INVACARE CORP
Form 10-Q
August 06, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-15103
INVACARE CORPORATION
(Exact name of registrant as specified in its charter)

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

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

(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 (the “Exchange Act”) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “small reporting company” in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer x 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 x
As of August 3, 2012, the registrant had 30,732,838 Common Shares and 1,084,747 Class B Common Shares outstanding.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements.

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Comprehensive Income (Loss) (unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
Net sales	$454,925	$466,412	$888,489	$894,910
Cost of products sold	329,058	331,494	643,053	636,986
Gross Profit	125,867	134,918	245,436	257,924
Selling, general and administrative expenses	111,770	112,417	219,270	218,194
Charges related to restructuring activities	1,999	431	2,547	431
Loss on debt extinguishment including debt finance charges and associated fees	312	11,855	312	16,736
Interest expense	1,405	2,233	2,881	4,844
Interest income	(167)	(279)	(505)	(546)
Earnings (Loss) before Income Taxes	10,548	8,261	20,931	18,265
Income taxes (benefit)	12,525	(2,400)	14,675	150
Net Earnings (Loss)	$(1,977)	$10,661	$6,256	$18,115
Net Earnings (Loss) per Share—Basic	$(0.06)	$0.33	0.20	$0.56
Weighted Average Shares Outstanding—Basic	31,818	31,950	31,819	32,062
Net Earnings (Loss) per Share—Assuming Dilution	$(0.06)	$0.32	0.20	$0.55
Weighted Average Shares Outstanding—Assuming Dilution	31,818	33,006	31,822	33,026
Net Earnings (Loss)	$(1,977)	$10,661	6,256	18,115
Other comprehensive income (loss):				
Foreign currency translation adjustments	(40,388)	25,560	(40,052)	60,993
Defined Benefit Plans:				
Amortization of prior service costs and unrecognized gains (losses)	(130)	(15)	98	(40)
Amounts arising during the year, primarily due to the addition of new participants	(133)	(265)	(168)	(469)
Deferred tax adjustment resulting from defined benefit plan activity	37	75	26	110
Valuation reserve (reversal) associated with defined benefit plan activity	(41)	(4)	(30)	(21)
Current period unrealized gain (loss) on cash flow hedges	253	(374)	1,046	(1,689)
Deferred tax benefit (loss) related to unrealized gain (loss) on cash flow hedges	23	359	(111)	390
Other Comprehensive Income (Loss)	(40,379)	25,336	(39,191)	59,274
Comprehensive Income (Loss)	$(42,356)	$35,997	$(32,935)	$77,389

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (unaudited)

	June 30, 2012	December 31, 2011
	(In thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$25,495	$34,924
Trade receivables, net	253,569	247,974
Installment receivables, net	2,811	6,671
Inventories, net	217,278	192,761
Deferred income taxes	1,090	1,620
Other current assets	45,944	44,820
Total Current Assets	546,187	528,770
Other Assets	42,507	42,647
Other Intangibles	74,841	83,320
Property and Equipment, net	122,720	129,712
Goodwill	465,324	496,605
Total Assets	$1,251,579	$1,281,054
Liabilities and Shareholders’ Equity		
Current Liabilities		
Accounts payable	$154,812	$148,805
Accrued expenses	124,534	132,595
Accrued income taxes	364	1,495
Short-term debt and current maturities of long-term obligations	830	5,044
Total Current Liabilities	280,540	287,939
Long-Term Debt	258,365	260,440
Other Long-Term Obligations	116,726	106,150
Shareholders’ Equity		
Preferred Shares (Authorized 300 shares; none outstanding)	—	—
Common Shares (Authorized 100,000 shares; 33,834 and 33,835 issued in 2012 and 2011, respectively)—no par	8,471	8,471
Class B Common Shares (Authorized 12,000 shares; 1,085 and 1,086, issued and outstanding in 2012 and 2011, respectively)—no par	272	272
Additional paid-in-capital	224,563	221,409
Retained earnings	369,770	364,300
Accumulated other comprehensive earnings	85,685	124,876
Treasury shares	(92,813)	(92,803)
Total Shareholders’ Equity	595,948	626,525
Total Liabilities and Shareholders’ Equity	$1,251,579	$1,281,054

See notes to condensed consolidated financial statements.

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

	For the Six Months Ended June 30,	
	2012	2011
Operating Activities	(In thousands)	
Net earnings	$6,256	$18,115
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	19,448	18,133
Provision for losses on trade and installment receivables	2,828	7,360
Provision (Benefit) for deferred income taxes	68	(628)
Provision for other deferred liabilities	557	1,508
Provision for stock-based compensation	2,990	2,878
Loss on disposals of property and equipment	72	151
Loss on debt extinguishment including debt finance charges and associated fees	312	16,736
Amortization of convertible debt discount	285	1,136
Changes in operating assets and liabilities:		
Trade receivables	(13,089)	(15,359)
Installment sales contracts, net	3,508	(2,344)
Inventories	(29,571)	(6,921)
Other current assets	304	(4,855)
Accounts payable	9,142	12,356
Accrued expenses	(4,831)	(12,942)
Other long-term liabilities	9,469	1,672
Net Cash Provided by Operating Activities	7,748	36,996
Investing Activities		
Purchases of property and equipment	(9,794)	(10,104)
Proceeds from sale of property and equipment	49	37
Increase in other long-term assets	(150)	(1,011)
Other	(265)	(76)
Net Cash Used for Investing Activities	(10,160)	(11,154)
Financing Activities		
Proceeds from revolving lines of credit and long-term borrowings	170,808	230,752
Payments on revolving lines of credit and long-term borrowings	(176,334)	(237,881)
Proceeds from exercise of stock options	—	4,101
Payment of financing costs	(1)	(18,116)
Payment of dividends	(787)	(794)
Purchase of treasury stock	—	(16,213)
Net Cash Used by Financing Activities	(6,314)	(38,151)
Effect of exchange rate changes on cash	(703)	2,009
Decrease in cash and cash equivalents	(9,429)	(10,300)
Cash and cash equivalents at beginning of year	34,924	48,462
Cash and cash equivalents at end of period	$25,495	$38,162

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2012

Accounting Policies

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 June 30, 2012, the results of its operations for the three and six months ended June 30, 2012 and changes in its cash flow for the six months ended June 30, 2012 and 2011, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using a May 31 quarter end in order to meet filing deadlines. No material subsequent events have occurred related to the European segment, which would require disclosure or adjustment to the company's financial statements. All significant intercompany transactions are eliminated. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year.

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

Stock-Based Compensation Plans: The company accounts for share-based compensation under the provisions of Compensation-Stock Compensation, ASC 718. The company has not made any modifications to the terms of any previously granted options and no significant changes have been made regarding the valuation methodologies used to determine the fair value of options granted 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 Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Stock-based compensation expense recognized as part of selling, general and administrative expense	$1,456	$1,467	$2,990	$2,878

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

Recent Accounting Pronouncements: In 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. The company adopted ASU 2011-05 in the first quarter 2012, as reported in its Form 10-Q for the

quarter ended March 31, 2012, with no impact on the company's financial position, results of operations or cash flows other than the modification to the company's Consolidated Statement of Comprehensive Income (Loss).

Receivables

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the company’s receivables are due from health care, medical equipment providers and long term care facilities located throughout the United States, Australia, Canada, New Zealand and Europe. A significant portion of products sold to providers, both foreign and domestic, is ultimately funded through government reimbursement programs such as Medicare and Medicaid in the U.S. as a consequence, changes in these programs can have an adverse impact on dealer liquidity and profitability.

The estimated allowance for uncollectible amounts ($25,402,000 at June 30, 2012 and $27,947,000 at December 31, 2011) is based primarily on management's evaluation of the financial condition of specific customers. In addition, as a result of the company's third party financing arrangement with De Lage Landen, Inc. (DLL), a third party financing company which the company has worked with since 2000, management monitors the collection status of these contracts in accordance with the company's limited recourse obligations and provides amounts necessary for estimated losses in the allowance for doubtful accounts and establishing reserves for specific customers as needed. The company charges off uncollectible trade accounts receivable after such receivables are moved to collection status and legal remedies are exhausted. See "Concentration of Credit Risk" in the Notes to the Consolidated Financial Statements for a description of the financing arrangement. Long-term installment receivables are included in "Other Assets" on the consolidated balance sheet.

The company's U.S. customers electing to finance their purchases can do so using DLL. In addition, 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 originally financed by Invacare because third party financing was not available to the customers. 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 risk review of each individual customer with the allowance for doubtful accounts adjusted accordingly. Installment receivables 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 contracted payment schedule and the company's ability to enforce judgments, liens, etc.

For purposes of granting or extending credit, the company utilizes a model to generate a composite score that is based on 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 typically 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. Accrual of interest on collection accounts would only be restarted if the account became current again. All installment accounts are accounted for using the same methodology regardless of the duration of the installment agreements. When an account is placed in collection status, the company goes through a judicial enforcement process which typically approximates 18 months. Any write-offs are made after the legal process is completed and it is deemed that all reasonable collection efforts have been exhausted. The company has not made any changes to either its accounting policies or methodology to estimation allowances for doubtful accounts in the last twelve months.
Installment receivables consist of the following (in thousands):

	June 30, 2012	December 31, 2011

	Current	Long-Term	Total	Current	Long-Term	Total
Installment receivables	$5,322	$2,468	$7,790	$8,990	$2,931	$11,921
Less:						
Unearned interest	(80)	—	(80)	(171)	—	(171)
	5,242	2,468	7,710	8,819	2,931	11,750
Allowance for doubtful accounts	(2,431)	(1,686)	(4,117)	(2,148)	(2,125)	(4,273)
	$2,811	$782	$3,593	$6,671	$806	$7,477

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Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2012

Installment receivables purchased from DLL during the six months ended June 30, 2012 increased the gross installment receivables balance by $1,661,000. No sales of installment receivables were made by the company during the quarter.

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

	For the Six Months Ended June 30, 2012	Year Ended December 31, 2011
Balance as of beginning of period	$4,273	$4,841
Current period provision	432	1,215
Direct write-offs charged against the allowance	(588)	(1,783)
Balance as of end of period	$4,117	$4,273

Installment receivables by class as of June 30, 2012 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
U.S.				
Impaired Installment receivables with a related allowance recorded	$5,624	$5,624	$3,741	$—
Canada				
Non-Impaired Installment receivables with no related allowance recorded	1,790	1,710	—	68
Impaired Installment receivables with a related allowance recorded	376	376	376	—
Total Canadian Installment Receivables	$2,166	$2,086	$376	$68
Total				
Non-Impaired Installment receivables with no related allowance recorded	1,790	1,710	—	68
Impaired Installment receivables with a related allowance recorded	6,000	6,000	4,117	—
Total Installment Receivables	$7,790	$7,710	$4,117	$68

Installment receivables by class as of December 31, 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	$6,116	$6,116	$4,240	$—
Canada				
Non-Impaired Installment receivables with no related allowance recorded	5,696	5,525	—	271
Impaired Installment receivables with a related allowance recorded	109	109	33	—
Total Canadian Installment Receivables	$5,805	$5,634	$33	$271
Total				
Non-Impaired Installment receivables with no related allowance recorded	5,696	5,525	—	271
Impaired Installment receivables with a related allowance recorded	6,225	6,225	4,273	—
Total Installment Receivables	$11,921	$11,750	$4,273	$271

Installment receivables with a related allowance recorded as noted in the table above represent those installment receivables on a non-accrual basis in accordance with ASU 2010-20. As of June 30, 2012, the company had no U.S. installment receivables past due of 90 days or more for which the company is still accruing interest. Individually, all U.S. installment receivables are assigned a specific allowance for doubtful accounts based on management's review when the company does not expect to receive both the contractual principal and interest payments as specified in the loan agreement. However, while the full balance may be deemed to be impaired, the company has historically collected a large percentage of the principal of its U.S. installment receivables.

In Canada, the company had an immaterial amount of installment receivables which were past due of 90 days or more as of June 30, 2012 and December 31, 2011 for which the company is still accruing interest.

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

	June 30, 2012			December 31, 2011		
	Total	U.S.	Canada	Total	U.S.	Canada
Current	$1,674	$—	$1,674	$5,612	$—	$5,612
0-30 Days Past Due	56	—	56	84	—	84
31-60 Days Past Due	17	—	17	42	—	42
61-90 Days Past Due	24	—	24	8	—	8
90+ Days Past Due	6,019	5,624	395	6,175	6,116	59
	$7,790	$5,624	$2,166	$11,921	$6,116	$5,805

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INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2012

Inventories

Inventories consist of the following (in thousands):

	June 30, 2012	December 31, 2011
Finished goods	$127,448	$116,378
Raw materials	66,648	63,244
Work in process	23,182	13,139
	$217,278	$192,761

Property and Equipment

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

	June 30, 2012	December 31, 2011
Machinery and equipment	$355,719	$360,215
Land, buildings and improvements	91,665	95,737
Furniture and fixtures	13,686	14,034
Leasehold improvements	16,020	15,750
	477,090	485,736
Less allowance for depreciation	(354,370)	(356,024)
	$122,720	$129,712

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 $9,000,000 if certain goals were met over 24 months, principally earnings projections, for which the company has recorded a liability amount of $9,000,000 based on the company's estimate of the probable payout, the majority of which is expected to be paid in 2012.

In October 2011, the company acquired a developed technology intangible asset and inventory related to a negative pressure wound therapy product in the United States for $965,000.

Goodwill
The change in goodwill reflected on the balance sheet from December 31, 2011 to June 30, 2012 was the result of foreign currency translation.

Other Intangibles

All of the company’s other intangible assets have been assigned definite lives and continue to be amortized over their useful lives, except for $29,946,000 related to trademarks, which have indefinite lives. The changes in intangible

balances reflected on the balance sheet from December 31, 2011 to June 30, 2012 were the result of foreign currency translation and amortization.

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INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2012

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

	June 30, 2012		December 31, 2011	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer Lists	$90,970	$52,735	$94,790	$50,832
Trademarks	29,946	—	31,777	—
License agreements	3,173	3,173	3,160	3,160
Developed Technology	9,313	5,014	9,823	4,870
Patents	6,548	5,483	6,358	5,266
Other	7,511	6,215	7,510	5,970
	$147,461	$72,620	$153,418	$70,098

Amortization expense related to other intangibles was $5,141,000 in the first six months of 2012 and is estimated to be $10,012,000 in 2012, $9,096,000 in 2013, $8,715,000 in 2014, $7,154,000 in 2015, $5,968,000 in 2016 and $2,374,000 in 2017. Amortized intangibles are being amortized on a straight-line basis for periods from 3 to 20 years with the majority of the intangibles being amortized over a life of between 10 and 13 years.

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 increase in the liability for pre-existing warranties in 2012 is primarily the result of product recalls.
The following is a reconciliation of the changes in accrued warranty costs for the reporting period (in thousands):

Balance as of January 1, 2012	$19,842
Warranties provided during the period	6,147
Settlements made during the period	(6,917)
Changes in liability for pre-existing warranties during the period, including expirations	1,786
Balance as of June 30, 2012	$20,858

Long-Term Debt

Debt consists of the following (in thousands):

	June 30, 2012	December 31, 2011
$400,000,000 senior secured revolving credit facility, due in October 2015	$242,025	$247,063
Convertible senior subordinated debentures at 4.125%, due in February 2027	9,716	9,797
Other notes and lease obligations	7,454	8,624
	259,195	265,484
Less current maturities of long-term debt	(830)	(5,044)

	$258,365	$260,440

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The company's senior secured revolving credit agreement (the “Credit Agreement”), entered into on October 28, 2010, 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.

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

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

During the six months ended June 30, 2012, the company repurchased $500,000 principal amount of its 4.125% Convertible Senior Subordinated Debentures due 2027. The company retired the debt at 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. The company recorded pre-tax expense of $312,000 related to the loss on the debt extinguishment including the write-off of $11,000 deferred financing fees, which were previously capitalized, for the three and six months ended June 30, 2012.

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

	June 30, 2012	December 31, 2011
Principal amount of liability component	$13,350	$13,850
Unamortized discount	(3,634)	(4,053)
Net carrying amount of liability component	$9,716	$9,797

The company is a party to interest rate swap agreements to effectively convert a portion of floating rate revolving credit facility debt to fixed rate debt to avoid the risk of changes in market interest rates. Specifically, interest rate swap agreements for notional amounts of $18,000,000 through June 2013, $22,000,000 through September 2013, $20,000,000 and $25,000,000 through May 2013, $15,000,000 through February 2013 and $12,000,000 and $23,000,000 through April 2014 were entered into that fix the LIBOR component of the interest rate on that portion of the revolving credit facility debt at rates of 0.625%, 0.46%, 1.08%, 0.73% , 1.05%, 0.54% and 0.47% respectively, for effective aggregate rates of 2.375%, 2.21%, 2.83%, 2.48%, 2.80%, 2.29% and 2.22%, respectively. As of June 30, 2012, the weighted average floating interest rate on borrowing was 1.99% compared to 2.28% as of December 31, 2011.

Shareholders’ Equity Transactions

The Amended and Restated 2003 Performance Plan, (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), which includes the addition of 3,000,000 Common Shares authorized for issuance under the 2003 Plan, as approved by the company's shareholders on May 21, 2009. 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 participants will receive awards, the amount of the awards and the other terms and conditions of the awards.

During the six months ended June 30, 2012, the Committee granted 11,542 non-qualified stock options under the 2003 Plan, each having a term of ten years and generally granted at the fair market value of the company's Common Shares on the date of grant. In addition, restricted stock awards for 1,000 shares were granted without cost to the recipients which vest ratably over the four years after the award date. Compensation expense of $1,160,000 was recognized during the quarter ended June 30, 2012

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related to restricted stock awards and there were outstanding restricted stock awards totaling 246,799 shares that were not vested.

As of June 30, 2012, there was $12,729,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the plans, which is related to non-vested options and shares, and includes $4,039,000 related to restricted stock awards. The company expects the compensation expense to be recognized over a weighted-average period of approximately two years. Prior to the adoption of ASC 718, Compensation—Stock Compensation, the company presented all tax benefit deductions resulting from the exercise of stock options as a component of operating cash flows in the Consolidated Statement of Cash Flows. In accordance with ASC 718, any tax benefits resulting from tax deductions in excess of the compensation expense recognized for those options is classified as a component of financing cash flows.

The following table summarizes information about stock option activity for the six months ended June 30, 2012:

	June 30, 2012	Weighted Average Exercise Price
Options outstanding at January 1, 2012	4,455,365	28.99
Granted	11,542	17.54
Exercised	—	0.00
Canceled	(112,762)	26.74
Options outstanding at June 30, 2012	4,354,145	29.03
Options exercise price range at June 30, 2012	14.89 to $47.80	
Options exercisable at June 30, 2012	2,914,602	
Options available for grant at June 30, 2012*	2,004,434	

*Options available for grant as of June 30, 2012 reduced by net restricted stock award activity of 583,307.

The following table summarizes information about stock options outstanding at June 30, 2012:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding At 6/30/12	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable At 6/30/12	Weighted Average Exercise Price
$ 14.89 – $15.00	15,153	3.5 years	$12.10	10,153	$10.70
$ 15.01 – $25.00	1,817,426	6.9	22.51	925,444	22.11
$ 25.01 – $35.00	1,192,975	6.4	26.25	650,414	26.83
$ 35.01 – $47.80	1,328,591	1.8	40.63	1,328,591	40.63
Total	4,354,145	5.2	$29.03	2,914,602	$31.56

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.

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Income Taxes

The company had an effective tax rate of 118.7% and 70.1% on earnings before tax for the three and six month period ended June 30, 2012 compared to an expected rate at the U.S. statutory rate of 35%. The company's effective tax rate for the three and six months ended June 30, 2012 was greater than the U.S. federal statutory rate, principally due to a foreign discrete tax adjustment of $9,010,000 ($0.28 per share), of which $3,014,000 was interest, related to prior year periods under audit, which is being contested by the company. This adjustment is partially offset by current year foreign earnings taxed at an effective rate lower than the U.S. statutory rate principally due to foreign taxes recognized at rates below the U.S. statutory rate. The company had an effective tax rate of (29.1)% and 0.8% on earnings before tax for the three and six month period ended June 30, 2011, respectively, compared to an expected rate at the U.S. statutory rate of 35%. The company's effective tax rate for the three and six months ended June 30, 2011 was lower than the U.S. federal statutory rate, principally due to foreign taxes recognized at rates below the U.S. statutory rate and a second quarter $5,100,000 ($0.16 per share) tax benefit as a result of a tax settlement in Germany. The net impact of tax benefit from countries with valuation allowances on the company's effective tax rate was minimal for the first half of 2012 and 2011. The company had a domestic profit in the six months of 2012, but continued to be in a three-year cumulative loss position in the U.S. principally as a result of recording pre-tax expenses in prior periods related to the extinguishment of convertible debt at a premium and the write-off of goodwill. As a result of the loss position, the majority of the U.S. deferred tax assets continue to be subject to a valuation allowance.

Net Earnings (Loss) Per Common Share

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

(In thousands except per share data)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Basic				
Average common shares outstanding	31,818	31,950	31,819	32,062
Net earnings (loss)	$(1,977)	$10,661	$6,256	$18,115
Net earnings (loss) per common share	$(0.06)	$0.33	$0.20	$0.56
Diluted				
Average common shares outstanding	31,818	31,950	31,819	32,062
Shares related to convertible debt	—	522	—	522
Stock options and awards	—	534	3	442
Average common shares assuming dilution	31,818	33,006	31,822	33,026
Net earnings (loss)	$(1,977)	$10,661	$6,256	$18,115
Net earnings (loss) per common share	$(0.06)	$0.32	$0.20	$0.55

At June 30, 2012, 4,262,816, representing all of the shares associated with stock options due to the loss in the period, and 4,273,588 shares associated with stock options were excluded from the average common shares assuming dilution for the three and six months ended June 30, 2012, respectively, as they were anti-dilutive. At June 30, 2012, the majority of the anti-dilutive shares were granted at an exercise price of $41.87, which was higher than the average fair market value prices of $15.21 and $15.97, respectively. At June 30, 2011, 1,387,621 and 1,955,770 shares associated with stock options, respectively were excluded from the average common shares assuming dilution for the three and six months ended June 30, 2011, respectively, as they were anti-dilutive. At June 30, 2011, the majority of the anti-dilutive shares were granted at an exercise price of $41.87, which was higher than the average fair market value

price of $32.48 and $31.12, respectively. For the three and six months ended June 30, 2011, shares necessary to settle a conversion spread on the convertible notes were included in the common shares assuming dilution as the average market price of the company stock for 2011 did exceed the conversion price.

Concentration of Credit Risk

The company manufactures and distributes durable medical equipment and supplies to the home health care, retail and extended care markets. The company performs credit evaluations of its customers' financial condition. In December 2000, Invacare entered into an agreement with De Lage Landen, Inc. ("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 of $10,084,000 at June 30, 2012 to DLL for events of default under

the contracts, which total $71,134,000 at June 30, 2012. The company monitors the collections status of these contracts and has provided amounts for estimated losses in its allowances for doubtful accounts in accordance with Receivables, ASC 310-10-05-4. Credit losses are provided for in the financial statements.

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

Derivatives

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

Cash Flow Hedging Strategy

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

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

During the first six months of 2012 and 2011, the company was a party to interest rate swap agreements that qualified as cash flow hedges and effectively converted floating-rate debt to fixed-rate debt, so the company could avoid the risk of changes in market interest rates. The gains or losses on interest rate swaps are reflected in interest expense on the consolidated statement of comprehensive income (loss).

To protect against increases/decreases in forecasted foreign currency cash flows resulting from inventory purchases/sales over the next year, the company utilizes foreign currency forward contracts to hedge portions of its forecasted purchases/sales denominated in foreign currencies. The gains and losses are included in cost of products sold and selling, general and administrative expenses on the consolidated statement of comprehensive income (loss). If it is later determined that a hedged forecasted transaction is unlikely to occur, any prospective gains or losses on the

forward contracts would be recognized in earnings. The company does not expect any material amount of hedge ineffectiveness related to forward contract cash flow hedges during the next twelve months.

The company has historically not recognized any material amount of ineffectiveness related to forward contract cash flow hedges because the company generally limits its hedges to between 60% and 90% of total forecasted transactions for a given entity's exposure to currency rate changes and the transactions hedged are recurring in nature. Furthermore, the majority of the hedged transactions are related to intercompany sales and purchases for which settlement occurs on a specific day each month. Forward contracts with a total notional amount in USD of $47,191,000 and $84,158,000 matured during the three and six months ended June 30, 2012, respectively, compared to forward contracts with a total notional amount in USD of $49,223,000 and $88,605,000 matured during the three and six months ended June 30, 2011, respectively.

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

	June 30, 2012		December 31, 2011	
	Notional Amount	Unrealized Net Gain (Loss)	Notional Amount	Unrealized Net Gain (Loss)
USD / AUD	$1,726	$18	$3,324	$104
USD / CAD	11,578	52	8,424	29
USD / CNY	4,090	(25)	8,130	(16)
USD / EUR	27,276	2,164	42,267	701
USD / GBP	958	25	1,806	19
USD / NZD	4,128	110	8,256	86
USD / SEK	6,736	90	4,520	19
USD / MXP	6,302	293	14,029	(146)
EUR / AUD	561	(45)	1,220	(48)
EUR / CAD	750	(23)	—	—
EUR / CHF	2,589	31	5,433	(22)
EUR / GBP	10,760	(660)	17,201	9
EUR / SEK	973	7	—	—
EUR / NOK	988	1	—	—
EUR / NZD	3,641	460	7,009	505
GBP / CHF	457	(27)	929	(5)
GBP / SEK	1,959	(81)	1,690	12
CHF / SEK	189	(1)	271	(2)
NOK / CHF	434	(3)	436	(1)
	$86,095	$2,386	$124,945	$1,244

Fair Value Hedging Strategy

In 2012 and 2011, 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 currency 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 also utilizes foreign currency forward contracts that are not designated as hedges in accordance with ASC 815. These contracts are entered into to eliminate the risk associated with the settlement of short-term intercompany trading receivables and payables between Invacare Corporation and its foreign subsidiaries. The currency forward contracts are entered into at the same time as the intercompany receivables or payables are created so that upon settlement, the gain/loss on the settlement is offset by the gain/loss on the foreign currency forward contract. No material net gain or loss was realized by the company in 2012 or 2011 related to these forward contracts and the associated short-term intercompany trading receivables and payables.

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Foreign currency forward exchange contracts not qualifying or designated for hedge accounting treatment entered into in 2012 and 2011, respectively, and outstanding were as follows (in thousands USD):

	June 30, 2012		June 30, 2011	
	Notional Amount	Gain (Loss)	Notional Amount	Gain (Loss)
CAD / USD	$12,678	$70	$—	$—
EUR / USD	597	53	—	8
CHF / USD	1,611	(1)	909	43
DKK / USD	1,343	(3)	—	—
GBP / USD	2,651	(14)	—	—
NOK / USD	1,326	(5)	6,252	212
NZD / USD	2,020	(16)	—	—
DKK / NOK	—	—	149	(2)
EUR / CAD	384	(11)	20,000	327
EUR / DKK	7,662	(7)	—	—
EUR / SEK	—	—	19	—
AUD / CAD	1,551	(67)	—	—
AUD / NZD	1,048	(4)	—	—
EUR / NZD	174	(13)	159	(2)
	$33,045	$(18)	$27,488	$586

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

	June 30, 2012		December 31, 2011	
	Assets	Liabilities	Assets	Liabilities
Derivatives designated as hedging instruments under ASC 815				
Foreign currency forward contracts	$3,610	$1,224	$1,621	$377
Interest rate swap contracts	—	466	18	388
Derivatives not designated as hedging instruments under ASC 815				
Foreign currency forward contracts	122	140	64	128
Total derivatives	$3,732	$1,830	$1,703	$893

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

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

Derivatives in ASC 815 cash flow hedge relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Three months ended June 30, 2012			
Foreign currency forward contracts	$(424)	$686	$28
Interest rate swap contracts	14	—	—
	$(410)	$686	$28
Six months ended June 30, 2012			
Foreign currency forward contracts	(434)	1,465	28
Interest rate swap contracts	(96)	—	—
	$(530)	$1,465	$28
Three months ended June 30, 2011			
Foreign currency forward contracts	$277	$(5)	$(10)
Interest rate swap contracts	(287)	—	—
	$(10)	$(5)	$(10)
Six months ended June 30, 2011			
Foreign currency forward contracts	$(940)	$57	$(4)
Interest rate swap contracts	(416)	—	—
	$(1,356)	$57	$(4)

Derivatives not designated as hedging instruments under ASC 815	Amount of Gain (Loss) Recognized in Income on Derivatives
Three months ended June 30, 2012	
Foreign currency forward contracts	$(102)
Six months ended June 30, 2012	
Foreign currency forward contracts	$(18)
Three months ended June 30, 2011	
Foreign currency forward contracts	$(237)
Six months ended June 30, 2011	
Foreign currency forward contracts	$586

The pre-tax gains or losses recognized as the result of the settlement of cash flow hedge foreign currency forward contracts are recognized in net sales for hedges of inventory sales or cost of product sold for hedges of inventory purchases. For the three and six months ended June 30, 2012, net sales were decreased by $63,000 and increased by $195,000 and cost of product sold was decreased by $753,000 and $1,317,000 for net realized gains of $690,000 and $1,512,000,respectively. For the three and six months ended June 30, 2011, net sales were increased by $1,041,000 and $1,254,000 and cost of product sold was increased by $1,046,000 and $1,197,000 for a net realized loss of $5,000 and gain of $57,000, respectively.

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The company recognized incremental expense of $147,000 and $273,000 for the three and six months ended June 30, 2012, respectively related to interest rate swap agreements which is reflected in interest expense on the consolidated statement of comprehensive income (loss). The company recognized incremental expense of $42,000 and $385,000 for the three and six months ended June 30, 2011, respectively related to interest rate swap agreements which is reflected in interest expense on the consolidated statement of comprehensive income (loss).

Losses of $102,000 and $18,000 were recognized in selling, general and administrative (SG&A) expenses for the three and six months ended June 30, 2012, respectively, on no longer effective foreign currency forward contracts as well as those forward contracts not designated as hedging instruments that are entered into to offset gains/losses also recorded in SG&A expenses on intercompany trade payables. Any gains/losses on the non designated hedging instruments are substantially offset by gains/losses also recorded in SG&A expenses on intercompany trade payables. In comparison, a loss of $237,000 and a gain of $586,000 was recognized in SG&A expenses for the three and six months ended June 30, 2011, respectively, on ineffective forward contracts and foreign currency forward contracts not designated as hedging instruments which were offset by losses of comparable amounts also recorded in SG&A expenses on the intercompany trade payables.

Fair Values of Financial Instruments

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

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

		Basis for Fair Value Measurements at Reporting Date		
	Total	Quoted Prices in Active Markets for Identical Assets / (Liabilities) Level I	Significant Other Observable Inputs Level II	Significant Other Unobservable Inputs Level III
June 30, 2012:				
Forward Exchange Contracts—net	$2,368	—	$2,368	—
Interest Rate Swap Agreements—net	(466)	—	(466)	—
December 31, 2011:				
Forward Exchange Contracts—net	$1,180	—	$1,180	—
Interest Rate Swap Agreements—net	(370)	—	(370)	—

Forward Contracts: The company operates internationally and as a result is exposed to foreign currency fluctuations. Specifically, the exposure includes intercompany and third party sales or payments as well as intercompany loans. In an attempt to reduce this exposure, foreign currency forward contracts are utilized and accounted for as hedging instruments. The forward contracts are used to hedge the following currencies: AUD, CAD, CHF, CNY, DKK, EUR,

GBP, MXP, NOK, NZD, SEK and USD. The company does not use derivative financial instruments for speculative purposes. Fair values for the company's foreign currency forward exchange contracts are based on quoted market prices for contracts with similar maturities.

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

	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$25,495	$25,495	$34,924	$34,924
Other investments	1,315	1,315	1,362	1,362
Installment receivables, net of reserves	3,593	3,593	7,477	7,477
Long-term debt (including current maturities of long-term debt)	(259,195)	(258,604)	(265,484)	(264,112)
Forward contracts in Other Current Assets	3,732	3,732	1,685	1,685
Forward contracts in Accrued Expenses	(1,364)	(1,364)	(505)	(505)
Interest Rate Swap Agreements in Other Current Assets	—	—	18	18
Interest Rate Swap Agreements in Accrued Expenses	(466)	(466)	(388)	(388)

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

Cash, cash equivalents: The carrying value reported in the balance sheet for cash, cash equivalents equals its fair value.

Other investments: The company has made other investments in limited partnerships and non-marketable equity securities, which are accounted for using the cost method, adjusted for any estimated declines in value. These investments were acquired in private placements and there are no quoted market prices or stated rates of return and the company does not have the ability to easily sell these investments.

Installment receivables: The carrying value reported in the balance sheet for installment receivables approximates its fair value. The interest rates associated with these receivables have not varied significantly since inception. Management believes that after consideration of the credit risk, the net book value of the installment receivables approximates market value.

Long-term debt: Fair values for the company's convertible debt are based on quoted market prices as of the end of the period, while the revolving credit facility fair values are based upon the company's estimate of the market for similar borrowing arrangements.

Forward contracts and interest rate swaps: Fair values for the company's forward contracts are based on quoted market prices, while the fair values of the interest rate swaps are based on model-derived calculations using inputs that are observable in active markets.

Business Segments

The company operates in five primary business segments: North America/Home Medical Equipment (North America/HME), Invacare Supply Group (ISG), Institutional Products Group (IPG), Europe and Asia/Pacific. The North America/HME segment sells each of three primary product lines, which includes: lifestyle, mobility and seating and respiratory therapy products. Invacare Supply Group sells distributed products and the Institutional Products

Group sells or rents long-term care medical equipment, health care furnishings and accessory products. Europe and Asia/Pacific sell product lines similar to North America/HME and IPG. Each business segment sells to the home health care, retail and extended care markets.

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues from external customers				
North America/HME	$180,366	$194,737	$356,484	$376,568
Invacare Supply Group	82,205	75,737	160,670	149,783
Institutional Products Group	37,519	30,108	73,657	61,531
Europe	134,713	141,860	260,016	263,247
Asia/Pacific	20,122	23,970	37,662	43,781
Consolidated	$454,925	$466,412	$888,489	$894,910
Intersegment revenues				
North America/HME	$28,078	$22,256	$57,208	$43,066
Invacare Supply Group	16	24	35	40
Institutional Products Group	1,790	1,123	3,614	3,316
Europe	3,230	2,786	5,209	4,632
Asia/Pacific	8,910	9,997	19,440	17,943
Consolidated	$42,024	$36,186	$85,506	$68,997
Restructuring charges before income taxes				
North America/HME	$1,745	$—	$1,862	$—
Invacare Supply Group	(7)	—	(20)	—
Institutional Products Group	—	—	35	—
Europe	—	431	291	431
Asia/Pacific	261	—	379	—
Consolidated	$1,999	$431	$2,547	$431
Earnings (loss) before income taxes				
North America/HME	$3,959	$13,629	$11,515	$26,878
Invacare Supply Group	1,784	1,489	3,034	2,684
Institutional Products Group	3,507	3,459	6,885	7,583
Europe	7,801	9,480	13,286	14,440
Asia/Pacific	(777)	1,842	(1,838)	2,893
All Other (1)	(5,726)	(21,638)	(11,951)	(36,213)
Consolidated	$10,548	$8,261	$20,931	$18,265

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

Charges Related to Restructuring Activities

During the quarter ended June 30, 2012, as part of the company's ongoing globalization initiative to reduce complexity within its global footprint, the company incurred restructuring charges. The restructuring was also undertaken in response to 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, the company recorded restructuring charges of $2,547,000 in the first half 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. The majority of the outstanding

charge accruals at June 30, 2012 are expected to be paid out within the next twelve months.

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

	Severance	Product Line Discontinuance	Contract Terminations	Other	Total
December 31, 2010 Balance					
Total	$—	$—	$—	$—	$—
Charges					
NA/HME	4,756	—	—	4	4,760
IPG	123	—	—	—	123
ISG	335	—	—	—	335
Europe	3,288	277	1,788	113	5,466
Asia/Pacific	186	—	—	—	186
Total	8,688	277	1,788	117	10,870
Payments					
NA/HME	(1,664)	—	—	(4)	(1,668)
IPG	(52)	—	—	—	(52)
ISG	(82)	—	—	—	(82)
Europe	(1,546)	(277)	(1,714)	(113)	(3,650)
Asia/Pacific	(186)	—	—	—	(186)
Total	(3,530)	(277)	(1,714)	(117)	(5,638)
December 31, 2011 Balance					
NA/HME	3,092	—	—	—	3,092
IPG	71	—	—	—	71
ISG	253	—	—	—	253
Europe	1,742	—	74	—	1,816
Asia/Pacific	—	—	—	—	—
Total	$5,158	$—	$74	$—	$5,232
Charges					
NA/HME	117	—	—	—	117
IPG	35	—	—	—	35
ISG	(13)	—	—	—	(13)
Europe	257	—	34	—	291
Asia/Pacific	118	—	—	—	118
Total	514	—	34	—	548
Payments					
NA/HME	(1,130)	—	—	—	(1,130)
IPG	(82)	—	—	—	(82)
ISG	(99)	—	—	—	(99)
Europe	(1,541)	—	(56)	—	(1,597)
Asia/Pacific	(118)	—	—	—	(118)
Total	(2,970)	—	(56)	—	(3,026)
March 31, 2012 Balance					
NA/HME	2,079	—	—	—	2,079
IPG	24	—	—	—	24
ISG	141	—	—	—	141

Europe	458	—	52	—	510
Asia/Pacific	—	—	—	—	—
Total	$2,702	$—	$52	$—	$2,754

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INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2012

	Severance	Product Line Discontinuance	Contract Terminations	Other	Total
Charges					
NA/HME	1,745	—	—	—	1,745
IPG	—	—	—	—	—
ISG	(7)	—	—	—	(7)
Europe	—	—	—	—	—
Asia/Pacific	261	—	—	—	261
Total	1,999	—	—	—	1,999
Payments					
NA/HME	(840)	—	—	—	(840)
IPG	(14)	—	—	—	(14)
ISG	(36)	—	—	—	(36)
Europe	(170)	—	(25)	—	(195)
Asia/Pacific	(261)	—	—	—	(261)
Total	(1,321)	—	(25)	—	(1,346)
June 30, 2012 Balance					
NA/HME	2,984	—	—	—	2,984
IPG	10	—	—	—	10
ISG	98	—	—	—	98
Europe	288	—	27	—	315
Asia/Pacific	—	—	—	—	—
	$3,380	$—	$27	$—	$3,407

Contingencies

In the ordinary course of its business, Invacare 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.

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

Further, the FDA regulates virtually all aspects of the development, testing, manufacturing, labeling, promotion, distribution and marketing of a medical device. The company’s failure to comply with the regulatory requirements of the FDA and other applicable U.S. medical device regulatory requirements may subject the company to administrative or judicially imposed sanctions. These sanctions include warning letters, civil penalties, criminal penalties,

injunctions, consent decrees, product seizure or detention, product recalls and total or partial suspension of production.

As part of its regulatory function, the FDA routinely inspects the sites of medical device companies, and in 2011, the FDA inspected certain of the company's facilities. In December 2011, the FDA requested that the company negotiate and agree to a consent decree of injunction related to the company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio. The FDA's proposed consent decree would require suspension of certain operations at these Elyria facilities until they are certified by an independent, third party auditor and then determined by the FDA to be in compliance with the FDA's Quality System Regulation. The company is in the process of negotiating the terms of the proposed consent decree with the FDA. While the final

terms of the consent decree have not been determined, they would result in the suspension of a portion, which could be substantial, of the company's operations at its wheelchair manufacturing facility in Elyria, Ohio. The duration of any such suspension would be dependent upon the company's ability to certify its compliance with the FDA regulations and then the FDA's determination of such compliance. A suspension of operations likely would have adverse effects on the company's business, including loss of revenues, harm to the company's reputation and customer dissatisfaction. The proposed consent decree could impact financial results before suspension of operations depending on customer reaction and as a result of the renegotiation of existing contracts that require uninterrupted supply. In addition, in December 2010, the company received a warning letter from the FDA related to quality system processes and procedures at the company's Sanford, Florida facility. The company is devoting additional substantial financial, management and engineering resources to making the systemic improvements necessary to achieve compliance with the QSR requirements. The company's diversion of resources could impact other areas of the company's business, such as, for example, delays in new product development and cost reduction and Globalization activities.

The company is cooperating with the FDA in attempting to negotiate the final terms of the consent decree. However, there can be no assurance that negotiations will conclude with mutually agreeable terms of the consent decree which could lead the FDA to pursue judicial, legal or other enforcement action against the company. However, the results of regulatory claims, proceedings, investigations, or litigation are difficult to predict. Such enforcement could include requiring restrictions on the manufacturing, sale or distribution of the company's products, product recalls, or the payment of fines or penalties, which enforcement could result in material adverse consequences to the company.

Any of the above contingencies could have an adverse impact on the company's business, prospects, value, 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% Convertible Senior Subordinated Debentures due 2027 (the “Debentures”) with an original aggregate principal amount of $135,000,000. The majority of the company’s subsidiaries are not guaranteeing the indebtedn