

INVACARE CORP  
Form 10-Q  
May 06, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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 (IRS Employer Identification No.)  
incorporation or organization)

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  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 May 4, 2016, the registrant had 31,752,836 Common Shares and 733,309 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)

(In thousands, except per share data)	Three Months Ended	
	March 31,	
	2016	2015
Net sales	\$257,552	\$289,024
Cost of products sold	189,692	211,929
Gross Profit	67,860	77,095
Selling, general and administrative expenses	73,213	81,240
Charges related to restructuring activities	102	240
Operating Loss	(5,455 )	(4,385 )
Gain on convertible debt derivatives	(604 )	—
Interest expense	1,994	692
Interest income	(54 )	(38 )
Loss from Continuing Operations Before Income Taxes	(6,791 )	(5,039 )
Income tax provision	1,825	2,475
Net loss from Continuing Operations	(8,616 )	(7,514 )
Gain on Sale of Discontinued Operations (net of tax of \$0 and \$140)	—	260
Total Net Earnings from Discontinued Operations	—	260
Net Loss	\$(8,616 )	\$(7,254 )
Dividends Declared per Common Share	\$0.0125	\$0.0125
Net Earnings (Loss) per Share—Basic		
Net Loss from Continuing Operations	\$(0.27 )	\$(0.23 )
Net Earnings from Discontinued Operations	\$—	\$0.01
Net Loss per Share—Basic	\$(0.27 )	\$(0.23 )
Weighted Average Shares Outstanding—Basic	32,371	32,125
Net Earnings (Loss) per Share—Assuming Dilution		
Net Loss from Continuing Operations	\$(0.27 )	\$(0.23 )
Net Earnings from Discontinued Operations	\$—	\$0.01
Net Loss per Share—Assuming Dilution	\$(0.27 )	\$(0.23 )
Weighted Average Shares Outstanding—Assuming Dilution	32,600	32,389
Net Loss	\$(8,616 )	\$(7,254 )
Other comprehensive income (loss):		
Foreign currency translation adjustments	10,769	(53,378 )
Defined Benefit Plans:		
Amortization of prior service costs and unrecognized gains	(190 )	94
Deferred tax adjustment resulting from defined benefit plan activity	(16 )	(33 )
Valuation reserve associated with defined benefit plan activity	16	33
Current period unrealized gain on cash flow hedges	1,165	2,020
Deferred tax loss related to unrealized loss on cash flow hedges	(203 )	(96 )
Other Comprehensive Income (Loss)	11,541	(51,360 )
Comprehensive Income (Loss)	\$2,925	\$(58,614 )

See notes to condensed consolidated financial statements.

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Condensed Consolidated Balance Sheets (unaudited)

	March 31, 2016	December 31, 2015
	(In thousands)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 144,704	\$ 60,055
Trade receivables, net	141,519	133,655
Installment receivables, net	1,114	1,145
Inventories, net	143,814	132,807
Other current assets	37,060	34,459
Total Current Assets	468,211	362,121
Other Assets	33,663	4,659
Intangibles	31,265	31,000
Property and Equipment, net	77,625	78,683
Goodwill	370,963	361,680
Total Assets	\$ 981,727	\$ 838,143
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 104,124	\$ 105,608
Accrued expenses	112,439	122,420
Current taxes payable	16,698	17,588
Short-term debt and current maturities of long-term obligations	2,033	2,028
Total Current Liabilities	235,294	247,644
Long-Term Debt	155,099	45,092
Other Long-Term Obligations	116,510	82,589
Shareholders' Equity		
Preferred Shares (Authorized 300 shares; none outstanding)	—	—
Common Shares (Authorized 100,000 shares; 35,332 and 35,024 issued in 2016 and 2015, respectively)—no par	8,965	8,815
Class B Common Shares (Authorized 12,000 shares; 734 issued and outstanding in 2016 and 2015, respectively)—no par	184	184
Additional paid-in-capital	261,353	247,022
Retained earnings	301,567	310,583
Accumulated other comprehensive income	2,154	(9,387 )
Treasury shares (3,585 and 3,194 shares in 2016 and 2015, respectively)	(99,399 )	(94,399 )
Total Shareholders' Equity	474,824	462,818
Total Liabilities and Shareholders' Equity	\$ 981,727	\$ 838,143

See notes to condensed consolidated financial statements.

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## INVACARE CORPORATION AND SUBSIDIARIES

## Condensed Consolidated Statement of Cash Flows (unaudited)

	Three Months Ended March 31,	
	2016	2015
	(In thousands)	
Operating Activities		
Net loss	\$(8,616 )	\$(7,254 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on sale of businesses	—	(260 )
Depreciation and amortization	4,032	5,353
Provision for losses on trade and installment receivables	47	272
Provision (benefit) for deferred income taxes	(29 )	82
Provision for other deferred liabilities	79	110
Provision for stock-based compensation	2,089	411
Loss (gain) on disposals of property and equipment	19	(11 )
Loss on debt extinguishment including debt finance charges and associated fees	—	668
Amortization of convertible debt discount	664	191
Gain on convertible debt derivatives	(604 )	—
Changes in operating assets and liabilities:		
Trade receivables	(6,938 )	(9,756 )
Installment sales contracts, net	(674 )	(402 )
Inventories	(9,480 )	(2,066 )
Other current assets	(2,495 )	293
Accounts payable	(2,529 )	3,408
Accrued expenses	(12,108 )	(14,179 )
Other long-term liabilities	(2,162 )	349
Net Cash Used by Operating Activities	(38,705 )	(22,791 )
Investing Activities		
Purchases of property and equipment	(1,464 )	(2,818 )
Proceeds from sale of property and equipment	4	78
Change in other long-term assets	(103 )	13,392
Other	42	(3 )
Net Cash (Used) Provided by Investing Activities	(1,521 )	10,649
Financing Activities		
Proceeds from revolving lines of credit and long-term borrowings	121,977	71,064
Payments on revolving lines of credit and long-term borrowings	(497 )	(73,633 )
Proceeds from exercise of stock options	17	200
Payment of financing costs	(4,562 )	(1,391 )
Payment of dividends	(400 )	(397 )
Issuance of warrants	12,375	—
Purchase of treasury stock	(5,000 )	—
Net Cash Provided (Used) by Financing Activities	123,910	(4,157 )
Effect of exchange rate changes on cash	965	(2,014 )
Increase (Decrease) in cash and cash equivalents	84,649	(18,313 )
Cash and cash equivalents at beginning of year	60,055	38,931
Cash and cash equivalents at end of period	\$144,704	\$20,618
See notes to condensed consolidated financial statements.		

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INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

Accounting Policies

**Nature of Operations:** Invacare Corporation is a leading manufacturer and distributor of medical equipment 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 March 31, 2016 and the results of its operations and changes in its cash flow for the three months ended March 31, 2016 and 2015, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using a February 29 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 months ended March 31, 2016 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.

**Recent Accounting Pronouncements:** In April 2014, the FASB issued ASU 2014-08 changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the component meets the criteria to be classified as held for sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. This standard was required to be prospectively applied to all reporting periods presented in financial reports issued after the effective date. This standard can impact the presentation of the company's financial statements but does not affect the calculation of net income, comprehensive income or earnings per share. The company adopted ASU 2014-08 effective January 1, 2015 which impacted the company's Condensed Consolidated Statement of Comprehensive Income (Loss), Balance Sheets and Statement of Cash Flows. Specifically, the disposal by the company of its United States Rentals businesses, in the third quarter of 2015, was not deemed to be a discontinued operation.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 requires a company to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The guidance requires five steps to be applied: 1) identify the contract(s) with customers, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligation in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also requires both quantitative and qualitative disclosures, which are more comprehensive than existing revenue standards. The disclosures are intended to enable financial statement users to understand the nature, timing and uncertainty of revenue and the related cash flow. An entity can apply the new revenue standard retrospectively to each prior reporting period presented or retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. The new accounting guidance is effective for annual periods beginning after December 15, 2017, due to an approved one-year deferral, and early adoption is permitted.



The company is currently reviewing the impact of the adoption of ASU 2014-09 on the company's financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability, which is similar to the presentation of debt discounts or premiums. Debt issuance costs are currently reported on the balance sheet as assets and amortized as interest expense. ASU 2015-03 does not change the recognition and measurement guidance for debt issuance costs and requires retrospective application to all periods presented upon adoption. The company adopted ASU 2015-03 effective January 1, 2016 which did not have a material impact on the company's financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory," to simplify the subsequent measurement of inventory. After effectiveness of this update, entities will be required to subsequently measure inventory at the lower of cost or net realizable value rather than at the lower of cost or market. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual periods, and early adoption is permitted. The company is currently reviewing the impact of the adoption of ASU 2015-11 on the company's financial statements.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes." ASU 2015-17 requires deferred tax assets and liabilities to be classified as noncurrent amounts on the balance sheet. The new accounting guidance is effective for fiscal periods beginning after December 15, 2016 and early adoption is permitted. The company adopted ASU 2015-17, on a prospective basis, effective October 1, 2015 and thus the company's deferred tax assets and liabilities have been classified as long-term in its Balance Sheet for all periods presented.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 requires lessees to put most leases on their balance sheet while recognizing expense in a manner similar to existing accounting. The new accounting guidance is effective for fiscal periods beginning after December 15, 2018 and early adoption is permitted. The company is currently reviewing the impact of the adoption of ASU 2016-02 on the company's financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation: Topic 718: Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This pronouncement is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The company is currently reviewing the impact of the adoption of ASU 2016-09 on the company's financial statements.

Operations Held For Sale

On May 14, 2015, the company's board of directors authorized the company and Invacare Continuing Care, Inc., a Missouri Corporation and wholly-owned subsidiary of the company ("ICC") to enter into an agreement to sell all the issued and outstanding membership interests of Dynamic Medical Systems, LLC, a Nevada limited liability company, and Invacare Outcomes Management, LLC, a Delaware limited liability company, each a wholly-owned subsidiary of ICC ("collectively, the rentals businesses"). The company determined on that date that the "held for sale" criteria of ASC 360-10-45-9 were met, and accordingly, the assets and liabilities of the rentals businesses (long-lived asset disposal group) are shown at their carrying amounts, which approximate their fair values. The rentals businesses had been operated on a stand-alone basis and reported as part of the Institutional Products Group (IPG) segment of the company.

On July 2, 2015, ICC completed the sale (the "Transaction") of all the issued and outstanding membership interests in the rentals businesses, pursuant to a Membership Interest Purchase Agreement (the "Purchase Agreement") among the company, ICC and Joerns Healthcare Parent, LLC, a Delaware limited liability company. The price paid to ICC for the rentals businesses was approximately \$15,500,000 in cash, which was subject to certain post-closing adjustments required by the Purchase Agreement. Net proceeds from the Transaction were approximately \$13,700,000, net of taxes and expenses. The company recorded a pre-tax gain of approximately \$24,000 in the third quarter of 2015, which represents the excess of the net sales price over the book value of the assets and liabilities of the rentals businesses, as of the date of completion of the disposition. The company recorded expenses related to the sale of the rentals businesses totaling \$1,792,000, of which \$1,244,000 have been paid as of March 31, 2016. The sale of the rentals businesses was not dilutive to the company's results. The company utilized the net proceeds from the sale to reduce debt outstanding under its credit agreement. The company determined that the sale of the rentals businesses did

not meet the criteria for classification as a discontinued operation in accordance with ASU 2014-08. The rentals businesses were treated as held for sale as of June 30, 2015 until sold on July 2, 2015.

#### Discontinued Operations

From 2012 through 2014, the company sold three businesses which were classified as discontinued operations. The company recorded cumulative expenses related to the sale of discontinued operations totaling \$8,801,000, of which \$8,405,000 have been paid as of March 31, 2016. The company recorded an incremental intra-period tax allocation expense to discontinued operations for the three months ended March 31, 2015 which represented the cumulative intra-period allocation expense to discontinued operations based on the company's March 31, 2015 estimates of the projected domestic taxable loss related to continuing operations for 2015.

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INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

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, China and Europe. A significant portion of products sold to providers, both foreign and domestic, are 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 (\$9,753,000 at March 31, 2016 and \$10,487,000 at December 31, 2015) is based primarily on management's evaluation of the financial condition of specific customers. In addition, as a result of the company's 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 establishes reserves for specific customers as needed. The company writes off uncollectible trade accounts receivable after such receivables are moved to collection status and legal remedies are exhausted. See Concentration of Credit Risk in the Notes to the Consolidated Financial Statements for a description of the financing arrangement. Long-term installment receivables are included in "Other Assets" on the consolidated balance sheet.

The company's U.S. customers electing to finance their purchases can do so using DLL. In addition, the company often provides financing directly for its Canadian customers for which DLL is not an option, 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 and long-term care customers. 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 the company 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 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 most customers desiring credit greater than \$250,000, which generally includes a detailed review of the customer's financial statements as well as consideration of other factors such as exposure to changing reimbursement laws.

Interest income is recognized on installment receivables based on the terms of the installment agreements. Installment accounts are monitored and if a customer defaults on payments and is moved to collection, interest income is no longer recognized. Subsequent payments received once an account is put on non-accrual status are generally first

applied to the principal balance and then to the interest. Accruing of interest on collection accounts would only be restarted if the account became current again.

All installment accounts are accounted for using the same methodology regardless of the duration of the installment agreements. When an account is placed in collection status, the company goes through a legal process for pursuing collection of outstanding amounts, the length of which typically approximates eighteen months. Any write-offs are made after the legal process has been completed. The company has not made any changes to either its accounting policies or methodology to estimate allowances for doubtful accounts in the last twelve months.

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## INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

Installment receivables consist of the following (in thousands):

	March 31, 2016			December 31, 2015		
	Current	Long-Term	Total	Current	Long-Term	Total
Installment receivables	\$2,161	\$3,087	\$5,248	\$2,309	\$2,318	\$4,627
Less: Unearned interest	(40 )	—	(40 )	(42 )	—	(42 )
	2,121	3,087	5,208	2,267	2,318	4,585
Allowance for doubtful accounts	(1,007 )	(2,225 )	(3,232 )	(1,122 )	(1,670 )	(2,792 )
	\$1,114	\$862	\$1,976	\$1,145	\$648	\$1,793

Installment receivables purchased from DLL during the three months ended March 31, 2016 increased the gross installment receivables balance by \$903,000. 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):

	Three Months Ended	
	March 31, 2016	Year Ended December 31, 2015
Balance as of beginning of period	\$2,792	\$ 5,852
Current period provision (benefit)	547	(332 )
Direct write-offs charged against the allowance	(107 )	(2,728 )
Balance as of end of period	\$3,232	\$ 2,792

Installment receivables by class as of March 31, 2016 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
U.S.				
Impaired installment receivables with a related allowance recorded	\$ 4,248	\$ 4,248	\$ 3,153	\$ —
Canada				
Non-Impaired installment receivables with no related allowance recorded	921	881	—	13
Impaired installment receivables with a related allowance recorded	79	79	79	—
Total Canadian installment receivables	1,000	960	79	13
Total				
Non-Impaired installment receivables with no related allowance recorded	921	881	—	13
Impaired installment receivables with a related allowance recorded	4,327	4,327	3,232	—
Total installment receivables	\$ 5,248	\$ 5,208	\$ 3,232	\$ 13



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## INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

Installment receivables by class as of December 31, 2015 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	\$ 3,618	\$ 3,618	\$ 2,729	\$ —
Canada				
Non-Impaired installment receivables with no related allowance recorded	946	904	—	52
Impaired installment receivables with a related allowance recorded	63	63	63	—
Total Canadian installment receivables	1,009	967	63	52
Total				
Non-Impaired installment receivables with no related allowance recorded	946	904	—	52
Impaired installment receivables with a related allowance recorded	3,681	3,681	2,792	—
Total installment receivables	\$ 4,627	\$ 4,585	\$ 2,792	\$ 52

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 March 31, 2016, 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. In Canada, the company had an immaterial amount of Canadian installment receivables which were past due of 90 days or more as of March 31, 2016 and December 31, 2015 for which the company is still accruing interest.

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

	March 31, 2016			December 31, 2015		
	Total	U.S.	Canada	Total	U.S.	Canada
Current	\$899	\$—	\$899	\$908	\$—	\$908
0-30 Days Past Due	2	—	2	16	—	16
31-60 Days Past Due	—	—	—	12	—	12
61-90 Days Past Due	—	—	—	1	—	1
90+ Days Past Due	4,347	4,248	99	3,690	3,618	72
	\$5,248	\$4,248	\$1,000	\$4,627	\$3,618	\$1,009

## Inventories

Inventories consist of the following (in thousands):

	March 31, 2016	December 31, 2015
Finished goods	\$75,507	\$67,207
Raw materials	57,432	54,005
Work in process	10,875	11,595
	\$143,814	\$132,807



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## INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

## Other Current Assets

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

	March 31, December 31,	
	2016	2015
Value added tax receivables	\$ 19,275	\$ 18,031
Recoverable income taxes	390	367
Derivatives (foreign currency forward contracts)	4,273	4,143
Prepaid insurance	2,166	2,538
Prepaid and other current assets	10,956	9,380
	\$ 37,060	\$ 34,459

## Other Long-Term Assets

Other long-term assets consist of the following (in thousands):

	March 31, December 31,	
	2016	2015
Convertible Note Hedge Asset	\$ 29,297	\$ —
Cash surrender value of life insurance policies	1,698	1,674
Deferred financing fees	891	1,088
Investments	161	160
Installment receivables	862	648
Deferred taxes	573	908
Other	181	181
	\$ 33,663	\$ 4,659

During the quarter ended March 31, 2016, the company issued \$150,000,000 principle amount of Convertible Senior Notes due 2021. As part of the transaction, the company entered into related convertible note hedge derivatives which are included in the above table (Convertible Note Hedge Asset), the value of which will be adjusted quarterly to reflect fair value. See "Long-Term Debt" in the notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

## Property and Equipment

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

	March 31, December 31,	
	2016	2015
Machinery and equipment	\$301,908	\$ 299,721
Land, buildings and improvements	74,933	73,830
Furniture and fixtures	9,458	10,031
Leasehold improvements	11,795	11,966
	398,094	395,548
Less allowance for depreciation	(320,469 )	(316,865 )
	\$77,625	\$ 78,683

## Goodwill

The change in goodwill from December 31, 2015 to March 31, 2016 was due to foreign currency translation.

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## INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

## Intangibles

All of the company's intangible assets have been assigned definite lives and continue to be amortized over their useful lives, except for \$25,005,000 related to trademarks, which have indefinite lives. The changes in intangible balances reflected on the balance sheet from December 31, 2015 to March 31, 2016 were the result of foreign currency translation and amortization.

The company evaluates the carrying value of definite-lived assets whenever events or circumstances indicate possible impairment. Definite-lived assets are determined to be impaired if the future un-discounted cash flows expected to be generated by the asset are less than the carrying value. Actual impairment amounts for definite-lived assets are then calculated using a discounted cash flow calculation. The company reviews indefinite-lived assets for impairment annually in the fourth quarter of each year and whenever events or circumstances indicate possible impairment. Any impairment amounts for indefinite-lived assets are calculated as the difference between the future discounted cash flows expected to be generated by the asset less than the carrying value for the asset. The company's intangibles consist of the following (in thousands):

	March 31, 2016		December 31, 2015	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer lists	\$50,940	\$ 46,288	\$49,858	\$ 45,019
Trademarks	25,005	—	24,524	—
License agreements	1,150	1,150	1,098	1,098
Developed technology	7,497	6,013	7,405	5,921
Patents	5,545	5,455	5,959	5,843
Other	1,162	1,128	1,161	1,124
	\$91,299	\$ 60,034	\$90,005	\$ 59,005

Amortization expense related to intangibles was \$406,000 in the first three months of 2016 and is estimated to be \$1,608,000 in 2016, \$1,527,000 in 2017, \$1,510,000 in 2018, \$1,881,000 in 2019, \$180,000 in 2020 and \$178,000 in 2021. Amortized intangibles are being amortized on a straight-line basis over remaining lives of 1 to 10 years with the majority of the intangibles being amortized over an average remaining life of approximately 5 years.

## Accrued Expenses

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

	March 31, December 31,	
	2016	2015
Salaries and wages	\$31,591	\$ 41,305
Taxes other than income taxes, primarily Value Added Taxes	18,550	21,424
Warranty cost	24,154	22,820
Supplemental Executive Retirement Program	1,279	1,279
Freight	6,952	6,153
Professional	6,923	5,774
Product liability, current portion	3,193	3,127
Rebates	1,506	1,791
Insurance	644	695
Interest	1,529	872

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Derivative liabilities	1,207	2,014
Severance	1,522	2,477
Other items, principally trade accruals	13,389	12,689
	\$ 112,439	\$ 122,420

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## INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

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

Generally, the company's products are covered by warranties against defects in material and workmanship for various periods depending on the product from the date of sales to the customer. 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 product field actions and recalls, which could warrant additional warranty reserve provision.

In 2016, the company recorded additional warranty expense of \$1,220,000 for a product recall which was related to a bed component, which was recorded in the North America/HME segment. The company's warranty reserves are subject to adjustment in future periods to the extent that new developments change the company's estimate of the total cost of these matters.

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

Balance as of January 1, 2016	\$22,820
Warranties provided during the period	3,878
Settlements made during the period	(4,130 )
Changes in liability for pre-existing warranties during the period, including expirations	1,586
Balance as of March 31, 2016	\$24,154

## Long-Term Debt

Debt consists of the following (in thousands):

	March 31, 2016	December 31, 2015
Senior secured revolving credit facility, due in January 2018	\$—	\$ —
Convertible senior notes at 5.00%, due in February 2021	110,214	—
Convertible senior subordinated debentures at 4.125%, due in February 2027	12,361	12,147
Other notes and lease obligations	34,557	34,973
	157,132	47,120
Less current maturities of long-term debt	(2,033 )	(2,028 )
	\$155,099	\$ 45,092

The company had outstanding letters of credit of \$3,555,000 and \$3,230,000 as of March 31, 2016 and December 31, 2015, respectively. As of March 31, 2016, the weighted average floating interest rate on all borrowings, excluding capital leases, was 4.83% compared to 3.83% as of December 31, 2015. There were no borrowings denominated in foreign currencies, excluding a portion of the company's capital leases, as of March 31, 2016 or December 31, 2015.

On September 30, 2015 the company entered into an Amended and Restated Revolving Credit and Security Agreement (the "Credit Agreement"), amending and restating the company's existing Revolving Credit and Security Agreement which was originally entered into on January 16, 2015 and amended on April 22, 2015 (the "Original Credit Agreement") and which matures in January 2018. The Credit Agreement was entered into by and among the company, certain of the company's direct and indirect U.S. and Canadian subsidiaries and certain of the company's European

subsidiaries (together with the company, the “Borrowers”), certain other of the company’s direct and indirect U.S., Canadian and European subsidiaries (the “Guarantors”), and PNC Bank, National Association (“PNC”), JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, KeyBank National Association, and Citizens Bank, National Association (the “Lenders”). PNC is the administrative agent (the “Administrative Agent”) and J.P. Morgan Europe Limited is the European agent (the “European Agent”) under the Credit Agreement.

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INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

In connection with entering into the company's Original Credit Agreement and the Credit Agreement, the company incurred \$1,954,000 in fees which were capitalized and are being amortized through January 2018. In addition, as a result of terminating the previous credit agreement, which was scheduled to mature in October 2015, the company wrote off \$668,000 in previously capitalized fees in the first quarter of 2015, which is reflected in the expense of the North America / HME segment.

On February 16, 2016, in connection with the commencement of the company's offering of 5.00% convertible senior notes due 2021 described below, the company entered into a First Amendment to Amended and Restated Revolving Credit and Security Agreement (the "Credit Agreement Amendment"), which amended the Credit Agreement. The Credit Agreement Amendment provided for, among other things:

- the amendment of the negative covenant regarding indebtedness to permit the issuance of the convertible senior notes due 2021;
- the amendment of various negative covenants to permit the convertible note hedge and warrant transactions entered into by the company in connection with the issuance of the convertible senior notes;
- the amendment of the mandatory prepayment provision to eliminate the prepayment requirement that would have otherwise been required upon the receipt of proceeds from the issuance of the convertible senior notes and the sale of the warrants and the negative covenant regarding dividends to permit the issuance of certain equity interests, payment of interest on the notes and certain payments to be made upon conversion of the convertible notes, as well as upon the exercise, settlement or termination of the convertible note hedge and warrant transactions, so long as the company is not, and would not after giving pro-forma effect to any such transaction be, in default under the Credit Agreement and has had undrawn availability equal to at least 20% of the maximum revolving advance amount under its North American-based credit facility (which maximum amount is currently \$100,000,000) for the 30 consecutive days ending delivered by the company under the Credit Agreement;
- the amendment of the negative covenant to permit the repurchase by the company of up to \$5,000,000 of its common shares (which were subsequently repurchased in connection with the issuance of the convertible notes) so long as the company is not, and would not after giving pro-forma effect to any such repurchase be, in default under the Credit Agreement and has had undrawn availability equal to at least 20% of the maximum revolving advance amount under its North American-based credit facility (which maximum amount is currently \$100,000,000) for the 30 consecutive days ending as of the date of the most recent North American borrowing base certificate delivered by the company under the Credit Agreement;
- the amendment of the negative covenant regarding capital expenditures to increase the aggregate amount of permitted expenditures from \$20,000,000 to \$35,000,000;
- the amendment of the negative covenant regarding investments to permit certain qualifying acquisitions for total aggregate consideration of up to \$30,000,000;
- the amendment of the negative covenant regarding sales of assets to increase the aggregate amount of permitted dispositions from \$20,000,000 to \$25,000,000 (calculated as of the date of the Credit Agreement Amendment), so long as the company is not, and would not after giving pro-forma effect to any such disposition be, in default under the Credit Agreement and has had undrawn availability equal to at least 20% of the maximum revolving advance amount under its North American-based credit facility (which maximum amount is currently \$100,000,000) for the 30 consecutive days ending as of the date of the most recent North American borrowing base certificate delivered by the company under the Credit Agreement; and
- the amendment of the availability block (which affects the company's borrowing base) by reducing the block from \$10,000,000 to \$5,000,000, the effect of which is to increase borrowing capacity.

U.S. and Canadian Borrowers Credit Facility



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For the company's U.S. and Canadian Borrowers, the Credit Agreement provides for an asset-based-lending senior secured revolving credit facility which is secured by substantially all of the company's U.S. and Canadian assets, other than real estate. The Credit Agreement provides the company and the other Borrowers with a credit facility in an aggregate principal amount of \$100,000,000, subject to availability based on a borrowing base formula, under a senior secured revolving credit, letter of credit and swing line loan facility (the "U.S. and Canadian Credit Facility"). Up to \$25,000,000 of the U.S. and Canadian Credit Facility will be available for issuance of letters of credit. The aggregate principal amount of the U.S. and Canadian Credit Facility may be

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INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

increased by up to \$25,000,000 to the extent requested by the company and agreed to by any Lender or new financial institution approved by the Administrative Agent. The aggregate borrowing availability under the U.S. and Canadian Credit Facility is determined based on a borrowing base formula set forth in the Credit Agreement and summarized below.

Under the Credit Agreement, the aggregate usage under the U.S. and Canadian Credit Facility may not exceed an amount equal to the sum of (a) 85% of eligible U.S. accounts receivable plus (b) the lesser of (i) 70% of eligible U.S. inventory and eligible foreign in-transit inventory and (ii) 85% of the net orderly liquidation value of eligible U.S. inventory and eligible foreign in-transit inventory (not to exceed \$4,000,000), plus (c) the lesser of (i) 85% of the net orderly liquidation value of U.S. eligible machinery and equipment and (ii) \$2,631,000 (subject to reduction as provided in the Credit Agreement), plus (d) 85% of eligible Canadian accounts receivable, plus (e) the lesser of (i) 70% of eligible Canadian inventory and (ii) 85% of the net orderly liquidation value of eligible Canadian inventory, less (f) swing loans outstanding under the U.S. and Canadian Credit Facility, less (g) letters of credit issued and undrawn under the U.S. and Canadian Credit Facility, less (h) a \$5,000,000 minimum availability reserve, less (i) other reserves required by the Administrative Agent, and in each case subject to the definitions and limitations in the Credit Agreement. As of March 31, 2016, the company was in compliance with all covenant requirements and had borrowing capacity on the U.S. and Canadian Credit Facility under the Credit Agreement of \$42,738,000, taking into account the \$5,000,000 minimum availability reserve, then-outstanding letters of credit, other reserves and the \$11,250,000 dominion trigger amount noted.

Interest will accrue on outstanding indebtedness under the Credit Agreement at the LIBOR rate, plus a margin ranging from 2.25% to 2.75%, or at the alternate base rate, plus a margin ranging from 1.25% to 1.75%, as selected by the company. Borrowings under the U.S. and Canadian Credit Facility are subject to commitment fees of 0.25% or 0.375% per year, depending on utilization.

The Credit Agreement contains customary representations, warranties and covenants. Exceptions to the operating covenants in the Credit Agreement provide the company with flexibility to, among other things, enter into or undertake certain sale and leaseback transactions, dispositions of assets, additional credit facilities, sales of receivables, additional indebtedness and intercompany indebtedness, all subject to limitations set forth in the Credit Agreement. The Credit Agreement also contains a covenant requiring the company to maintain minimum availability under the U.S. and Canadian Credit Facility of not less than the greater of (i) 11.25% of the maximum amount that may be drawn under the U.S. and Canadian Credit Facility for five (5) consecutive business days, or (ii) \$5,000,000 on any business day. The company also is subject to dominion triggers under the U.S. and Canadian Credit Facility (as defined below) requiring the company to maintain borrowing capacity of not less than \$11,250,000 on any business day or \$12,500,000 for five consecutive days in order to avoid triggering full control by an agent for the lenders of the company's cash receipts for application to the company's obligations under the agreement.

The Credit Agreement contains customary default provisions, with certain grace periods and exceptions, which provide that events of default that include, among other things, failure to pay amounts due, breach of covenants, representations or warranties, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical reimbursement program, and an interruption of any material manufacturing facilities for more than 10 consecutive days. The initial borrowings under the U.S. and Canadian Credit Facility were used to repay and terminate the company's previous credit agreement, which was scheduled to mature in October 2015.

European Credit Facility

The Credit Agreement also provides for a revolving credit, letter of credit and swing line loan facility which gives the European Borrowers the ability to borrow up to an aggregate principal amount of \$30,000,000, with a \$5,000,000 sublimit for letters of credit and a \$2,000,000 sublimit for swing line loans (the “European Credit Facility”). Up to \$15,000,000 of the European Credit Facility will be available to each of Invacare Limited (the “UK Borrower”) and Invacare Poirier SAS (the “French Borrower”) and, together with the UK Borrower, the “European Borrowers”). The European Credit Facility matures in January 2018, together with the U.S. and Canadian Credit Facility. The aggregate borrowing availability for each European Borrower under the European Credit Facility is determined based on a borrowing base formula set forth in the Credit Agreement and summarized below. Under the Credit Agreement, the aggregate borrowings of each of the European Borrowers under the European Credit Facility may not exceed an amount equal to (a) 85% of the European Borrower’s eligible accounts receivable, less (b) the European Borrower’s borrowings and swing line loans outstanding under the European Credit Facility, less (c) the European Borrower’s letters of credit issued and undrawn under the European Credit Facility, less (d) a \$3,000,000 minimum availability reserve, less (e) other reserves required by the European Agent, and in each case subject to the definitions and limitations in the Credit Agreement. As of March 31, 2016, as determined pursuant to the borrowing base formula, the aggregate borrowing base available to the European Borrowers under the European Credit Facility was approximately \$22,851,000, with aggregate borrowing availability of approximately

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INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

\$16,476,000, taking into account the \$3,000,000 minimum availability reserve and the \$3,375,000 dominion trigger amount described below.

The aggregate principal amount of the European Credit Facility may be increased by up to \$10,000,000 to the extent requested by the company and agreed to by any Lender or Lenders that wish to increase their lending participation or, if not agreed to by any Lender, a new financial institution that agrees to join the European Credit Facility and that is approved by the Administrative Agent and the European Agent.

Interest will accrue on outstanding indebtedness under the European Credit Facility at an adjusted LIBOR rate, plus a margin ranging from 2.50% to 3.00%, or for swing line loans, at the overnight LIBOR rate, plus a margin ranging from 2.50% to 3.00%. The margin that will be adjusted quarterly based on utilization. Borrowings under the European Credit Facility are subject to commitment fees of between 0.25% and 0.375% per year, depending on utilization.

The European Credit Facility is secured by substantially all of the personal property assets of the UK Borrower and its in-country subsidiaries, and all of the receivables of the French Borrower and its in-country subsidiaries. The UK and French facilities (which comprise the European Credit Facility) are cross collateralized, and the US personal property assets previously pledged under the U.S. and Canadian Credit Facility also serve as collateral for the European Credit Facility.

The European Credit Facility is subject to customary representations, warranties and covenants generally consistent with those applicable to the U.S. and Canadian Credit Facility. Exceptions to the operating covenants in the Credit Agreement provide the company with flexibility to, among other things, enter into or undertake certain sale/leaseback transactions, dispositions of assets, additional credit facilities, sales of receivables, additional indebtedness and intercompany indebtedness, all subject to limitations set forth in the Credit Agreement. The Credit Agreement also contains a covenant requiring the European Borrowers to maintain undrawn availability under the European Credit Facility of not less than the greater of (i) 11.25% of the maximum amount that may be drawn under the European Credit Facility for five (5) consecutive business days, or (ii) \$3,000,000 on any business day. The European Borrowers also are subject to cash dominion triggers under the European Credit Facility requiring the European Borrower to maintain borrowing capacity of not less than \$3,375,000 on any business day or 12.50% of the maximum amount that may be drawn under the European Credit Facility for five (5) consecutive business days in order to avoid triggering full control by an agent for the Lenders of the European Borrower's cash receipts for application to its obligations under the European Credit Facility.

The European Credit Facility is subject to customary default provisions, with certain grace periods and exceptions, consistent with those applicable to the U.S. and Canadian Credit Facility, which provide that events of default include, among other things, failure to pay amounts due, breach of covenants, representations or warranties, cross-default, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical reimbursement program, and an interruption in the operations of any material manufacturing facility for more than 10 consecutive days.

The proceeds of the European Credit Facility will be used to finance the working capital and other business needs of the company.

Convertible senior subordinated debentures due 2027

In 2007, the company issued \$135,000,000 principal amount of 4.125% Convertible Senior Subordinated Debentures due 2027 (the "debentures"), of which \$13,350,000 principal amount remains outstanding. 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 any such conversion using any combination of cash or stock, and at the company's discretion. In the event of such a conversion, 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.

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## INVACARE CORPORATION AND SUBSIDIARIES

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The liability components of the debentures consist of the following (in thousands):

	March 31, December 31,	
	2016	2015
Principal amount of liability component	\$ 13,350	\$ 13,350
Unamortized discount	(989 )	(1,203 )
Net carrying amount of liability component	\$ 12,361	\$ 12,147

In the first quarter of 2016, the company executed a release, acknowledged by Wells Fargo Bank, N.A., as trustee, effecting the release as guarantors of all of the company's subsidiaries that were guarantors of the debentures, issued pursuant to the terms of the indenture, dated as of February 12, 2007, between the company and the trustee.

Convertible senior notes due 2021

In the first quarter of 2016, the company issued \$150,000,000 aggregate principal amount of 5.00% Convertible Senior Notes due 2021 (the "notes") in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The notes bear interest at a rate of 5.00% per year payable semi-annually in arrears on February 15 and August 15 of each year, beginning August 15, 2016. The notes will mature on February 15, 2021, unless repurchased or converted in accordance with their terms prior to such date. Prior to August 15, 2020, the notes will be convertible only upon satisfaction of certain conditions and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. Unless and until the company obtains shareholder approval under applicable New York Stock Exchange rules, the notes will be convertible, subject to certain conditions, into cash. If the company obtains such shareholder approval, the notes may be settled in cash, the company's common shares or a combination of cash and the company's common shares, at the company's election. Holders of the notes will have the right to require the company to repurchase all or some of their notes at 100% of their principal, plus any accrued and unpaid interest, upon the occurrence of certain fundamental changes. The initial conversion rate is 60.0492 common shares per \$1,000 principal amount of notes (equivalent to an initial conversion price of approximately \$16.65 per common share). The company evaluated the terms of the conversion features under the applicable accounting literature, including Derivatives and Hedging, ASC 815, and determined that the features did require separate accounting as a derivative. This derivative was capitalized on the balance sheet as a long-term liability and will be adjusted to reflect fair value each quarter. The fair value of the convertible debt conversion liability at issuance was \$34,480,000. The fair value of the convertible debt conversion liability at March 31, 2016 was \$35,198,000. The company recognized a loss of \$718,000, which is reflected in the Other segment.

In connection with the offering of the notes, the company entered into privately negotiated convertible note hedge transactions with two financial institutions (the "option counterparties"). These transactions cover, subject to customary anti-dilution adjustments, the number of the company's common shares that will initially underlie the notes, and are expected generally to reduce the potential equity dilution, and/or offset any cash payments in excess of the principal amount due, as the case may be, upon conversion of the notes. The company evaluated the note hedges under the applicable accounting literature, including Derivatives and Hedging, ASC 815, and determined that the note hedges should be accounted for as derivatives. These derivatives were capitalized on the balance sheet as long-term assets and will be adjusted to reflect fair value each quarter. The fair value of the convertible note hedge assets at issuance was \$27,975,000. The fair value of the convertible note hedge assets at March 31, 2016 was \$29,297,000. The company recognized a gain of \$1,322,000, which is reflected in the Other segment.

The company entered into separate, privately negotiated warrant transactions with the option counterparties at a higher strike price relating to the same number of the company's common shares, subject to customary anti-dilution adjustments, pursuant to which the company sold warrants to the option counterparties. The warrants could have a

dilutive effect on the company's outstanding common shares and the company's earnings per share to the extent that the price of the company's common shares exceeds the strike price of those warrants. The initial strike price of the warrants is \$22.4175 per share and is subject to certain adjustments under the terms of the warrant transactions. The company evaluated the warrants under the applicable accounting literature, including Derivatives and Hedging, ASC 815, and determined that the warrants meet the definition of a derivative, are indexed to the company's own stock and should be classified in shareholder's equity. The amount paid for the warrants and capitalized in shareholder's equity at March 31, 2016 was \$12,375,000.

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## INVACARE CORPORATION AND SUBSIDIARIES

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The net proceeds from the offering of the notes were approximately \$144,096,000, after deducting fees and offering expenses of \$5,904,000. These debt issuance costs were capitalized and are being amortized through February 2021. As of March 31, 2016, \$4,562,000 of these costs were paid. In accordance with ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, these debt issuance costs are presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability. Approximately \$5,000,000 of the net proceeds from the offering were used to repurchase the company's common shares from purchasers of notes in the offering in privately negotiated transactions. A portion of the net proceeds from the offering were used to pay the cost of the convertible note hedge transactions (after such cost is partially offset by the proceeds to the company from the warrant transactions), which net cost was \$15,600,000.

The liability components of the notes consist of the following (in thousands):

	March 31, 2016
Principal amount of liability component	\$ 150,000
Unamortized discount	(34,029 )
Debt fees	(5,757 )
Net carrying amount of liability component	\$ 110,214

The unamortized discount of \$34,029,000 is to be amortized through February 2021. The effective interest rate on the liability component was 11.1%. Non-cash interest expense of \$450,000 was recognized in the quarter ended March 31, 2016, in comparison to actual interest expense accrued of \$753,000, based on the stated coupon rate of 5.0%. The notes were not convertible as of March 31, 2016 nor was the applicable conversion threshold met.

## Other Long-Term Obligations

Other long-term obligations consist of the following (in thousands):

	March 31, 2016	December 31, 2015
Supplemental Executive Retirement Plan liability	\$ 4,895	\$ 4,930
Product liability	14,804	14,582
Deferred income taxes	32,608	32,115
Convertible debt conversion liability	35,198	—
Deferred gain on sale leaseback	6,910	6,978
Deferred compensation	3,824	4,167
Pension	10,191	9,868
Uncertain tax obligation including interest	3,745	4,467
Other	4,335	5,482
Total long-term obligations	\$ 116,510	\$ 82,589

During the quarter ended March 31, 2016, the company issued \$150,000,000 principal amount of its 5.00% Convertible Senior Notes due 2021. As a result of the issuance, a long-term liability representing the convertible debt conversion liability was recorded which will be adjusted to reflect fair value quarterly. The amount included in the above table represents the fair value of the conversion liability as of March 31, 2016. See "Long-Term Debt" in the notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

On April 23, 2015, the company entered into a real estate sale leaseback transaction which resulted in the company recording an initial deferred gain of \$7,414,000, the majority of which is included in Other Long-Term Obligations



and will be recognized over the 20-year life of the leases. The gain realized for the three months ended March 31, 2016 was \$66,000. The gain realized in 2015 was \$171,000.

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## INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

## Equity Compensation

On May 16, 2013, the shareholders of the company approved the Invacare Corporation 2013 Equity Compensation Plan (the “2013 Plan”), which was adopted on March 27, 2013 by the company's Board of Directors (the “Board”). The Board adopted the 2013 Plan to replace the company's prior equity plan, the Invacare Corporation Amended and Restated 2003 Performance Plan (the “2003 Plan”), which expired on May 21, 2013. Due to its expiration, no new awards may be granted under the 2003 Plan; however, awards granted prior to its expiration will remain in effect under their original terms.

The 2013 Plan uses a fungible share-counting method, under which each common share underlying an award of stock options or stock appreciation rights (“SAR”) will count against the number of total shares available under the 2013 Plan as one share; and each common share underlying any award other than a stock option or a SAR will count against the number of total shares available under the 2013 Plan as two shares. Any common shares that are added back to the 2013 Plan as the result of the cancellation or forfeiture of an award granted under the 2013 Plan will be added back in the same manner such shares were originally counted against the total number of shares available under the 2013 Plan. Each common share that is added back to the 2013 Plan due to a cancellation or forfeiture of an award granted under the 2003 Plan will be added back as one common share.

The Compensation and Management Development Committee of the Board (the “Compensation Committee”), in its discretion, may grant an award under the 2013 Plan to any director or employee of the company or an affiliate. The 2013 Plan initially allows the Compensation Committee to grant up to 4,460,337 common shares in connection with the following types of awards with respect to shares of the company's common shares: incentive stock options, nonqualified stock options, SARs, restricted stock, restricted stock units, unrestricted stock and performance shares. The Compensation Committee also may grant performance units that are payable in cash. The Committee has the authority to determine which participants will receive awards, the amount of the awards and the other terms and conditions of the awards.

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

The amounts of equity-based compensation expense recognized as part of selling, general and administrative expenses were as follows (in thousands):

	For the Three Months Ended March 31,	
	2016	2015
Non-Qualified stock options	\$335	\$172
Restricted stock and restricted stock units	1,641	213
Performance shares and performance share units	113	26
Total stock-based compensation expense	\$2,089	\$411

As of March 31, 2016, unrecognized compensation expense related to equity-based compensation arrangements granted under the company's 2013 Plan and previous plans, which is related to non-vested options and shares, was as follows (in thousands):

	March 31, 2016
Non-Qualified stock options	\$ 697
Restricted stock and restricted stock units	13,350
Performance shares and performance share units	4,395

Total unrecognized stock-based compensation expense \$ 18,442

Total unrecognized compensation cost will be adjusted for future changes in actual and estimated forfeitures and for updated vesting assumptions for the performance share awards (see "Performance Shares and Performance Share Units" below). No tax benefit for share-based compensation was realized for the three months ended March 31, 2016 and 2015 as a result of a valuation allowance against deferred tax assets. In accordance with ASC 718, any tax benefits resulting from tax deductions in excess of the compensation expense recognized is classified as a component of financing cash flows.

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## INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

## Stock Options

Generally, non-qualified stock option awards have a term of ten years and are granted with an exercise price per share equal to the fair market value of one of the company's Common Shares on the date of grant. The company expects the compensation expense to be recognized over a weighted-average period of approximately two years.

The following table summarizes information about stock option activity for the three months ended March 31, 2016:

	March 31, 2016	Weighted Average Exercise Price
Options outstanding at January 1, 2016	2,942,783	\$ 21.22
Granted	—	—
Exercised	(1,250 )	13.82
Canceled	(63,737 )	26.10
Options outstanding at March 31, 2016	2,877,796	\$ 21.16
Options exercise price range at March 31, 2016	\$ 13.37 to	\$ 33.36
Options exercisable at March 31, 2016	2,681,960	
Shares available for grant at March 31, 2016*	1,137,504	

Shares available for grant as of March 31, 2016 reduced by net restricted stock and restricted stock unit award and \*performance share and performance share unit award activity of 1,935,984 shares and 1,377,872 shares, respectively for the first three months 2016.

The following table summarizes information about stock options outstanding at March 31, 2016:

Exercise Prices	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
	Number Outstanding At 3/31/16	Weighted Average Remaining Contractual Life (Years)		Number Exercisable At 3/31/16	Weighted Average Exercise Price
\$ 13.37 – \$20.00	761,134	6.4	\$ 14.12	565,298	\$ 14.18
\$ 20.01 – \$25.00	1,339,028	3.0	22.59	1,339,028	22.59
\$ 25.01 – \$30.00	773,138	3.4	25.55	773,138	25.55
\$ 30.01 – \$33.36	4,496	1.0	33.36	4,496	33.36
Total	2,877,796	4.0	\$ 21.16	2,681,960	\$ 21.69

Pursuant to the plans, the Committee has established that grants may not be exercised within one year from the date granted and options must be exercised within ten years from the date granted. Accordingly, for the stock options issued in 2014 and 2013, 25% of such options vested in the year following the issuance. The stock options awarded during such years provided a four-year vesting period whereby options vest in 25% installments in 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.

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## INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2016

## Restricted Stock and Restricted Stock Units

The following table summarizes information about restricted shares and restricted share units (for non-U.S. recipients):

	March 31, 2016	Weighted Average Fair Value
Stock / Units unvested at January 1, 2016	641,505	\$ 18.89
Granted	433,872	12.93
Vested	—	—
Canceled	(16,450 )	17.21
Stock / Units unvested at March 31, 2016	1,058,927	\$ 16.48

The restricted stock awards generally vest ratably over the three years after the award date, except for those awards granted in 2014, which vest after a three-year period. Unearned restricted stock compensation, determined as the market value of the shares at the date of grant, is being amortized on a straight-line basis over the vesting period.

## Performance Shares and Performance Share Units

The following table summarizes information about performance shares and performance share units (for non-U.S. recipients):

	March 31, 2016	Weighted Average Fair Value
Shares / Units unvested at January 1, 2016	198,401	\$ 19.50
Granted	234,402	12.82
Vested	—	—
Canceled	(6,400 )	20.05
Shares / Units unvested at March 31, 2016	426,403	\$ 15.82

During the three months ended March 31, 2016, performance shares and performance share units (for non-U.S. recipients) were granted as performance awards with a three year performance period with payouts based on achievement of certain performance goals. The awards are classified as equity awards as they will be settled in common shares upon vesting. The number of shares earned will be determined at the end of the performance period based on achievement of performance criteria for January 1, 2016 through December 31, 2018 established by the Compensation Committee at the time of grant. Recipients will be entitled to receive a number of common shares equal to the number of performance shares that vest based upon the levels of achievement which may range between 0% and 150% of the target number of shares with the target being 100% of the initial grant.

The fair value of the performance awards is based on the stock price on the date of grant discounted for the estimated value of dividends foregone as the awards are not eligible for dividends except to the extent vested. The company assesses the probability that the performance targets will be met with expense recognized whenever it is probable that at least the minimum performance criteria will be achieved. Depending upon the company's assessment of the

probability of achievement of the goals, the company may not recognize any expense associated with performance awards in a given period, may reverse prior expense recorded or record additional expense to make up for expense not recorded in a prior period. Performance award compensation expense is generally expected to be recognized over three years. No performance award expense has been recognized for the 2015 and 2014 awards as it is not considered probable that the performance goals for those awards will be met.

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## INVACARE CORPORATION AND SUBSIDIARIES

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## Accumulated Other Comprehensive Income (Loss) by Component

Changes in accumulated other comprehensive income ("OCI") for the three months ended March 31, 2016 and March 31, 2015, respectively, were as follows (in thousands):

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
December 31, 2015	\$(5,744 )	\$ 4,111	\$(9,757)	\$ 2,003	\$(9,387)
OCI before reclassifications	12,218	(1,449 )	(195 )	1,128	11,702
Amount reclassified from accumulated OCI	—	—	5	(166 )	(161 )
Net current-period OCI	12,218	(1,449 )	(190 )	962	11,541
March 31, 2016	\$ 6,474	\$ 2,662	\$(9,947)	\$ 2,965	\$ 2,154
December 31, 2014	\$86,236	\$(6,465)	\$(7,601)	\$(551 )	\$71,619
OCI before reclassifications	(68,154 )	14,776	53	2,066	(51,259 )
Amount reclassified from accumulated OCI	—	—	41	(142 )	(101 )
Net current-period OCI	(68,154 )	14,776	94	1,924	(51,360 )
March 31, 2015	\$18,082	\$ 8,311	\$(7,507)	\$ 1,373	\$20,259

Reclassifications out of accumulated OCI for the three months ended March 31, 2016 and March 31, 2015 were as follows (in thousands):

	Amount reclassified from OCI For the Three Months Ended March 31, 2016	Amount reclassified from OCI For the Three Months Ended March 31, 2015	Affected line item in the Statement of Comprehensive (Income) Loss
Defined Benefit Plans			
Service and interest costs	\$ 5	\$ 41	Selling, General and Administrative
Tax	—	—	Income Taxes
Total after tax	\$ 5	\$ 41	
Derivatives			
Foreign currency forward contracts hedging sales	\$ (427 )	\$ 192	Net Sales
Foreign currency forward contracts hedging purchases	238	(462 )	Cost of Products Sold
Total before tax	(189 )	(270 )	
Tax	23	128	Income Taxes
Total after tax	\$ (166 )	\$ (142 )	

## Charges Related to Restructuring Activities

The company's restructuring charges recorded since 2011 were necessitated primarily by continued declines in Medicare and Medicaid reimbursement by the U.S. government, as well as similar healthcare reimbursement pressures abroad, which negatively affect the company's customers (e.g. home health care providers) and continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations. In addition, restructuring decisions were also the result of reduced profitability in the North America/HME and Asia/Pacific



segments. While the company's restructuring efforts have been executed on a timely basis resulting in operating cost savings, the savings have been more than offset by continued margin decline, principally as a result of product mix, reduced volumes and regulatory and compliance costs related to quality system improvements which

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INVACARE CORPORATION AND SUBSIDIARIES

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are unrelated to the restructuring actions. The company expects any near-term cost savings from restructuring will be offset by other costs as a result of pressures on the business.

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

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

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

Charges for the year ended December 31, 2013 totaled \$9,336,000 including charges for severance (\$8,282,000), lease termination costs (\$698,000) and other miscellaneous charges principally in North America/HME (\$356,000). Severance charges were primarily incurred in the North America/HME segment (\$5,405,000), Europe segment (\$1,640,000) and Asia/Pacific segment (\$970,000). The charges were incurred as a result of the elimination of various positions as part of the company's globalization initiatives. North America/HME segment severance was principally related to positions eliminated due to lost sales volumes resulting from the impact of the FDA consent decree. The savings from these charges were reflected primarily in reduced selling, general and administrative expenses and

manufacturing expenses for the company. In Europe, severance was incurred for the elimination of certain sales and supply chain positions. In Asia/Pacific, severance was principally incurred at the company's subsidiary, which produces microprocessor controllers, as a result of the company's decision in 2012 to cease the contract manufacturing business for companies outside of the healthcare industry. The lease termination costs were principally related to Australia as a result of the restructuring announced in 2012. Payments for the year ended December 31, 2013 were \$11,844,000 and were funded with operating cash flows and cash on hand. The 2013 charges have been paid out.

Charges for the year ended December 31, 2014 totaled \$11,112,000 including charges for severance (\$9,841,000), other charges in IPG and Europe (\$1,286,000) principally related to building write-downs, and lease termination cost reversals (\$15,000). Severance charges were incurred in the North America/HME segment (\$4,404,000), Other (\$2,978,000), IPG segment (\$1,163,000), Asia/Pacific segment (\$769,000) and Europe segment (\$527,000). The North America/HME segment severance was principally related to additional positions eliminated due to lost sales volumes resulting from the continued impact of the FDA consent decree.

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## INVACARE CORPORATION AND SUBSIDIARIES

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The Other severance related to the elimination of two senior corporate executive positions. IPG segment severance related principally to the closure of the London, Canada facility. Europe and Asia/Pacific severance related to the elimination of certain positions as a result of general restructuring efforts. The savings from these charges will be reflected primarily in reduced selling, general and administrative expenses and manufacturing expenses for the company. Payments for the year ended December 31, 2014 were \$11,131,000 and were funded with operating cash flows and cash on hand. The majority of the 2014 charges have been paid out other than certain executive charge payments which will be paid out over the next few years.

Charges for the year ended December 31, 2015 totaled \$1,971,000 including charges for severance (\$1,678,000) and charges primarily in the North America/HME segment (\$293,000) principally related to a building lease termination. Severance charges were incurred in the North America/HME segment (\$1,069,000), Europe segment (\$510,000), IPG segment (\$73,000) and Asia/Pacific segment (\$26,000) related to the elimination of certain positions as a result of general restructuring efforts. The savings from these charges will be reflected primarily in reduced selling, general and administrative expenses and manufacturing expenses for the company. Payments for the year ended December 31, 2015 were \$3,723,000 and were funded with operating cash flows and cash on hand. The majority of the 2015 charges are expected to be paid out in 2016.

Restructuring charges continued in 2016 resulting in charges of \$102,000 in the first three months of 2016 related to severance costs incurred in the North America/HME segment (\$61,000) and the Asia/Pacific segment (\$41,000). Restructuring payments/utilization for the three months ended March 31, 2016 were \$1,190,000 and the cash payments were funded with company's cash on hand. The majority of the outstanding restructuring charge accruals at March 31, 2016 are expected to be paid during the next twelve months.

There have been no material changes in accrued balances related to the charges, either as a result of revisions to the plans or changes in estimates. In addition, the savings anticipated as a result of the company's restructuring plans have been or are expected to be achieved, primarily resulting in reduced salary and benefit costs principally impacting Selling, General and Administrative expenses, and to a lesser extent, Costs of Products Sold. However, in general, these savings have been more than offset by continued margin decline, principally as a result of customer and product mix, and higher regulatory and compliance costs related to quality system improvements as well as reduced net sales volumes. To date, the company's liquidity has not been materially impacted.

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	\$ —	\$ —	\$ —	\$ —	\$ —
Charges					
NA/HME	4,755	—	—	4	4,759
IPG	123	—	—	—	123
Europe	3,288	277	1,788	113	5,466
Asia/Pacific	186	—	—	—	186
Total	8,352	277	1,788	117	10,534
Payments					
NA/HME	(1,663 )	—	—	(4 )	(1,667 )
IPG	(52 )	—	—	—	(52 )
Europe	(1,546 )	(277 )	(1,714 )	(113 )	(3,650 )
Asia/Pacific	(186 )	—	—	—	(186 )
Total	(3,447 )	(277 )	(1,714 )	(117 )	(5,555 )
December 31, 2011 Balance					
NA/HME	3,092	—	—	—	3,092
IPG	71	—	—	—	71

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Europe	1,742	—	74	—	1,816
Total	\$ 4,905	\$ —	\$ 74	\$ —	\$ 4,979

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	Severance	Product Line Discontinuance	Contract Terminations	Other	Total
Charges					
NA/HME	\$ 4,242	\$ —	\$ 5	\$ —	\$4,247
IPG	35	—	—	—	35
Europe	817	—	53	1,223	2,093
Asia/Pacific	1,681	491	1,667	1,181	5,020
Total	6,775	491	1,725	2,404	11,395
Payments					
NA/HME	(3,587 )	—	(5 )	—	(3,592 )
IPG	(106 )	—	—	—	(106 )
Europe	(1,964 )	—	(127 )	(1,223 )	(3,314 )
Asia/Pacific	(812 )	(340 )	(42 )	(1,175 )	(2,369 )
Total	(6,469 )	(340 )	(174 )	(2,398 )	(9,381 )
December 31, 2012 Balance					
NA/HME	3,747	—	—	—	3,747
Europe	595	—	—	—	595
Asia/Pacific	869	151	1,625	6	2,651
Total	5,211	151	1,625	6	6,993
Charges					
NA/HME	5,405	—	164	353	5,922
IPG	267	—	—	—	267
Europe	1,640	—	—	—	1,640
Asia/Pacific	970	—	534	3	1,507
Total	8,282	—	698	356	9,336
Payments					
NA/HME	(6,347 )	—	(164 )	(353)	(6,864 )
IPG	(175 )	—	—	—	(175 )
Europe	(1,146 )	—	—	—	(1,146 )
Asia/Pacific	(1,839 )	(151 )	(1,660 )	(9 )	(3,659 )
Total	(9,507 )	(151 )	(1,824 )	(362)	(11,844)
December 31, 2013 Balance					
NA/HME	2,805	—	—	—	2,805
IPG	92	—	—	—	92
Europe	1,089	—	—	—	1,089
Asia/Pacific	—	—	499	—	499
Total	3,986	—	—	—	3,986