

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

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\$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