INVACARE CORP
Form 10-Q
August 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-15103
INVACARE CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	95-2680965
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One Invacare Way, Elyria, Ohio	44035
(Address of principal executive offices)	(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 (the “Exchange Act”) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “small reporting company” in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 3, 2018, the registrant had 33,229,658 Common Shares and 6,357 Class B Common Shares outstanding.

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About Invacare Corporation

Invacare Corporation (NYSE: IVC) ("Invacare" or the "company") is a leading manufacturer and distributor in its markets for medical equipment used in non-acute care settings. At its core, the company designs, manufactures and distributes medical devices that help people to move, breathe, rest and perform essential hygiene. The company provides medical device solutions for congenital (e.g., cerebral palsy, muscular dystrophy, spina bifida), acquired (e.g., stroke, spinal cord injury, traumatic brain injury, post-acute recovery, pressure ulcers) and degenerative (e.g., ALS, multiple sclerosis, chronic obstructive pulmonary disease (COPD), age related, bariatric) conditions. The company's products are important parts of care for people with a wide range of challenges, from those who are active and heading to work or school each day and may need additional mobility or respiratory support, to those who are cared for in residential care settings, at home and in rehabilitation centers. The company sells its products principally to home medical equipment providers with retail and e-commerce channels, residential care operators, dealers and government health services in North America, Europe and Asia/Pacific. For more information about the company and its products, visit the company's website at www.invacare.com. The contents of the company's website are not part of this Quarterly Report on Form 10-Q and are not incorporated by reference herein.

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

The discussion and analysis presented below is concerned with material changes in financial condition and results of operations between the periods specified in the condensed consolidated balance sheets at June 30, 2018 and December 31, 2017, and in the condensed consolidated statement of comprehensive income (loss) for the three and six months ended June 30, 2018 and June 30, 2017. All comparisons presented are with respect to the same period last year, unless otherwise stated. This discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes that appear elsewhere in this Quarterly Report on Form 10-Q and the MD&A included in the company's Annual Report on Form 10-K for the year ended December 31, 2017 and for some matters, SEC filings from prior periods may be useful sources of information.

OVERVIEW

Invacare is a multi-national company with integrated capabilities to design, produce and distribute durable medical equipment. The company makes products that help people move, breathe, rest and perform essential hygiene, and with those products the company supports people with congenital, acquired and degenerative conditions. The company's products and solutions are important parts of care for people with a range of challenges, from those who are active and go to work or school each day and may need additional mobility or respiratory support, to those who are cared for in residential care settings, at home and in rehabilitation centers. The company operates in facilities in North America, Europe and Asia/Pacific, which are the result of dozens of acquisitions made over the company's nearly forty-year history. Some of these acquisitions have been combined into integrated operating units, while others remain relatively independent.

Strategy

The company had a strategy to be a leading provider of durable medical equipment to providers in global markets by providing the broadest portfolio available. This strategy had not kept pace with certain reimbursement changes, competitive dynamics and company-specific challenges in recent years. Since 2015, the company has made a major shift in its strategy. The company has since been aligning its resources to produce solutions that address the most clinically complex needs thereby increasing the value of the company's offering. By focusing the company's efforts to provide the best possible assistance and outcomes to the people and caregivers who use its products, the company aims to improve its financial condition for sustainable profit and growth. To execute this transformation, the company is undertaking a substantial three-phase multi-year transformation plan.

Transformation

The company has been executing a multi-year transformation to shift to its new strategy, especially in North America. This is expected to yield better financial results from the application of the company's resources to products and solutions that provide greater healthcare value in clinically complex rehabilitation and post-acute care. The transformation is divided into the following three phases:

Phase One - Assess and Reorient

- Increase commercial effectiveness;
- Shift and narrow the product portfolio;
- Focus innovation on clinically complex solutions;
- Accelerate quality efforts on quality and excellence; and
- Develop and expand talent.

Phase Two - Build and Align
- Leverage commercial improvements;
- Optimize the business for cost and efficiency;
- Continue to improve quality systems;
- Launch new clinical product platforms; and
- Expand talent management and culture.

The company is currently in Phase Two of the transformation, focused primarily on North America, with gradual changes being undertaken in the Europe segment. By the end of this phase, the company expects growth in sales and gross profit, as well as an improvement in operating income and free cash flow. The company also is optimizing its infrastructure and improving efficiencies to streamline customer interactions and to reduce costs. The company expects Phase Two to extend through 2019 and to overlap with the beginning of Phase Three in certain areas.

Phase Three - Grow
- Lead in quality culture and operations excellence; and
- Grow above market.

By the end of phase three, the company expects continued improvements in net sales, operating margin, operating income and free cash flow.

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STATUS OF THE CONSENT DECREE

On July 24, 2017, following its reinspection of the Corporate and Taylor Street facilities, the Food and Drug Administration ("FDA") notified the company that it was in substantial compliance with the Federal Food, Drug and Cosmetic Act ("FDA Act"), FDA regulations and the terms of the consent decree and, at that time, the company was permitted to resume full operations at those facilities including the resumption of unrestricted sales of products made in those facilities.

The consent decree will continue in effect for a minimum of five years from July 2017, during which time the company’s Corporate and Taylor Street facilities must complete two semi-annual audits in the first year and then annual audits over the next four years performed by a company-retained expert audit firm. The expert audit firm will determine whether the facilities remain in continuous compliance with the FDA Act, regulations and the terms of the consent decree. The FDA has the authority to inspect these facilities and any other FDA registered facility, at any time.

For a complete description of the consent decree, see the “Contingencies” note to the financial statements contained in Item 1 of this Quarterly Report on Form 10-Q and “Forward-Looking Statements” contained below in this Item.

OUTLOOK

As part of the company's transformation, the company expects to continue to make significant investments, strategically reduce sales in certain areas, refocus resources away from less accretive activities and evaluate its global infrastructure for opportunities to drive efficiency. The company expects to see improved results in 2018 from actions executed to date and additional actions as the company continues to streamline operations, resize and reshape the organization, especially in North America, around its new business mix and size. By executing this strategy and making these operational improvements, the company expects long-term benefits for the company’s stakeholders. The company’s pursuit of profitable sales growth and cost reductions are expected to drive its longer-term goal of improved operating income and positive Earnings Before Interest Taxes Depreciation and Amortization.

Positive sales growth in mobility and seating products, both year-over-year and sequentially, is a key metric and an indicator of the progress of the transformation of the North America/Home Medical Equipment (NA/HME) segment. The company expects to increase Selling, General and Administrative ("SG&A") investment for the remainder of the year to stimulate growth and brand awareness for its portable oxygen concentrator. In the Institutional Products Group (IPG) segment, the company does not anticipate sequential sales growth this year as it expects its new strategic selling approach to continue to take time to yield results. As noted previously, the company is gradually applying the transformation to the Europe segment, which may continue to reduce the segment's sales throughout the remainder of 2018 as it shifts its product mix toward more clinically valued, higher-margin products.

The company remains positive about the growth potential of its businesses. Results of mobility and seating and lifestyles product categories reflect this. Good products and stable markets in other areas support the transformation we are executing in Europe and IPG and in the respiratory product category. In the near-term, the company anticipates an unfavorable impact on its results due to increases in tariffs and freight costs. The specific impact is not currently estimated as policy and commodity prices are only beginning to be implemented and management has not estimated its ability to offset any increases with internal actions. SG&A will increase somewhat, especially in NA/HME as the company undertakes the promotion of certain product categories, including its respiratory products. The company will continue to make capital investments to grow the business. Working capital will expand as the business grows, especially in support of increases in mobility and seating sales, which require substantial working capital and demonstration units to be effective. The company continues to estimate that cash flow in 2018 will be similar to 2017 including increased capital spending. The company believes its cash balances and available borrowing capacity should be sufficient to fund its transformation.

The company will continue to emphasize a culture of quality excellence, profitable sales growth and the achievement of its long-term objectives.

MD&A Net Sales

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RESULTS OF OPERATION - NET SALES

($ in thousands USD)	2Q18*	2Q17	Reported % Change	Foreign Exchange % Impact	Constant Currency % Change
Europe	138,896	128,485	8.1	10.4	(2.3)
NA/HME	79,867	77,689	2.8	0.5	2.3
IPG	13,704	15,320	(10.6)	0.2	(10.8)
Asia/Pacific	13,685	12,023	13.8	0.7	13.1
Consolidated	246,152	233,517	5.4	5.9	(0.5)

($ in thousands USD)	YTD 2Q18	YTD 2Q17	Reported % Change	Foreign Exchange % Impact	Constant Currency % Change
Europe	270,210	247,993	9.0	11.4	(2.4)
NA/HME	159,649	161,951	(1.4)	0.4	(1.8)
IPG	28,591	31,693	(9.8)	0.2	(10.0)
Asia/Pacific	24,762	23,603	4.9	1.9	3.0
Consolidated	483,212	465,240	3.9	6.4	(2.5)

*Date format is quarter and year in each instance. “YTD” means the first six months of the year.

The table above provides net sales change as reported and as adjusted to exclude the impact of foreign exchange translation (constant currency net sales). “Constant currency net sales" is a non-Generally Accepted Accounting Principles ("GAAP") financial measure, which is defined as net sales excluding the impact of foreign currency translation. The current year's functional currency net sales are translated using the prior year's foreign exchange rates. These amounts are then compared to the prior year's sales to calculate the constant currency net sales change. “Constant currency sequential net sales” is a non-GAAP financial measure in which a given quarter’s net sales are compared to the most recent prior quarter’s net sales with each quarter’s net sales translated at the foreign exchange rates for the quarter ended March 31, 2018. Management believes that both financial measures provide meaningful information for evaluating the core operating performance of the company.

Constant currency net sales performance drivers by segment:

Europe - The 2Q18 and YTD 2Q18 declines in constant currency net sales compared to the same periods last year were driven by all product categories as the company gradually applies its transformation strategy to this segment to focus on more clinically valued, higher-margin products.

North America/Home Medical Equipment (NA/HME) -
Constant currency net sales for 2Q18 increased, driven largely by increases in mobility and seating products as the company continued to benefit from exiting the injunctive phase of the consent decree. Respiratory product sales

declined compared to 2Q17 in stationary concentrators and HomeFill® systems partially offset by an increase in portable oxygen concentrators. The YTD 2Q18 decline in constant currency net sales compared to the first half last year was driven by all product categories except for mobility and seating products.

Institutional Products Group (IPG) - Constant currency 2Q18 and YTD 2Q18 net sales decreased compared to the same periods last year principally due to lower bed product sales which were negatively impacted by a 2Q18 supply disruption that was resolved by the end of 2Q18.

Asia/Pacific - Constant currency net sales increased for 2Q18 and YTD 2Q18 compared to the same periods last year principally driven by net sales increases for mobility and seating products.

MD&A Net Sales

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The following tables provide net sales at reported rates for the quarters ended June 30, 2018 and March 31, 2018, respectively, and net sales for the quarter ended June 30, 2018 as translated at the foreign exchange rates for the quarter ended March 31, 2018 with each then compared to each other (constant

currency sequential net sales). The company began this disclosure in 2017 to illustrate the effect of its transformation on its segments and continues to do so while the transformation continues, and this is useful.

	2Q18 at Reported Foreign Exchange Rates	Foreign Exchange Translation Impact	2Q18 at 1Q18 Foreign Exchange Rates	1Q18 at 1Q18 Foreign Exchange Rates	Sequential Growth $	Sequential Growth %
Europe	$ 138,896	$ 197	$ 139,093	$ 131,251	$ 7,842	6.0 %
NA/HME	79,867	186	80,053	79,794	259	0.3
IPG	13,704	15	13,719	14,887	(1,168)	(7.8)
Asia Pacific	13,685	443	14,128	11,066	3,062	27.7
Consolidated	$ 246,152	$ 841	$ 246,993	$ 236,998	$ 9,995	4.2 %

The net sales amounts in the above table are converted at Q1 2018 foreign exchange rates so that the sequential change in net sales can be shown, excluding the impact of changes in foreign currency exchange rates.

As indicative of the progress of the company's transformation, sequential net sales improved for all segments except the IPG segment. The Europe sequential improvement

was due to increased net sales in all product categories except respiratory, which was down slightly. The NA/HME sequential improvement was the fourth consecutive quarter of flat to increasing sequential growth in the segment, driven by a greater than 10% increase in mobility and seating products principally offset by respiratory product sales declines. The IPG decline was driven by most product categories.

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MD&ANet Sales

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The company realized a favorable impact from sales mix attributable to increased mobility and seating products, which comprise most of the company's clinically complex product portfolio. Sales mix increased to 40% from 38% for constant currency net sales by product for the second quarter of 2018 as compared to same period last year.

This favorable net sales mix shift is the result of the company's continued transformation efforts, especially where the company has shifted the product portfolio and alignment of resources to focus on clinically complex solutions.

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GROSS PROFIT

Gross profit dollars for 2Q18 increased compared to 2Q17 principally due to favorable foreign currency and reduced warranty expense partially offset by increased freight expense and to a lesser extent R&D expense. Gross profit as a percentage of net sales was lower by 40 basis points compared to 2Q17 primarily as a result of higher freight costs in the NA/HME and Europe segments incurred to expedite the resolution of backorders, which in Europe were the result of facility consolidation.
Gross profit dollars for YTD 2Q18 increased compared to YTD 2Q17 principally due to favorable foreign currency and reduced R&D and warranty expense, partially offset by increased freight expense. Gross profit as a percentage of net sales was lower by 30 basis points compared to the same period last year due to freight costs increases offset by reduced warranty and R&D costs.

Gross profit and gross margin drivers by segment:
Europe - Gross margin as a percentage of net sales for 2Q18 decreased 0.9 of a percentage point, while gross profit dollars increased $2,006,000, compared to 2Q17. The increase in gross profit dollars was driven by favorable foreign currency, partially offset by unfavorable manufacturing variances, increased freight costs related to product transfers associated with facility consolidation and increased R&D expense.
Gross margin as a percentage of net sales for YTD 2Q18 decreased 0.2 of a percentage point, while gross profit dollars increased $6,025,000, compared to the same period last year. The increase in gross profit dollars was driven by favorable foreign currency partially offset by unfavorable manufacturing variances, increased R&D and freight expense.
NA/HME - Gross margin as a percentage of net sales for 2Q18 decreased 1.4 percentage points, while gross profit dollars decreased $477,000, compared to 2Q17. The decrease in gross profit dollars was primarily due to increased freight costs partially offset by lower warranty and R&D expenses.
Gross margin as a percentage of net sales for YTD 2Q18 decreased 2.0 percentage points, while gross profit dollars decreased $3,778,000, compared to YTD 2Q17. The decrease in gross profit dollars was primarily due to unfavorable net sales mix, net sales volume declines and increased freight costs.
IPG - Gross margin as a percentage of net sales for 2Q18 increased 0.2 of a percentage point, and gross profit dollars decreased $580,000, compared to 2Q17. The decrease in gross profit dollars was driven principally by lower net sales partially offset by reduced warranty expense.
Gross margin as a percentage of net sales for YTD 2Q18 decreased 0.3 of a percentage point, and gross profit dollars decreased $1,293,000, compared to YTD 2Q17. The decrease in gross profit dollars was driven by lower net sales partially offset by reduced warranty expense.
Asia/Pacific - Gross margin as a percentage of net sales for 2Q18 increased 5.8 percentage points, while gross profit dollars increased $1,782,000, compared to 2Q17. The increase in gross profit dollars was primarily due to higher net sales, favorable manufacturing variance and reduced R&D expense.
Gross margin as a percentage of net sales for YTD 2Q18 increased 6.4 percentage points, while gross profit dollars increased $3,250,000, compared to YTD 2Q17. The increase in gross profit dollars was primarily due to increased net sales, favorable net sales mix and reduced research and development expenses.

MD&A Gross Profit

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Sequential quarterly gross margin as a percentage of net sales decreased 0.7 of a percentage point. The decrease in gross margin percentage was driven by unfavorable sales mix, as a result of reduced Europe net sales and increased freight and R&D expense, partially offset by favorable foreign currency and reduced warranty expense. Sequential gross profit as a percentage of net sales declined in all segments except NA/HME.

Sequential quarterly gross profit dollars increased $829,000. The increase in gross profit dollars was primarily attributable to favorable foreign currency and lower warranty expense, partially offset by increased freight and R&D expense. Sequential gross profit dollars increased in all segments except IPG.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

($ in thousands USD)	2Q18	2Q17	Reported Change	Foreign Exchange Impact	Constant Currency Change
SG&A Expenses - $	73,763	75,721	(1,958)	3,103	(5,061)
SG&A Expenses - % change			(2.6)	4.1	(6.7)
% to net sales	30.0	32.4			

($ in thousands USD)	YTD 2Q18	YTD 2Q17	Reported Change	Foreign Exchange Impact	Constant Currency Change
SG&A Expenses - $	145,027	148,234	(3,207)	6,657	(9,864)
SG&A Expenses - % change			(2.2)	4.5	(6.7)
% to net sales	30.0	31.9			

SG&A expense excluding the impact of foreign currency translation, which is referred to as "constant currency SG&A", decreased for 2Q18 and YTD 2Q18 compared to the same periods last year primarily due to reduced employment costs.

SG&A expense drivers by segment:

Europe - SG&A expenses for 2Q18 increased by 12.8%, or $3,913,000, compared to 2Q17 with foreign currency translation increasing SG&A expenses by approximately $2,920,000, or 9.6%. Constant currency SG&A expenses increased $993,000, or 3.2%. The increased expense was primarily attributable to unfavorable foreign currency transactions as well as higher employment costs and depreciation expense.

SG&A expenses for YTD 2Q18 increased by 10.7%, or $6,437,000, compared to YTD 2Q17 with foreign currency translation increasing SG&A expenses by approximately $6,192,000, or 10.3%. Constant currency SG&A expenses increased $245,000, or 0.4%. The increased expense was primarily attributable to higher consulting and depreciation expense partially offset by favorable foreign currency transactions.

NA/HME - SG&A expenses for 2Q18 decreased 13.8%, or $4,454,000, compared to 2Q17 with foreign currency translation having an immaterial impact. Constant currency SG&A expenses decreased $4,609,000, or 14.2% driven primarily by decreased employment costs and favorable foreign currency transactions.

SG&A expenses for YTD 2Q18 decreased 14.0%, or $9,042,000, compared to YTD 2Q17 with foreign currency translation having an immaterial impact. Constant currency SG&A expenses decreased $9,357,000, or 14.5% driven primarily by decreased employment costs.

IPG - SG&A expenses for 2Q18 decreased 10.0%, or $272,000, compared to 2Q17 with foreign currency translation having an immaterial impact. Constant currency SG&A expenses decreased $273,000 or 10.1%. The decline in expense was primarily related to lower employment costs.

SG&A expenses for YTD 2Q18 decreased 12.4%, or $684,000, compared to YTD 2Q17 with foreign currency translation having an immaterial impact. Constant currency SG&A expenses decreased $690,000 or 12.5%. The decline in expense was primarily related to lower employment costs.

Asia/Pacific - SG&A expenses for 2Q18 increased 2.5%, or $94,000, compared to 2Q17 with foreign currency translation increasing SG&A expenses $27,000, or 0.7%. Constant currency SG&A expenses increased $67,000, or 1.8%. The increase in expense was primarily related to unfavorable foreign currency transactions.

SG&A expenses for YTD 2Q18 increased 2.2%, or $160,000, compared to YTD 2Q17 with foreign currency translation increasing SG&A expenses $144,000, or 2.0%. Constant currency SG&A expenses increased $16,000, or 0.2%. The increase in expense was primarily related to unfavorable foreign currency transactions principally offset by lower employment costs.

Other - SG&A expenses for 2Q18 decreased 19.7%, or $1,239,000, compared to 2Q17. SG&A expenses for YTD 2Q18 decreased 0.7%, or $78,000, compared to YTD 2Q17. Both the quarter and year-to-date decreases were driven primarily by decreased employment costs, including equity compensation expense.

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OPERATING INCOME (LOSS)

($ in thousands USD)	2Q18	2Q17	$ Change	% Change	YTD 2Q18	YTD 2Q17	$ Change	% Change
Europe	5,171	7,077	(1,906)	(26.9)	11,765	12,177	(412)	(3.4)
NA/HME	(8,420)	(12,395)	3,975	32.1	(16,558)	(21,821)	5,263	24.1
IPG	1,163	1,472	(309)	(21.0)	2,761	3,370	(609)	(18.1)
Asia/Pacific	1,570	(118)	1,688	1,430.5	2,542	(548)	3,090	563.9
All Other	(5,901)	(6,735)	834	12.4	(11,674)	(11,245)	(429)	(3.8)
Charges related to restructuring	(344)	(4,987)	4,643	93.1	(745)	(8,270)	7,525	91.0
Consolidated Operating Loss	(6,761)	(15,686)	8,925	56.9	(11,909)	(26,337)	14,428	54.8

For 2Q18 and YTD 2Q18, the decrease in consolidated operating loss was impacted by improved segment operating income (loss) in NA/HME and Asia Pacific segments and reduced restructuring charges.

Operating income (loss) by segment:
Europe - Operating income for 2Q18 decreased compared to 2Q17 principally due to unfavorable manufacturing variances and increased freight costs related to product transfers associated with the previously announced facility consolidations, and increased R&D and SG&A costs, partially offset by favorable foreign currency. Operating income for YTD 2Q18 decreased compared to YTD 2Q17 primarily driven by the same items noted for the quarter.

NA/HME - Operating loss for 2Q18 improved compared to 2Q17 primarily related to reduced SG&A, warranty and research and development expense, partially offset by increased freight costs. Operating loss for YTD 2Q18 decreased compared to YTD 2Q17 primarily due to reduced SG&A, R&D and warranty expense, partially offset by increased freight costs.

IPG - Operating income for 2Q18 and YTD 2Q18 declined compared to the same periods last year principally due to a net sales decline partially offset by reduced SG&A and warranty expense.

Asia/Pacific - Operating income for 2Q18 increased compared to 2Q17 as a result of net sales increase, reduced R&D and manufacturing expense. Operating income for YTD 2Q18 increased compared to YTD 2Q17 as a result of increased net sales and reduced R&D and manufacturing costs.

All Other - Operating loss for 2Q18 decreased compared to 2Q17 primarily due to reduced SG&A expense, driven by lower equity compensation expense, partially offset by unfavorable intercompany profit in inventory eliminations as a result of higher inventory levels. Operating loss for YTD 2Q18 increased compared to YTD 2Q17 primarily due to unfavorable intercompany profit in inventory eliminations as a result of higher inventory levels.

Charge Related to Restructuring Activities
Restructuring charges totaled $745,000 for YTD 2Q18 principally related to severance costs. Restructuring charges were incurred in the Europe ($401,000), Asia/Pacific ($258,000) and NA/HME ($86,000) segments.

Restructuring charges totaled $8,270,000 for YTD 2Q17 which related principally to severance and contract termination costs incurred in the NA/HME segment ($6,170,000) and severance in the Europe ($1,204,000) and Asia/Pacific ($896,000) segments. Significant charges were incurred YTD 2Q17 due to the company's decision to close one of its China locations. Most of the outstanding restructuring accruals at June 30, 2018 are expected to be paid out in the next twelve months.

MD&A Other Items

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OTHER ITEMS

Net Gain (Loss) on Convertible Debt Derivatives

($ in thousands USD)	Change in Fair Value - Gain (Loss)			
	2Q18	2Q17	YTD 2Q18	YTD 2Q17
Convertible Note Hedge Assets	11,467	11,591	15,753	5,761
Convertible Debt Conversion Liabilities	(11,446)	(12,642)	(15,629)	(5,911)
Net Gain (Loss) on Convertible Debt Derivatives	21	(1,051)	124	(150)

The company recognized net gains of $21,000 and $124,000 in 2Q18 and YTD 2Q18, respectively, compared to net losses of $1,051,000 and $150,000 in 2Q17 and YTD 2Q17, respectively, related to the fair value of convertible debt derivatives. See "Long-Term Debt" in the notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

Interest

($ in thousands USD)	2Q18	2Q17	$ Change	% Change
Interest Expense	6,964	4,645	2,319	49.9
Interest Income	(136)	(49)	(87)	177.6

($ in thousands USD)	YTD 2Q18	YTD 2Q17	$ Change	% Change
Interest Expense	13,926	9,163	4,763	52.0
Interest Income	(385)	(137)	(248)	181.0

The increase in interest expense for 2Q18 and YTD 2Q18 compared to the same periods last year was primarily due to interest payable on the convertible notes issued in the second quarter of 2017.

Income Taxes

The company had an effective tax rate of 21.9% and 21.0% on losses before tax from continuing operations for 2Q18 and YTD 2Q18 compared to an expected benefit of 21.0% on the continuing operations pre-tax loss for each period. The company had an effective tax rate of 10.2% and 13.4% on losses before tax from continuing operations for 2Q17 and YTD 2Q17 compared to an expected benefit at the U.S. statutory rate of 35.0% on the continuing operations pre-tax loss for each period. The company's effective tax rate for the three and six months ended June 30, 2018 and June 30, 2017 was unfavorable as compared to the U.S. federal statutory rate expected benefit, principally due to the negative impact of the company not being able to record tax benefits related to the significant losses in countries which had tax valuation allowances. The effective tax rate was increased for the three and six months ended June 30, 2018 and decreased for the three months ended June 30, 2017 by certain taxes outside the United States, excluding countries with tax valuation allowances, that were at an effective rate higher than the U.S. statutory rate for the three and six months ended June 30, 2018 and lower than the U.S. statutory rate for the three months ended June 30, 2017. See "Income Taxes" in the notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

LIQUIDITY AND CAPITAL RESOURCES

The company continues to maintain an adequate liquidity position through its cash balances and unused bank lines of credit (see Long-Term Debt in the Notes to Condensed Consolidated Financial Statements included in this report).

Key balances on the company's balance sheet and related metrics:

($ in thousands USD)	June 30, 2018	December 31, 2017	$ Change	% Change
Cash and cash equivalents	122,398	176,528	(54,130)	(30.7)
Working capital [1]	218,450	238,850	(20,400)	(8.5)
Total debt [2]	300,276	301,415	(1,139)	(0.4)
Long-term debt [2]	298,600	299,375	(775)	(0.3)
Total shareholders' equity	385,180	423,294	(38,114)	(9.0)
Credit agreement borrowing availability [3]	38,657	39,949	(1,292)	(3.2)

(1) Current assets less current liabilities.

(2) Long-term debt and Total debt include debt issuance costs recognized as a deduction from the carrying amount of debt liability and debt discounts classified as debt.

(3) Reflects the combined availability of the company's North American and European asset-based revolving credit facilities. The change in borrowing availability is due to changes in the calculated borrowing base.

The company's cash and cash equivalents balances were $122,398,000 and $176,528,000 at June 30, 2018 and December 31, 2017, respectively. The decrease in cash was the result of normal operations, which includes losses in certain areas and seasonal variations in operations. Debt repayments, acquisitions, divestitures, the timing of vendor payments, the timing of customer rebate payments, the granting of extended payment terms to significant national accounts and other activity can have a significant impact on the company's cash flow and borrowings outstanding such that the cash reported at the end of a given period may be materially different than cash levels during a given period. While the company has cash balances in various jurisdictions around the world, there are no material restrictions regarding the use of such cash for dividends within the company, loans or other purposes, except in China where the cash balance, as of June 30, 2018, was $2,243,000. The company continues the procedural discontinuation of its discontinued operations there, which until completed, restricts access to certain cash balances.

The company's total debt outstanding, inclusive of the debt discount related to debentures included in equity as well as the debt discount and fees associated with the company's Convertible Senior Notes due 2021 and 2022, decreased by $1,139,000 to $300,276,000 at June 30, 2018 from $301,415,000 as of December 31, 2017. See "Long-Term Debt" in the Notes to Condensed Consolidated Financial Statements for more details regarding the company's convertible notes and credit facilities.

Based on the company's current expectations, the company believes that its cash balances and available borrowing capacity under its credit facilities should be sufficient to meet working capital needs, capital requirements, and commitments for at least

the next twelve months. Notwithstanding the company's expectations, if the company's operating results decline as the result of pressures on the business due to, for example, currency fluctuations or regulatory issues or the company's failure to execute its business plans or if the company's transformation takes longer than expected, the company may require additional financing, or may be unable to comply with its obligations under the credit facilities, and its lenders could demand repayment of any amounts outstanding under the company's credit facilities.

The company also has an agreement with De Lage Landen, Inc. (“DLL”), a third-party financing company, to provide lease financing to the company's U.S. customers. Either party could terminate this agreement with 180 days' notice or 90 days' notice by DLL upon the occurrence of certain events. Should this agreement be terminated, the company's borrowing needs under its credit facilities could increase.

While there is general concern about the potential for rising interest rates, the company expects that it will be able to absorb modest rate increases in the months ahead without any material impact on its liquidity or capital resources. The weighted average interest rate on revolving credit borrowings, excluding capital leases, was 4.78% for the for the three and six months ended June 30, 2018 compared to 4.84% for the year ended December 31, 2017.

See "Long-Term Debt" in the Notes to the Consolidated Financial Statements for more details regarding the company's credit facilities.

CAPITAL EXPENDITURES

The company estimates that capital investments for 2018 could approximate between $20,000,000 and $25,000,000, compared to actual capital expenditures of $14,569,000 in 2017. The anticipated increase relates primarily to the company's planned investments to transform the company. The terms of the company's credit facilities limit the company's annual capital expenditures to $35,000,000. As of June 30, 2018, the company has material capital expenditure commitments outstanding, consisting primarily of computer systems contracts. See Item 7. Contractual Obligations of the company's Annual Report on Form 10-K for the year ended December 31, 2017.

DIVIDEND POLICY

On May 17, 2018, the company's Board of Directors declared a quarterly cash dividend of $0.0125 per Common Share and $0.011364 per Class B Common Share to shareholders of record as of July 6, 2018, which was paid on July 20, 2018. At the current rate, the cash dividend will amount to $0.05 per Common Share and $0.045 per Class B Common Share on an annual basis, subject to Board of Directors approval of future dividend payments. The company is considering discontinuing the regular quarterly dividend on the Class B Common Shares, as less than 7,000 Class B Common Shares remain outstanding, which would allow the company to save on the administrative costs and compliance expenses associated with that dividend. Holders of Class B Common Shares are entitled to convert their shares into Common Shares at any time on a share-for-share basis and would be eligible for any Common Share dividends declared.

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CASH FLOWS

The cash used by operating activities for the six months ended June 30, 2018 was driven by a net loss, decreased accrued expenses and increased inventory partially offset by increased accounts payable. The decrease in cash used by operating activities in the first six months of 2018 compared to the same period last year was principally driven by a reduced net loss partially offset by net changes in other working capital items.

The decrease in cash flows used by investing activities for the first six months of 2018 as compared to the same period last year was primarily related to lower purchases of property and equipment.

Cash flows used by financing activities in the first six months of 2018 are primarily attributable to dividends and payments on capital leases. Cash flows provided by financing activities in the first six months of 2017 reflect net proceeds received due to the issuance of the company's Convertible Senior Notes due 2022, including the net proceeds used for the related convertible note hedge transactions, payment of financing costs and warrants. These proceeds were partially offset by the repayment of $13,350,000 in aggregate principal amount of the company's convertible debentures due 2027.

MD&A Cash Flows

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Free cash flow is a non-GAAP financial measure and is reconciled to the corresponding GAAP measure as follows:

($ in thousands USD)	2Q18	2Q17	YTD 2Q18	YTD 2Q17
Net cash used by operating activities	(22,447)	(20,138)	(47,098)	(50,468)
Plus: Sales or property and equipment	27	180	37	190
Less: Purchases of property and equipment	(2,162)	(2,470)	(4,227)	(5,504)
Free Cash Flow	(24,582)	(22,428)	(51,288)	(55,782)

Free cash flow for the first six months 2018 and 2017 was negatively impacted by the same items that affected cash flows used by operating activities. Free cash flow is a non-GAAP financial measure that is comprised of net cash used by operating activities plus purchases of property and equipment less proceeds from sales of property and equipment. Management believes that this financial measure provides meaningful information for evaluating the overall financial performance of the company and its ability to repay debt or make future investments (including acquisitions, etc.).

With the anticipation of commercial effectiveness and resulting sales growth, the company expects increased working capital which, if realized, would support investments for growth, especially growth of NA/HME mobility and seating products. This would include investments in demonstration units and SG&A expense, and support the extended quote to cash process for power wheelchairs. Generally, the first half of the year is cash consumptive and impacted by significant disbursements related to annual customer rebate payments which normally occur in the first quarter of the year and, to lesser extent, into the second quarter of the year. In addition, the second quarter of the year represents the period annual employee bonuses are paid, if earned. Investment in inventory is historically heavy in the first half of the year with planning around the company's supply chain to fulfill shipments in the second half of the year and can be impacted by footprint rationalization projects. The company also expects to increase its capital expenditures in 2018 as compared to the investment level in 2017. As a result, historically, the company realizes stronger cash flow in the second half of the year versus the first half of the year. On that basis and considering anticipated increased capital spending, the company anticipates its cash flow usage and seasonality for 2018 will be similar to 2017.
The company's approximate cash conversion days at June 30, 2018, December 31, 2017 and June 30, 2017 are as follows:
The increase in the most current days in receivables compared to prior periods was driven by higher receivables in the quarter ended June 30, 2018 compared to the prior periods shown and impacted by the sales growth in mobility and seating products, which can have extended collection terms than other products. The days in inventory increased from the seasonal low at December 31, 2017. The days in inventory for the quarter ended June 30, 2018 were favorable to the quarter ended June 30, 2017 due to better inventory velocity over the prior year.

Days in receivables are equal to current quarter net current receivables divided by trailing four quarters of net sales multiplied

by 365 days. Days in inventory and accounts payable are equal to current quarter net inventory and accounts payable, respectively, divided by trailing four quarters of cost of sales multiplied by 365 days. Total cash conversion days are equal to days in receivables plus days in inventory less days in accounts payable.

The company provides a summary of days of cash conversion for the components of working capital so investors may see the rate at which cash is disbursed, collected and how quickly inventory is converted and sold.

ACCOUNTING ESTIMATES AND PRONOUNCEMENTS

CRITICAL ACCOUNTING ESTIMATES

The Consolidated Financial Statements included in the report include accounts of the company and all majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying Consolidated Financial Statements and related footnotes. In preparing the financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, thus, actual results could differ from these estimates. Please refer to the Critical Accounting Estimates section within MD&A of company's Annual Report on Form 10-K for the period ending December 31, 2017 as well as the revenue recognition and warranty disclosure below.

Revenue Recognition

The company recognizes revenues when control of the product or service is transferred to unaffiliated customers. Revenues from Contracts with Customers, ASC 606, provides guidance on the application of generally accepted accounting principles to revenue recognition issues. The company has concluded that its revenue recognition policy is appropriate and in accordance with GAAP under ASC 606.

All of the company’s product-related contracts, and a portion related to services, have a single performance obligation, which is the promise to transfer an individual good or service, with revenue recognized at a point in time. Certain service-related contracts contain multiple performance obligations that require the company to allocate the transaction price to each performance obligation. For such contracts, the company allocates revenue to each performance obligation based on its relative standalone selling price at inception of the contract. The company determined the standalone selling price based on the expected cost-plus margin methodology. Revenue related to the service contracts with multiple performance obligations is recognized over time. To the extent performance obligations are satisfied over time, the company defers revenue recognition until the performance obligations are satisfied.

The determination of when and how much revenue to recognize can require the use of significant judgment. Revenue is recognized when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of the company’s products and services to the customer.

Revenue is measured as the amount of consideration expected to be received in exchange for transferring the product or providing services. The amount of consideration received and recognized as revenue by the company can vary as a result of variable consideration terms included in the contracts such as customer rebates, cash discounts and return policies. Customer rebates and cash discounts are estimated based on the most likely amount principle and these estimates are based on historical experience and anticipated performance. Customers have the right to return product within the company’s normal terms policy, and as such, the company estimates the expected returns based on an analysis of historical experience. The company adjusts its estimate of revenue at the earlier of when the most likely amount of consideration the company expects to receive changes or when the consideration becomes fixed. The company generally does not expect that there will be significant changes to its estimates of variable consideration (see Receivables in the Notes to the Consolidated Financial Statements include elsewhere in this report).

Depending on the terms of the contract, the company may defer recognizing a portion of the revenue at the end of a given period as the result of title transfer terms that are based upon delivery and or acceptance which align with transfer of control of the company’s products to its customers.

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

The company records distributed product sales gross as a principal since the company takes title to the products and has the risks of loss for collections, delivery and returns. The company’s payment terms are for relatively short periods and thus do not contain any element of financing. Additionally, no contract costs are incurred that would require capitalization and amortization.

Sales, value-added, and other taxes the company collects concurrent with revenue producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. Shipping and handling costs are included in cost of products sold.

The majority of the company’s warranties are considered assurance-type warranties and continue to be recognized as expense when the products are sold (see Current Liabilities in the Notes to the Consolidated Financial Statements include elsewhere in this report). These warranties cover against defects in material and workmanship for various periods depending on the product from the date of sale to the customer. Certain components carry a lifetime warranty. In addition, the company has sold extended warranties that, while immaterial, require the company to defer the revenue associated with those warranties until earned. 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 accruals and makes adjustments as needed. Historical analysis is primarily used to determine the company’s warranty reserves. Claims history is reviewed and provisions are adjusted as needed. However, the company does consider other events, such as a product recall, which could require additional warranty reserve provisions. See Accrued Expenses in the Notes to the Consolidated Financial Statements for a reconciliation of the changes in the warranty accrual. In addition, the company has sold extended warranties that, while immaterial, require the company to defer the revenue associated with those warranties until earned. The company has established procedures to appropriately defer such revenue.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For the company’s disclosure regarding recently issued accounting pronouncements, see Accounting Policies - Recent Accounting Pronouncements in the Notes to the Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

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FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of the “Safe Harbor” provisions of the Private Securities Litigation Reform Act of 1995. Terms such as “will,” “should,” “could,” “plan,” “intend,” “expect,” “continue,” “be and “anticipate,” as well as similar comments, denote forward-looking statements that are subject to inherent uncertainties that are difficult to predict. Actual results and events may differ significantly from those expressed or anticipated as a result of risks and uncertainties, which include, but are not limited to, the following: adverse effects of the company’s consent decree of injunction with the U.S. Food and Drug Administration (FDA), including but not limited to, compliance costs, inability to rebuild negatively impacted customer relationships, unabsorbed capacity utilization, including fixed costs and overhead; any circumstances or developments that might adversely impact the third-party expert auditor’s required audits of the company’s quality systems at the facilities impacted by the consent decree, including any possible failure to comply with the consent decree or FDA regulations; adverse effects of regulatory proceedings or the company's failure to comply with regulatory requirements or failure to receive regulatory clearance or approval for the company's products in the United States or abroad; adverse effects of regulatory or governmental inspections of company facilities at any time and governmental warning letters or enforcement actions; circumstances or developments that may make the company unable to implement or realize the anticipated benefits, or that may increase the costs, of its current business initiatives; possible adverse effects on the company's liquidity that may result from delays in the implementation or realization of benefits of its current business initiatives, or from any requirement to settle conversions of its outstanding convertible notes in cash; product liability or warranty claims; product recalls, including more extensive warranty or recall experience than expected; possible adverse effects of being leveraged, including interest rate or event of default risks; exchange rate fluctuations, particularly in light of the relative importance of the company's foreign operations to its overall financial performance and including the existing and potential impacts from the Brexit referendum; adverse impacts of new tariffs or increases in commodity prices or freight costs; potential impacts of the United States administration’s policies, and any legislation or regulations that may result from those policies, and of new United States tax laws, rules, regulations or policies; legal actions, including adverse judgments or settlements of litigation or claims in excess of available insurance limits; adverse changes in government and other third-party payor reimbursement levels and practices both in the U.S. and in other countries (such as, for example, more extensive pre-payment reviews and post-payment audits by payors, or the continuing impact of the U.S. Medicare National Competitive Bidding program); ineffective cost reduction and restructuring efforts or inability to realize anticipated cost savings or achieve desired efficiencies from such efforts; delays, disruptions or excessive costs incurred in facility closures or consolidations; tax rate

fluctuations; additional tax expense or additional tax exposures, which could affect the company's future profitability and cash flow; inability to design, manufacture, distribute and achieve market acceptance of new products with greater functionality or new product platforms that deliver the anticipated benefits; consolidation of health care providers; lower cost imports; uncollectible accounts receivable; difficulties in implementing/upgrading Enterprise Resource Planning systems; risks of cybersecurity attack, data breach or data loss and/or delays in or inability to recover or restore data and IT systems; risks inherent in managing and operating businesses in many different foreign jurisdictions; decreased availability or increased costs of materials which could increase the company's costs of producing or acquiring the company's products, including possible increases in commodity costs or freight costs; heightened vulnerability to a hostile takeover attempt or other shareholder activism; provisions of Ohio law or in the company's debt agreements, charter documents or other agreements that may prevent or delay a change in control, as well as the risks described from time to time in the company's reports as filed with the Securities and Exchange Commission. Except to the extent required by law, the company does not undertake and specifically declines any obligation to review or update any forward-looking statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments or otherwise.

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Financial Statements

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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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	$246,152	$233,517	$483,212	$465,240
Cost of products sold	178,806	168,495	349,349	335,073
Gross Profit	67,346	65,022	133,863	130,167
Selling, general and administrative expenses	73,763	75,721	145,027	148,234
Charges related to restructuring activities	344	4,987	745	8,270
Operating Loss	(6,761)	(15,686)	(11,909)	(26,337)
Net (gain) loss on convertible debt derivatives	(21)	1,051	(124)	150
Interest expense	6,964	4,645	13,926	9,163
Interest income	(136)	(49)	(385)	(137)
Loss Before Income Taxes	(13,568)	(21,333)	(25,326)	(35,513)
Income tax provision	2,975	2,175	5,325	4,775
Net Loss	$(16,543)	$(23,508)	$(30,651)	$(40,288)
Dividends Declared per Common Share	$0.0125	$0.0125	$0.0250	$0.0250
Net Loss per Share—Basic	$(0.50)	$(0.72)	$(0.93)	$(1.23)
Weighted Average Shares Outstanding—Basic	33,169	32,833	33,040	32,654
Net Loss per Share—Assuming Dilution	$(0.50)	$(0.72)	$(0.93)	$(1.23)
Weighted Average Shares Outstanding—Assuming Dilution	33,996	33,193	33,867	32,947
Net Loss	$(16,543)	$(23,508)	$(30,651)	$(40,288)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(23,438)	26,311	(11,622)	27,260
Defined Benefit Plans:				
Amortization of prior service costs and unrecognized gains (loss)	290	(426)	243	(721)
Deferred tax adjustment resulting from defined benefit plan activity	33	15	(49)	12
Valuation reserve (reversal) associated with defined benefit plan activity	(33)	(15)	49	(12)
Current period unrealized gain (loss) on cash flow hedges	1,966	(1,907)	1,719	(1,276)
Deferred tax benefit (loss) related to unrealized gain (loss) on cash flow hedges	(261)	271	(151)	105
Other Comprehensive Income (Loss)	(21,443)	24,249	(9,811)	25,368
Comprehensive Income (Loss)	$(37,986)	$741	$(40,462)	$(14,920)
(Elements as a % of Net Sales)				
Net Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of products sold	72.6	72.2	72.3	72.0
Gross Profit	27.4	27.8	27.7	28.0
Selling, general and administrative expenses	30.0	32.4	30.0	31.9
Charges related to restructuring activities	0.1	2.1	0.2	1.8
Operating Loss	(2.7)	(6.7)	(2.5)	(5.7)

Net gain (loss) on convertible debt derivatives	—	0.5	—	—
Interest expense	2.8	2.0	2.9	2.0
Interest income	(0.1)	—	(0.1)	—
Loss Before Income Taxes	(5.5)	(9.1)	(5.2)	(7.6)
Income tax provision	1.2	0.9	1.1	1.0
Net Loss	(6.7)%	(10.1)%	(6.3)%	(8.7)%

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (unaudited)

	June 30, 2018	December 31, 2017
	(In thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$ 122,398	$ 176,528
Trade receivables, net	124,099	125,615
Installment receivables, net	1,266	1,334
Inventories, net	136,606	121,933
Other current assets	32,841	31,504
Total Current Assets	417,210	456,914
Other Assets	113,139	97,576
Intangibles	28,820	30,244
Property and Equipment, net	76,690	80,016
Goodwill	394,051	401,283
Total Assets	$ 1,029,910	$ 1,066,033
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 92,678	$ 90,566
Accrued expenses	101,492	118,697
Current taxes payable	2,914	6,761
Short-term debt and current maturities of long-term obligations	1,676	2,040
Total Current Liabilities	198,760	218,064
Long-Term Debt	247,326	241,405
Other Long-Term Obligations	198,644	183,270
Shareholders' Equity		
Preferred Shares (Authorized 300 shares; none outstanding)	—	—
Common Shares (Authorized 100,000 shares; 37,066 and 36,532 issued and outstanding at June 30, 2018 and December 31, 2017, respectively)—no par	9,417	9,304
Class B Common Shares (Authorized 12,000 shares; 6 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively)—no par	2	2
Additional paid-in-capital	295,572	290,125
Retained earnings	156,540	187,999
Accumulated other comprehensive income	27,059	36,870
Treasury shares (3,837 and 3,701 shares at June 30, 2018 and December 31, 2017, respectively)	(103,410)	(101,006)
Total Shareholders' Equity	385,180	423,294
Total Liabilities and Shareholders' Equity	$ 1,029,910	$ 1,066,033

See notes to condensed consolidated financial statements.

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

	For the Six Months Ended June 30,					
	2018			2017		
Operating Activities	(In thousands)					
Net loss	$	(30,651	)	$	(40,288	)
Adjustments to reconcile net loss to net cash used by operating activities:						
Depreciation and amortization	7,700			7,312		
Provision for losses on trade and installment receivables	716			500		
Benefit for deferred income taxes	(128		)	(759		)
Provision (benefit) for other deferred liabilities	(7		)	400		
Provision for equity compensation	2,943			4,646		
Loss (gain) on disposals of property and equipment	21			(91		)
Amortization of convertible debt discount	5,650			3,451		
Amortization of debt fees	1,246			985		
(Gain) Loss on convertible debt derivatives	(124		)	150		
Changes in operating assets and liabilities:						
Trade receivables	(1,659		)	(5,396		)
Installment sales contracts, net	294			(186		)
Inventories	(17,079		)	(13,095		)
Other current assets	(1,076		)	1,262		
Accounts payable	3,231			(2,376		)
Accrued expenses	(18,289		)	(5,851		)
Other long-term liabilities	114			(1,132		)
	(47,098		)	(50,468		)

Net Cash Used by Operating Activities		
Investing Activities		
Purchases of property and equipment	(4,227)	(5,504)
Proceeds from sale of property and equipment	37	190
Change in other long-term assets	(298)	(218)
Other	11	(87)
Net Cash Used by Investing Activities	(4,477)	(5,619)
Financing Activities		
Proceeds from revolving lines of credit and long-term borrowings	—	95,220
Payments on revolving lines of credit and long-term borrowings	(602)	(14,881)
Proceeds from exercise of stock options	2,618	1,429
Payment of financing costs	—	(4,144)
Payment of dividends	(808)	(793)
Issuance of warrants	—	14,100
Purchase of treasury stock	(2,404)	(1,221)
Net Cash (Used) Provided by Financing Activities	(1,196)	89,710
Effect of exchange rate changes on cash	(1,359)	2,225
Increase (decrease) in cash and cash equivalents	(54,130)	35,848
Cash and cash equivalents at beginning of year	176,528	124,234
Cash and cash equivalents at end of period	$ 122,398	$ 160,082

See notes to condensed consolidated financial statements.

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Accounting Policies

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries and include all adjustments, which were of a normal recurring nature, necessary to present fairly the financial position of the company as of June 30, 2018 and the results of its operations and changes in its cash flow for the six months ended June 30, 2018 and 2017, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using a May 31 quarter end to meet filing deadlines. No material subsequent events have occurred related to the European segment, which would require disclosure or adjustment to the company's financial statements. All significant intercompany transactions are eliminated. The results of operations for the three and six months ended June 30, 2018 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.

Accounts Receivable: The company records accounts receivable when control of the product or service transfers to its unaffiliated customers, risk of loss is passed and title is transferred. The estimated allowance for uncollectible amounts is based primarily on management's evaluation of the financial condition of specific customers. The company records accounts receivable reserves for amounts that may become uncollectible in the future. The company writes off accounts receivable when it becomes apparent, based upon customer circumstances, that such amounts will not be collected and when legal remedies are exhausted.

Reserves for customer bonus and cash discounts are recorded as a reduction in revenue and netted against gross accounts receivable. Customer rebates in excess of a given customer's accounts receivable balance are classified in Accrued Expenses. Customer rebates and cash discounts are estimated based on the most likely amount principle as well as historical experience and anticipated performance. In addition, customers have the right to return product within the company’s normal terms policy, and as such the company estimates the expected returns based on an analysis of historical experience and adjusts revenue accordingly.

Recent Accounting Pronouncements (Already Adopted):

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which replaces numerous requirements in U.S. GAAP and provides companies with a single revenue recognition model for recognizing 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 previous 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.

Effective January 1, 2018, the company adopted the new accounting standard, and all the related amendments, on a modified retrospective basis, with no cumulative effect adjustment to equity needed. Upon adoption, the standard did not have a material impact on the company's results of operations or cash flows nor does the company expect it to have a material impact on future periods. Pursuant to ASU 2014-09, revenues are recognized as control transfers to the customers, which is consistent with the prior revenue recognition model and the prior accounting for the vast majority of the company's contracts. While the company does have a minor amount of service business for which revenue is recognized over time as compared to a point in time, the company’s process to estimate the amount of revenue to be recognized did not change as a result of the implementation of the new standard.

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Recent Accounting Pronouncements (Not Yet Adopted):

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 continues to assess the impact of the adoption of ASU 2016-02 on the company's financial statements. While the company has not finalized its assessment of the impact of ASU 2016-02, the company does expect the standard to have a significant impact on the company's consolidated balance sheets as the company will be required to record assets and liabilities related to its operating leases. The standard is not expected to have a material impact on the Company's results of operations or cash flows.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Statements." ASU 2016-13 requires a new credit loss standard for most financial assets and certain other instruments. For example, entities will be required to use an "expected loss" model that will generally require earlier recognition of allowances for losses for trade receivables. The standard also requires additional disclosures, including disclosures regarding how an entity tracks credit quality. The amendments in the pronouncement are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Entities may early adopt the amendments as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The company is currently reviewing the impact of the adoption of ASU 2016-13 on the company's financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The guidance in ASU 2017-04 eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. Under the amendments in the new ASU, goodwill impairment testing will be performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The new standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for annual or interim goodwill impairment testing performed after January 1, 2017. The company is currently reviewing the impact of the adoption of ASU 2017-04 but does not expect the adoption to impact the company's financial statements.

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Divested Businesses

Operations Held for Sale

Prior to 2018, the company had recorded expenses related to the sale of all operations held for sale totaling $2,892,000, of which $2,366,000 has been paid out as of June 30, 2018.

Discontinued Operations

From 2012 through 2014, the company sold three businesses which were classified as discontinued operations. Prior to 2018, the company had recorded cumulative expenses related to the sale of discontinued operations totaling $8,801,000, of which $8,405,000 have been paid as of June 30, 2018.

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Current Assets

Receivables

Receivables consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Accounts receivable, gross	$143,696	$ 154,966
Customer rebate reserve	(10,527)	(18,747)
Allowance for doubtful accounts	(4,841)	(5,113)
Cash discount reserves	(3,173)	(4,252)
Other, principally returns and allowances reserves	(1,056)	(1,239)
Accounts receivable, net	$124,099	$ 125,615

Reserves for customer bonus and cash discounts are recorded as a reduction in revenue and netted against gross accounts receivable. Customer rebates in excess of a given customer's accounts receivable balance are classified in Accrued Expenses. Customer rebates and cash discounts are estimated based on the most likely amount principle as well as historical experience and anticipated performance. In addition, customers have the right to return product within the company's normal terms policy, and as such the company estimates the expected returns based on an analysis of historical experience and adjusts revenue accordingly. The decrease in customer rebates reserve from December 31, 2017 to June 30, 2018 was the result of rebate payments, the majority of which are paid in the first quarter of each year.

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all 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 are 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 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 a legally negotiated payment schedule and the company’s ability to enforce judgments, liens, etc.

For purposes of granting or extending credit, the company utilizes a scoring model to generate a composite score that considers each customer’s consumer credit score and or D&B credit rating, payment history, security collateral and time in business. Additional analysis is performed for 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.

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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.
Installment receivables consist of the following (in thousands):

	June 30, 2018			December 31, 2017		
	Current	Long-Term	Total	Current	Long-Term	Total
Installment receivables	$2,369	$1,525	$3,894	$2,415	$2,076	$4,491
Less: Unearned interest	(32)	—	(32)	(38)	—	(38)
	2,337	1,525	3,862	2,377	2,076	4,453
Allowance for doubtful accounts	(1,071)	(1,214)	(2,285)	(1,043)	(1,601)	(2,644)
Installment receivables, net	$1,266	$311	$1,577	$1,334	$475	$1,809

Installment receivables purchased from DLL during the six months ended June 30, 2018 increased the gross installment receivables balance by $47,000. No sales of installment receivables were made by the company during the quarter.

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

	Six Months Ended June 30, 2018	Year Ended December 31, 2017
Balance as of beginning of period	$2,644	$ 2,838
Current period provision (benefit)	(102)	1,001
Direct write-offs charged against the allowance	(257)	(1,195)
Balance as of end of period	$2,285	$ 2,644

Installment receivables by class as of June 30, 2018 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	$ 3,005	$ 3,005	$ 2,285	$ —
Canada				
	889	857	—	68

Non-Impaired installment receivables with no related allowance recorded				
Impaired installment receivables with a related allowance recorded	—	—	—	—
Total Canadian installment receivables	889	857	—	68
Total				
Non-Impaired installment receivables with no related allowance recorded	889	857	—	68
Impaired installment receivables with a related allowance recorded	3,005	3,005	2,285	—
Total installment receivables	$ 3,894	$ 3,862	$ 2,285	$ 68

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Installment receivables by class as of December 31, 2017 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	$ 3,566	$ 3,566	$ 2,642	$ —
Canada				
Non-Impaired installment receivables with no related allowance recorded	923	885	—	74
Impaired installment receivables with a related allowance recorded	2	2	2	—
Total Canadian installment receivables	925	887	2	74
Total				
Non-Impaired installment receivables with no related allowance recorded	923	885	—	74
Impaired installment receivables with a related allowance recorded	3,568			