&A expense is driven primarily by reduced bad debt and legal expenses, partially offset by increased associate costs and unfavorable foreign currency transactions.

North American/HME SG&A expense decreased \$3,566,000, or 6.7%, for the quarter and \$4,246,000, or 2.7%, in the first nine months of 2011 compared to the same periods a year ago. For the quarter, foreign currency translation increased SG&A expense by \$292,000 or 0.5%. For the first nine months of 2011, foreign currency translation increased SG&A expense by \$768,000 or 0.5%. The year to date decrease in SG&A expense is primarily attributable to reduced bad debt and legal expense.

Invacare Supply Group SG&A expense decreased \$602,000, or 9.5%, for the quarter and increased \$553,000, or 2.8%, in the first nine months of 2011 compared to the same periods a year ago, with the year to date increase primarily due to higher distribution and associate costs partially offset by reduced bad debt expense.

Institutional Products Group SG&A expense increased \$429,000, or 6.2%, for the quarter and \$4,735,000, or 26.5%, in the first nine months of 2011 compared to the same periods a year ago. Foreign currency translation decreased SG&A expense by \$31,000 or 0.5% for the quarter and increased \$54,000 or 0.3% for the first nine months of the year. Acquisitions increased SG&A expense by \$1,142,000 or 16.6% for the quarter and \$4,790,000 or 26.8% for the first nine months of the year. Excluding the impact of foreign currency translation and acquisitions, SG&A expense decreased 9.9% for the quarter and 0.6% for the first nine months of 2011, respectively, as compared to the same periods last year. The year to date decrease is primarily attributable to favorable foreign currency transactions.

European SG&A expense increased \$4,278,000, or 14.9%, for the quarter and \$8,878,000, or 9.8%, for the first nine months of 2011 compared to the same periods a year ago. For the quarter, foreign currency translation increased SG&A by \$4,639,000, or 16.2%. For the first nine months of 2011, foreign currency translation increased SG&A expense by \$7,993,000, or 8.8%, respectively. Excluding the impact of foreign currency translation, SG&A expense decreased by 1.3% and increased 1.0% for the quarter and first nine months of the year, respectively, as compared to the same periods a year ago. The year to date increase is primarily attributable to increased associate costs and unfavorable foreign currency transactions.

Asia/Pacific SG&A expense increased \$1,649,000, or 25.2%, for the quarter and \$4,266,000, or 21.3%, in the first nine months of the year compared to the same periods a year ago. For the quarter, foreign currency translation increased SG&A expense by \$1,072,000, or 16.4%. For the first nine months of 2011, foreign currency translation increased SG&A by \$2,945,000, or 14.7%. Excluding the impact of foreign currency translation, SG&A expense increased 8.8% and 6.6% for the quarter and first nine months of 2011, respectively as compared to last year due primarily to increased expense related to associate costs.

LOSS ON DEBT EXTINGUISHMENT INCLUDING DEBT FINANCE CHARGES AND ASSOCIATED FEES

During the three and nine months ended September 30, 2011, the Company repurchased and retired \$17,445,000 and \$63,259,000 principal amount, respectively, of its 4.125% Convertible Senior Subordinated Debentures due 2027 compared to the three and nine months ended September 30, 2010 in which the Company repurchased and retired \$8,158,000 and \$83,061,000 principal amount, respectively, of debt comprised of \$8,158,000 and \$54,061,000 principal amount, respectively, related to its 4.125% Convertible Senior Subordinated Debentures due 2027 and \$0 and \$29,000,000 principal amount, respectively, related to its 9 3/4% Senior Notes due 2015, respectively. The Company retired the debt at a premium above par. In accordance with *Convertible Debt*, ASC 470-20, the Company utilized the inducement method of accounting to calculate the loss associated with the early retirement of the convertible debt. For the three and nine months ended September 30, 2011, the Company recorded expense of \$7,462,000 and \$24,198,000, respectively, related to the loss on the debt extinguishment including the write-off of \$424,000 and \$1,552,000, respectively, of pre-tax deferred financing fees, which were previously capitalized. For the three and nine months ended September 30, 2010, the Company recorded expense of \$3,711,000 and \$22,145,000, respectively, related to the loss on the debt extinguishment including the write-off of \$209,000 and \$2,094,000, respectively, of pre-tax deferred financing fees, which were previously capitalized.

Table of Contents**CHARGES RELATED TO RESTRUCTURING ACTIVITIES**

During the quarter ended September 30, 2011, the Company continued to execute the closure of a European assembly facility and initiated the closure of an additional smaller facility in the U.S. as part of the Company's ongoing globalization initiative to reduce complexity within the Company's global supply chain footprint. The restructuring was necessitated by the continued decline in reimbursement by the U.S. government as well as similar reimbursement pressures abroad and continued pricing pressures faced by the Company as a result of outsourcing by competitors to lower cost locations. The Company intends to transfer assembly activities to other Company facilities or outsource them to third parties. To date, the Company has recorded restructuring charges of \$1,742,000, principally for severance which are expected to be utilized during the next twelve months. The Company will have additional charges related to the closing of the European facility, as it is not expected to be complete until the first quarter of 2012.

INTEREST

Interest expense decreased \$3,528,000 and \$10,846,000 for the third quarter and first nine months of 2011, respectively, compared to the same periods last year due to lower debt levels. Interest income for the third quarter and first nine months of 2011 increased \$440,000 and \$676,000, respectively, compared to the same periods last year, which was primarily the result of higher financing charges.

INCOME TAXES

The Company had an effective tax rate of 25.4% and 12.7% on earnings before tax for the three and nine month periods ended September 30, 2011 compared to an expected rate at the US statutory rate of 35%. The Company's effective tax rate for the three and nine months ended September 30, 2011 was lower than the U.S. federal statutory rate, principally due to foreign taxes recognized at rates below the U.S. statutory rate including a second quarter \$5,100,000 (\$0.16 per share) tax benefit as a result of a tax settlement in Germany as the German government agreed to follow a European Court of Justice case and a German Tax Court case that impacted an open tax return year. The Company also benefitted year to date from countries with valuation allowances included in the combined effective rate due to expected taxes. The Company had an effective tax rate of 25.4% and 36.8% on earnings before tax for the three and nine month periods ended September 30, 2010, respectively, compared to an expected rate at the U.S. statutory rate of 35%. The Company's effective tax rate for the three months ended September 30, 2010 was lower than the U.S. federal statutory rate as a result of foreign earnings taxed at an effective rate lower than the US statutory rate, and a net profit for the quarter related to countries with tax valuation allowances. The Company's effective tax rate for the nine month period ended September 30, 2010 was higher than the US statutory rate due to the negative impact of the Company not being able to record tax benefits related to losses in countries which had tax valuation allowances for the year, more than offsetting the benefit of foreign taxes at rates below the US statutory rate. The Company continued to be in a three-year cumulative loss position in the U.S. principally as a result of recording pre-tax expenses of \$7,462,000 and \$24,198,000 for the three and nine months ended September 30, 2011, respectively, related to the extinguishment of convertible debt at a premium. As a result of the loss position, the majority of U.S. deferred tax assets continue to be subject to valuation a valuation allowance.

LIQUIDITY AND CAPITAL RESOURCES

The Company continues to maintain an adequate liquidity position through its unused bank lines of credit (see Long-Term Debt in the Notes to Consolidated Financial Statements included in this report) and working capital management. The Company maintains various bank lines of credit to finance its worldwide operations.

The Company's total debt outstanding, inclusive of the debt discount included in equity in accordance with FSB APB 14-1, increased by \$28,660,000 from \$271,201,000 as of December 31, 2010 to \$299,861,000 as of September 30, 2011. The primary use of the funds was to supplement cash from operations to facilitate the Dynamic Medical Systems (DMS) acquisition for \$41,465,000, the buyback of \$21,551,000 in shares and a premium paid of \$23,940,000 associated with the repurchase of \$63,259,000 principal amount of Convertible Senior Subordinated Debentures due 2027. The Company's balance sheet reflects the impact of ASC 470-20, which reduced debt and increased equity by \$4,132,000 and \$25,137,000 as of September 30, 2011 and December 31, 2010, respectively. The debt discount decreased \$5,577,000 and \$21,005,000 during the quarter and first nine months of 2011, primarily as a result of the extinguishment of convertible debt. The Company's cash and cash equivalents were \$41,280,000 at September 30, 2011, down from \$48,462,000 at the end of 2010. At September 30, 2011, the Company had outstanding \$276,368,000 on its revolving line of credit compared to \$184,932,000 as of December 31, 2010.

Table of Contents

The Company's senior secured revolving credit agreement (the "Credit Agreement") provides for a \$400 million senior secured revolving credit facility maturing in October 2015. Pursuant to the terms of the Credit Agreement, the Company may from time to time borrow, repay and re-borrow up to an aggregate outstanding amount at any one time of \$400 million, subject to customary conditions. The Credit Agreement also provides for the issuance of swing line loans. Borrowings under the Credit Agreement bear interest, at the Company's election, at (i) the London Inter-Bank Offer Rate (LIBOR) plus a margin; or (ii) a Base Rate Option plus a margin. The applicable margin is currently 1.75% per annum for LIBOR loans and 0.75% for the Base Rate Option loans based on the Company's leverage ratio. In addition to interest, the Company is required to pay commitment fees on the unused portion of the Credit Agreement. The commitment fee rate is currently 0.30% per annum. Like the interest rate spreads, the commitment fee is subject to adjustment based on the Company's leverage ratio. The obligations of the borrowers under the Credit Agreement are secured by substantially all of the Company's U.S. assets and are guaranteed by substantially all of the Company's material domestic and foreign subsidiaries.

The Credit Agreement contains certain covenants that are customary for similar credit arrangements, including covenants relating to, among other things, financial reporting and notification, compliance with laws, preservation of existence, maintenance of books and records, use of proceeds, maintenance of properties and insurance, and limitations on liens, dispositions, issuance of debt, investments, payment of dividends, repurchases of capital stock, acquisitions, transactions with affiliates, and capital expenditures. There also are financial covenants that require the Company to maintain a maximum leverage ratio (consolidated funded indebtedness to consolidated EBITDA, each as defined in the Credit Agreement) of no greater than 3.50 to 1, and a minimum interest coverage ratio (consolidated EBITDA to consolidated interest charges, each as defined in the Credit Agreement) of no less than 3.50 to 1. As of September 30, 2011, the Company's leverage ratio was 2.00 and the Company's interest coverage ratio was 20.08, and the Company was in compliance with all covenant requirements. Under the most restrictive covenant of the Company's borrowing arrangements as of September 30, 2011, the Company had the capacity to borrow up to an additional \$123,632,000.

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. In the first nine months of 2011, the Company repurchased and extinguished \$63,259,000 principal amount of its Convertible Senior Subordinated Debentures.

While there is general concern about the potential for rising interest rates, the Company believes that its exposure to interest rate fluctuations is manageable given that portions of the Company's debt are at fixed rates for extended periods of time, the Company has the ability to utilize swaps to exchange variable rate debt to fixed rate debt, if needed, and the Company's free cash flow should allow it to absorb any modest rate increases in the months ahead without any material impact on its liquidity or capital resources. During the first nine months of 2011, the Company entered into 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 \$18,000,000 and \$22,000,000 through September 2013, \$20,000,000 and \$25,000,000 through May 2013 and \$15,000,000 through February 2013 were entered into that fix the LIBOR component of the interest rate on that portion of the revolving credit facility debt at rates of 0.625%, 0.46%, 1.08%, 0.73% and 1.05%, respectively, for effective aggregate rates of 2.375%, 2.21%, 2.83%, 2.48% and 2.80%, respectively.

In the current economic environment, the Company is exposed to a number of risks. These risks include the possibility that: one or more of the lenders participating in the Company's revolving credit facility may be unable or unwilling to extend credit to the Company; the third party company that provides lease financing to the Company's customers may refuse or be unable to fulfill its financing obligations or extend credit to the Company's customers; interest rates on the Company's variable rate debt could increase significantly; one or more customers of the Company may be unable to pay for purchases of the Company's products on a timely basis; one or more key suppliers may be unable or unwilling to provide critical goods or services to the Company; and one or more of the counterparties to the Company's hedging arrangements may be unable to fulfill its obligations to the Company. Although the Company has taken actions in an effort to mitigate these risks, during periods of economic downturn, the Company's exposure to these risks increases. Events of this nature may adversely affect the Company's liquidity or sales and revenues, and therefore have an adverse effect on the Company's business and results of operations.

CAPITAL EXPENDITURES

The Company had no individually material capital expenditure commitments outstanding as of September 30, 2011. The Company estimates that capital investments for 2011 could approximate \$20,000,000 as compared to \$17,353,000 in 2010. The Company believes that its balances of cash and cash equivalents, together with funds generated from operations and existing borrowing facilities will be sufficient to meet its operating cash requirements and to fund required capital expenditures for the foreseeable future.

Table of Contents**CASH FLOWS**

Cash flows provided by operating activities were \$66,588,000 for the first nine months of 2011 compared to \$74,480,000 in the first nine months of 2010. Operating cash flows for the first nine months of 2011 were lower compared to the same period a year ago as a result of the collection of a \$7,800,000 tax receivable in the first quarter of 2010. The current year operating cash flows benefited from improved earnings which were more than offset by increased inventory and reduced accruals primarily as a result of tax payments.

Cash used for investing activities was \$58,030,000 for the first nine months of 2011 compared to \$24,595,000 used in the first nine months of 2010. The increase in cash used for investing activities was primarily due to the \$41,465,000 acquisition of Dynamic Medical Systems in 2011 compared to a \$13,725,000 acquisition completed in 2010.

Cash used by financing activities was \$16,724,000 for the first nine months of 2011 compared to cash used of \$52,108,000 in the first nine months of 2010 and reflects the Company's utilization of its revolving line of credit during the year principally to retire \$63,259,000 principal amount of higher interest convertible senior subordinated debentures. The Company also acquired 750,422 common shares for treasury at an aggregate purchase price of \$21,551,000 in the first nine months of 2011.

During the first nine months of 2011, the Company generated free cash flow of \$51,975,000 compared to free cash flow of \$63,181,000 in the first nine months of 2010. The decrease was primarily attributable to the same items as noted above which impacted operating cash flows. Free cash flow is a non-GAAP financial measure that is comprised of net cash provided by operating activities, excluding net cash impact related to restructuring activities, less purchases of property and equipment, net of proceeds from sales of property and equipment. Management believes that this financial measure provides meaningful information for evaluating the overall financial performance of the Company and its ability to repay debt or make future investments (including, for example, acquisitions). However, it should be noted that the Company's definition of free cash flow may not be comparable to similar measures disclosed by other companies because not all companies calculate free cash flow in the same manner.

The non-GAAP financial measure is reconciled to the GAAP measure as follows (in thousands):

	Nine Months Ended September 30,	
	2011	2010
Net cash provided by operating activities	\$ 66,588	\$ 74,480
Plus: Net cash impact related to restructuring activities	934	0
Less: Purchases of property and equipment net	(15,547)	(11,299)
Free Cash Flow	\$ 51,975	\$ 63,181

DIVIDEND POLICY

On August 17, 2011, the Company's Board of Directors declared a quarterly cash dividend of \$0.0125 per Common Share to shareholders of record as of October 5, 2011, which was paid on October 14, 2011. At the current rate, the cash dividend will amount to \$0.05 per Common Share on an annual basis.

CRITICAL ACCOUNTING POLICIES

The Consolidated Financial Statements included in the report include accounts of the Company and all majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying Consolidated Financial Statements and related footnotes. In preparing the financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

The following critical accounting policies, among others, affect the more significant judgments and estimates used in preparation of the Company's consolidated financial statements.

Revenue Recognition

Invacare's revenues are recognized when products are shipped to unaffiliated customers. *Revenue Recognition*, ASC 605, provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. The Company has concluded that its revenue recognition policy is appropriate and in accordance with GAAP and ASC 605. Shipping and handling costs are included in cost of goods sold.

Table of Contents

Sales are made only to customers with whom the Company believes collection is reasonably assured based upon a credit analysis, which may include obtaining a credit application, a signed security agreement, personal guarantee and/or a cross corporate guarantee depending on the credit history of the customer. Credit lines are established for new customers after an evaluation of their credit report and/or other relevant financial information. Existing credit lines are regularly reviewed and adjusted with consideration given to any outstanding past due amounts.

The Company offers discounts and rebates, which are accounted for as reductions to revenue in the period in which the sale is recognized. Discounts offered include: cash discounts for prompt payment, base and trade discounts based on contract level for specific classes of customers. Volume discounts and rebates are given based on large purchases and the achievement of certain sales volumes. Product returns are accounted for as a reduction to reported sales with estimates recorded for anticipated returns at the time of sale. The Company does not ship any goods on consignment.

Distributed products sold by the Company are accounted for in accordance with the revenue recognition guidance in ASC 605-45-05. The Company records distributed product sales gross as a principal since the Company takes title to the products and has the risks of loss for collections, delivery and returns.

Product sales that give rise to installment receivables are recorded at the time of sale when the risks and rewards of ownership are transferred. Interest income is recognized on installment agreements in accordance with the terms of the agreements. Installment accounts are monitored and if a customer defaults on payments, interest income is no longer recognized. All installment accounts are accounted for using the same methodology, regardless of duration of the installment agreements.

Allowance for Uncollectible Accounts Receivable

The estimated allowance for uncollectible amounts is based primarily on management's evaluation of the financial condition of the customer. In addition, as a result of the third party financing arrangement, 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 continues to closely monitor the credit-worthiness of its customers and adhere to tight credit policies. During the first quarter of 2011, the Centers for Medicare and Medicaid Services implemented the single payment amounts for Round 1 of the Competitive Bidding Program in nine metropolitan statistical areas (MSAs). The single payment amounts are used to determine the price that Medicare pays for certain durable medical equipment, prosthetics, orthotics and supplies. The company believes the changes announced could have a significant impact on the collectability of accounts receivable for those customers which are in the MSA locations impacted and which have a portion of their revenues tied to Medicare reimbursement. As a result, this is an additional risk factor which the Company considers when assessing the collectability of accounts receivable.

Invacare has an agreement with DLL, a third party financing Company, to provide the majority of future lease financing to Invacare's North America customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The Company retains a recourse obligation for events of default under the contracts. The Company monitors the collections status of these contracts and has provided amounts for estimated losses in its allowances for doubtful accounts.

Inventories and Related Allowance for Obsolete and Excess Inventory

Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out method. Inventories have been reduced by an allowance for excess and obsolete inventories. The estimated allowance is based on management's review of inventories on hand compared to estimated future usage and sales. A provision for excess and obsolete inventory is recorded as needed based upon the discontinuation of products, redesigning of existing products, new product introductions, market changes and safety issues. Both raw materials and finished goods are reserved for on the balance sheet.

In general, Invacare reviews inventory turns as an indicator of obsolescence or slow moving product as well as the impact of new product introductions. Depending on the situation, the Company may partially or fully reserve for the individual item. The Company continues to increase its overseas sourcing efforts, increase its emphasis on the development and introduction of new products, and decrease the cycle time to bring new product offerings to market. These initiatives are sources of inventory obsolescence for both raw material and finished goods.

Goodwill, Intangible and Other Long-Lived Assets

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Property, equipment, intangibles and certain other long-lived assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. Under *Intangibles Goodwill and Other*, ASC 350, goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. Furthermore, goodwill and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company completes its annual impairment tests in the fourth quarter of each year. The discount rates used have a significant impact upon the discounted cash flow methodology utilized in the Company's annual impairment testing as higher discount rates decrease the fair value estimates.

Table of Contents

The Company utilizes a discounted cash flow method model to analyze reporting units for impairment in which the Company forecasts income statement and balance sheet amounts based on assumptions regarding future sales growth, profitability, inventory turns, days sales outstanding, etc. to forecast future cash flows. The cash flows are discounted using a weighted average cost of capital discount rate where the cost of debt is based on quoted rates for 20-year debt of companies of similar credit risk and the cost of equity is based upon the 20-year treasury rate for the risk free rate, a market risk premium, the industry average beta and a small cap stock adjustment. The assumptions used are based on a market participant's point of view and yielded a discount rate of 9.59% in 2010 compared to 10.74% in 2009.

The Company also utilizes an EV (Enterprise Value) to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) Method to compute the fair value of its reporting units which considers potential acquirers and their EV to EBITDA multiples adjusted by an estimated premium. While more weight is given to the discounted cash flow method, the EV to EBITDA Method does provide corroborative evidence of the reasonableness of the discounted cash flow method results.

While there was no indication of impairment in 2010 related to goodwill, a future potential impairment is possible for any of the Company's reporting units should actual results differ materially from forecasted results used in the valuation analysis. Furthermore, the Company's annual valuation of goodwill can differ materially if the market inputs used to determine the discount rate change significantly. For instance, higher interest rates or greater stock price volatility would increase the discount rate and thus increase the chance of impairment. For example, if the discount rate used were 100 basis points higher for the 2010 impairment analysis, there still would not be any indicator of potential impairment for any of the reporting units.

The Company is currently in the process of performing its annual goodwill impairment evaluation as well as a review of its intangibles. While the Company did note some potential indicators of impairment, such as lower than expected net sales and profits for the quarter ended September 30, 2011, particularly for the Asia/Pacific segment, the Company does not believe it is more likely than not that the fair value of the segment is less than the carrying amount. The Company will finalize its formal evaluation during the fourth quarter of 2011 and that final analysis may be significantly impacted by the Company's forecast for 2012, which is not yet completed, as well as fluctuations in discount rates and any changes in the Company's stock price.

Product Liability

The Company's captive insurance company, Invatection Insurance Co., currently has a policy year that runs from September 1 to August 31 and insures annual policy losses of \$10,000,000 per occurrence and \$13,000,000 in the aggregate of the Company's North American product liability exposure. The Company also has additional layers of external insurance coverage insuring up to \$75,000,000 in annual aggregate losses arising from individual claims anywhere in the world that exceed the captive insurance company policy limits or the limits of the Company's per country foreign liability limits, as applicable. There can be no assurance that Invacare's current insurance levels will continue to be adequate or available at affordable rates.

Product liability reserves are recorded for individual claims based upon historical experience, industry expertise and indications from the third-party actuary. Additional reserves, in excess of the specific individual case reserves, are provided for incurred but not reported claims based upon third-party actuarial valuations at the time such valuations are conducted. Historical claims experience and other assumptions are taken into consideration by the third-party actuary to estimate the ultimate reserves. For example, the actuarial analysis assumes that historical loss experience is an indicator of future experience, that the distribution of exposures by geographic area and nature of operations for ongoing operations is expected to be very similar to historical operations with no dramatic changes and that the government indices used to trend losses and exposures are appropriate.

Estimates made are adjusted on a regular basis and can be impacted by actual loss awards and settlements on claims. While actuarial analysis is used to help determine adequate reserves, the Company is responsible for the determination and recording of adequate reserves in accordance with accepted loss reserving standards and practices.

Warranty

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. See Warranty Costs in the Notes to the Condensed Consolidated Financial Statements included in this report for a reconciliation of the changes in the warranty accrual.

Table of Contents**Accounting for Stock-Based Compensation**

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 changes have been made regarding the valuation methodologies or assumptions used to determine the fair value of options granted and the Company continues to use a Black-Scholes valuation model. As of September 30, 2011, there was \$18,013,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the 2003 Plan, which is related to non-vested options and shares, and includes \$5,816,000 related to restricted stock awards. The Company expects the compensation expense to be recognized over a four-year period for a weighted-average period of approximately two years.

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.

Income Taxes

As part of the process of preparing its financial statements, the Company is required to estimate income taxes in various jurisdictions. The process requires estimating the Company's current tax exposure, including assessing the risks associated with tax audits, as well as estimating temporary differences due to the different treatment of items for tax and accounting policies. The temporary differences are reported as deferred tax assets and or liabilities. Substantially all of the Company's U.S. deferred tax assets are offset by a valuation allowance. The Company also must estimate the likelihood that its deferred tax assets will be recovered from future taxable income and whether or not valuation allowances should be established. In the event that actual results differ from its estimates, the Company's provision for income taxes could be materially impacted. The Company does not believe that there is a substantial likelihood that materially different amounts would be reported related to its critical accounting policies.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05 or the ASU). ASU 2011-05 requires comprehensive income to be reported in either a single statement or in two consecutive statements reporting net income and other comprehensive income (OCI). The ASU does not change what is required to be reported in OCI or the requirement to disclose reclassifications of items from OCI to net income. The Company is analyzing the impact of ASU 2011-05, which is required to be adopted for the Company's first quarter 2012 Form 10-Q. The Company does not believe ASU 2011-05 will have a material impact on the Company's financial position, results of operations or cash flows.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk through various financial instruments, including fixed rate and floating rate debt instruments. The Company does at times use interest swap agreements to mitigate its exposure to interest rate fluctuations. Based on September 30, 2011 debt levels, a 1% change in interest rates would impact interest expense by approximately \$1,764,000. Additionally, the Company operates internationally and, as a result, is exposed to foreign currency fluctuations. Specifically, the exposure results from intercompany loans, intercompany sales or payments and third party sales or payments. In an attempt to reduce this exposure, foreign currency forward contracts are utilized to hedge intercompany purchases and sales as well as third party purchases and sales. The Company does not believe that any potential loss related to these financial instruments would have a material adverse effect on the Company's financial condition or results of operations.

The Company's Credit Agreement provides for a \$400,000,000 senior secured revolving credit facility maturing in October 2015 at variable rates. As of September 30, 2011, the Company had outstanding \$13,942,000 in principal amount of 4.125% Convertible Senior Subordinated Debentures due in February 2027, of which \$4,132,000 is included in equity. Accordingly, while the Company is exposed to increases in interest rates, its exposure to the volatility of the current market environment is limited as the Company does not currently need to re-finance any of its debt. However, the Company's Credit Agreement contains covenants with respect to, among other items, consolidated funded indebtedness to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) and interest coverage, as defined in the agreement. The Company is in compliance with all covenant requirements, but should it fall out of compliance with these requirements, the Company would have to attempt to obtain alternative financing and thus likely be required to pay much higher interest rates.

During the first nine months of 2011, the Company entered into 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 \$18,000,000 and \$22,000,000 through September 2013, \$20,000,000 and \$25,000,000 through May 2013 and \$15,000,000 through February 2013 were entered into that fix the LIBOR component of the interest rate on that portion of the revolving credit facility debt at rates of 0.625%, 0.46%, 1.08%, 0.73% and 1.05%, respectively, for effective aggregate rates of 2.375%, 2.21%, 2.83%, 2.48%

and 2.80%, respectively.

Table of Contents**FORWARD-LOOKING STATEMENTS**

This Form 10-Q contains forward-looking statements within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Terms such as will, should, could, plan, intend, expect, continue, forecast, believe, anticipate and similar comments, are forward-looking in nature. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual results and events may differ significantly from those expressed or anticipated as a result of risks and uncertainties which include, but are not limited to, the following: adverse changes in government and other third-party payor reimbursement levels and practices (such as, for example, the Medicare competitive bidding program covering nine metropolitan areas beginning in 2011 and an additional 91 metropolitan areas beginning in July 2013), impacts of the U.S. health care reform legislation that was recently enacted (such as, for example, the excise tax beginning in 2013 on certain medical devices, together with further regulations to be promulgated by the U.S. Secretary of Treasury, if adopted); extensive government regulation of the Company's products; legal actions, regulatory proceedings or governmental investigations, or the Company's failure to comply with regulatory requirements or receive regulatory clearance or approval for the Company's products or operations in the United States or abroad (including, for example, compliance costs, limitations on the production and/or marketing of the Company's products, or other adverse effects of enforcement actions which could arise from the current, ongoing FDA investigations); product liability claims; the uncertain impact on the Company's providers, on the Company's suppliers and on the demand for the Company's products resulting from the current global economic conditions and general volatility in the credit and stock markets; loss of key health care providers; exchange rate and tax rate fluctuations; inability to design, manufacture, distribute and achieve market acceptance of new products with higher functionality and lower costs; consolidation of health care providers and the Company's competitors; lower cost imports; uncollectible accounts receivable; difficulties in implementing/upgrading Enterprise Resource Planning systems; risks inherent in managing and operating businesses in many different foreign jurisdictions; ineffective cost reduction and restructuring efforts; potential product recalls; natural disasters that lead to supply chain disruptions beyond the Company's control; possible adverse effects of being leveraged, which could impact the Company's ability to raise capital, limit its ability to react to changes in the economy or the health care industry or expose the Company to interest rate or event of default risks; increased freight costs; inadequate patents or other intellectual property protection; incorrect assumptions concerning demographic trends that impact the market for the Company's products; unanticipated changes in the Company's product sales mix; decreased availability or increased costs of materials which could increase the Company's costs of producing or acquiring the Company's products, including possible increases in commodity costs; the loss of the services of or inability to attract and maintain the Company's key management and personnel; inability to acquire strategic acquisition candidates because of limited financing alternatives; increased security concerns and potential business interruption risks associated with political and/or social unrest in foreign countries where the Company's facilities or assets are located; provisions of Ohio law or in the Company's debt agreements, shareholder rights plan or charter documents that may prevent or delay a change in control, as well as the risks described from time to time in Invacare's reports as filed with the Securities and Exchange Commission. Except to the extent required by law, we do not undertake and specifically decline any obligation to review or update any forward-looking statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The information called for by this item is provided under the same caption under Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures.

As of September 30, 2011, an evaluation was performed, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective, as of September 30, 2011, in ensuring that information required to be disclosed by the Company in the reports it files and submits under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and (2) accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure. There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**Part II. OTHER INFORMATION****Item 1. Legal Proceedings.**

The Company continues to work on the improvements and corrective actions that it is making in response to inspectional observations raised by the FDA, including as a result of the FDA warning letter that was previously disclosed by the Company. The Company has been and continues to add qualified resources to its quality and regulatory affairs departments and has engaged outside experts to accelerate implementation of various quality systems improvements. At the time of this filing, the matter remains pending and the Company continues to view its quality systems regulatory compliance actions as a high priority. See Part I Item 1. Financial Statements Notes to Consolidated Financial Statements Contingencies.

On August 23, 2011, the City of Lansing Police and Fire Retirement System (the Plaintiff), a holder of approximately 3,400 common shares of the Company, filed a shareholder derivative action in the Court of Common Pleas in Lorain County, Ohio against the Board of Directors. In March 2011, a lawyer for the Plaintiff sent the Company's Board of Directors a letter demanding that the Company initiate a lawsuit against members of its Board and any other culpable parties for damages allegedly suffered by the Company primarily in connection with certain matters relating to the warning letter from the FDA following inspections in 2010. The Company's Board appointed a special committee of independent directors that worked with independent counsel over the past several months to review and recommend a response to these allegations. After a thorough review of the shareholder's allegations by the special committee, the Board determined that it was not in the Company's best interests to pursue any of the actions requested in the letter. The Plaintiff then filed this litigation, which the Company has removed to the U.S. District Court, Northern District of Ohio, Eastern Division.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

- (c) The following table presents information with respect to repurchases of common shares made by the Company during the three months ended September 30, 2011.

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2)
7/1/2011-7/31/11	25,000	\$ 20.38	25,000	592,000
8/1/2011-8/31/11	184,522	24.53	184,522	907,478
9/1/2011-9/30/11	0	0.00	0	907,478
Total	209,522	\$ 25.46	209,522	907,478

- (1) No shares were repurchased during the quarter that were surrendered to the Company by employees for tax withholding purposes in conjunction with the vesting of restricted shares held by the employees under the company's 2003 Performance Plan.
- (2) On August 17, 2001, the Board of Directors authorized the Company to purchase up to 2,000,000 Common Shares, excluding any shares acquired from employees or directors as a result of the exercise of options or vesting of restricted shares pursuant to the Company's performance plans. The Board of Directors reaffirmed its authorization of this repurchase program on November 5, 2010 and on August 18, 2011 increased the total amount of shares authorized for repurchase under the plan to up to 2,500,000 Common Shares. As of September 30, 2011, the Company has purchased 1,592,522 shares under this program, with authorization remaining to purchase 907,478

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shares. The Company purchased 750,422 shares pursuant to this Board authorized program during the first nine months of 2011. During the first nine months of 2011, the Company purchased a total of \$63,259,000 in principal amount of its outstanding 4.125% Convertible Senior Subordinated Debentures due 2027 in open market transactions for an aggregate purchase price of approximately \$87,199,000, plus accrued and unpaid interest. The Company may continue from time to time seek to retire or purchase the Company's outstanding 4.125% Convertible Senior Subordinated Debentures due 2027, in open market purchases, privately negotiated transactions or otherwise.

Table of Contents

Item 6. Exhibits.

Exhibit No.

- 31.1 Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification (filed herewith).
31.2 Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification (filed herewith).
32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101 The following materials from Invacare Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Earnings for the three and nine months ended September 30, 2011 and 2010, (ii) Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010, and (iv) Notes to Condensed Consolidated Financial Statements. **

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INVACARE CORPORATION

Date: November 8, 2011

By: /s/ Robert K. Gudbranson

Name: Robert K. Gudbranson

Title: Chief Financial Officer

(As Principal Financial and Accounting Officer and on behalf of the registrant)