

INVACARE CORP
Form 10-Q
May 08, 2014

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, 2014

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
(State or other jurisdiction of
incorporation or organization)

95-2680965
(IRS Employer Identification No.)

One Invacare Way, P.O. Box 4028, Elyria, Ohio
(Address of principal executive offices)
(440) 329-6000
(Registrant's telephone number, including area code)

44036
(Zip 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 5, 2014, the registrant had 31,068,802 Common Shares and 1,084,747 Class B Common Shares outstanding.

Table of ContentsINVACARE CORPORATION
INDEX

Item	Page
PART I: FINANCIAL INFORMATION	
1	
	<u>Financial Statements (Unaudited)</u>
	<u>Condensed Consolidated Statement of Comprehensive Income (Loss) - Three Months Ended March 31, 2014 and March 31, 2013</u>
	<u>FS-1</u>
	<u>Condensed Consolidated Balance Sheets - March 31, 2014 and December 31, 2013</u>
	<u>FS-2</u>
	<u>Condensed Consolidated Statement of Cash Flows - Three Months Ended March 31, 2014 and March 31, 2013</u>
	<u>FS-3</u>
	<u>Notes to Condensed Consolidated Financial Statements - March 31, 2014</u>
	<u>FS-4</u>
2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>I-1</u>
3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	<u>I-11</u>
4	<u>Controls and Procedures</u>
	<u>I-12</u>
PART II: OTHER INFORMATION	
1	<u>Legal Proceedings</u>
	<u>I-13</u>
1A.	<u>Risk Factors</u>
	<u>I-14</u>
2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	<u>I-15</u>
6	<u>Exhibits</u>
	<u>I-15</u>
	<u>Signatures</u>
	<u>I-16</u>

Table of Contents

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

INVACARE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statement of Comprehensive Income (Loss) (unaudited)

	Three Months Ended	
	March 31,	
(In thousands, except per share data)	2014	2013
Net sales	\$309,069	\$331,437
Cost of products sold	223,821	237,853
Gross Profit	85,248	93,584
Selling, general and administrative expenses	98,021	103,235
Charges related to restructuring activities	2,240	2,522
Interest expense	806	1,117
Interest income	(68)	(107)
Loss from Continuing Operations Before Income Taxes	(15,751)	(13,183)
Income tax provision (benefit)	2,225	(7,475)
Net loss from Continuing Operations	(17,976)	(5,708)
Net Earnings from Discontinued Operations (net of tax of \$0 and \$35)	—	1,567
Gain on Sale of Discontinued Operations (net of tax of \$0 and \$20,080)	—	39,322
Total Net Earnings from Discontinued Operations	—	40,889
Net Earnings (Loss)	\$(17,976)	\$35,181
Dividends Declared per Common Share	\$0.0125	\$0.0125
Net Earnings (Loss) per Share—Basic		
Net Loss from Continuing Operations	(0.56)	(0.18)
Net Earnings from Discontinued Operations	—	1.28
Net Earnings (Loss) per Share—Basic	\$(0.56)	\$1.10
Weighted Average Shares Outstanding—Basic	32,013	31,902
Net Earnings (Loss) per Share—Assuming Dilution		
Net Loss from Continuing Operations	(0.56)	(0.18)
Net Earnings from Discontinued Operations	—	1.28
Net Earnings (Loss) per Share—Assuming Dilution	\$(0.56)	\$1.10
Weighted Average Shares Outstanding—Assuming Dilution	32,301	31,934
Net Earnings (Loss)	\$(17,976)	\$35,181
Other comprehensive income (loss):		
Foreign currency translation adjustments	6,648	(1,498)
Defined Benefit Plans:		
Amortization of prior service costs and unrecognized gains	708	300
Amounts arising during the year, primarily due to the addition of new participants	—	(166)
Deferred tax adjustment resulting from defined benefit plan activity	(180)	(48)
Valuation reserve associated with defined benefit plan activity	14	50
Current period unrealized gain (loss) on cash flow hedges	(584)	1,577
Deferred tax benefit (loss) related to unrealized gain (loss) on cash flow hedges	84	(81)
Other Comprehensive Income	6,690	134

Comprehensive Income (Loss)

\$(11,286) \$35,315

See notes to condensed consolidated financial statements.

FS-1

Table of ContentsINVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (unaudited)

	March 31, 2014	December 31, 2013
	(In thousands)	
Assets		
Current Assets		
Cash and cash equivalents	\$21,260	\$29,785
Trade receivables, net	186,919	188,622
Installment receivables, net	1,590	1,562
Inventories, net	165,343	155,637
Deferred income taxes	2,714	2,761
Other current assets	39,036	41,172
Total Current Assets	416,862	419,539
Other Assets	46,030	45,936
Other Intangibles	61,064	62,584
Property and Equipment, net	103,745	106,149
Goodwill	468,314	462,226
Total Assets	\$1,096,015	\$1,096,434
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$124,442	\$116,704
Accrued expenses	131,345	133,100
Accrued income taxes	12,271	12,259
Short-term debt and current maturities of long-term obligations	1,763	14,102
Total Current Liabilities	269,821	276,165
Long-Term Debt	47,194	31,184
Other Long-Term Obligations	119,089	118,276
Shareholders' Equity		
Preferred Shares (Authorized 300 shares; none outstanding)	—	—
Common Shares (Authorized 100,000 shares; 34,226 and 34,084 issued in 2014 and 2013, respectively)—no par	8,576	8,539
Class B Common Shares (Authorized 12,000 shares; 1,086 and 1,086 issued and outstanding in 2014 and 2013, respectively)—no par	272	272
Additional paid-in-capital	235,367	234,620
Retained earnings	377,644	396,016
Accumulated other comprehensive earnings	131,846	125,156
Treasury shares (3,158 and 3,158 shares in 2014 and 2013, respectively)	(93,794	) (93,794
Total Shareholders' Equity	659,911	670,809
Total Liabilities and Shareholders' Equity	\$1,096,015	\$1,096,434

See notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2014	2013
	(In thousands)	
Operating Activities		
Net earnings (loss)	\$(17,976	) \$35,181
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of businesses (pre-tax)	—	(59,402
Depreciation and amortization	9,507	8,848
Provision for losses on trade and installment receivables	663	768
Provision for deferred income taxes	286	(134
Provision for other deferred liabilities	141	87
Provision for stock-based compensation	699	1,160
Loss on disposals of property and equipment	83	86
Asset write-downs related to restructuring activities	638	—
Amortization of convertible debt discount	170	152
Changes in operating assets and liabilities:		
Trade receivables	2,811	(20
Installment sales contracts, net	(652	) (422
Inventories	(8,493	) (7,661
Other current assets	2,251	2,373
Accounts payable	6,745	(15,697
Accrued expenses	(3,148	) (339
Other long-term liabilities	(745	) (283
Net Cash Used by Operating Activities	(7,020	) (35,303
Investing Activities		
Purchases of property and equipment	(3,626	) (3,865
Proceeds from sale of property and equipment	1	4
Proceeds from sale of business	—	144,681
Change in other long-term assets	(197	) (108
Other	(144	) (19
Net Cash Provided (Used) by Investing Activities	(3,966	) 140,693
Financing Activities		
Proceeds from revolving lines of credit and long-term borrowings	62,525	115,950
Payments on revolving lines of credit and long-term borrowings	(60,195	) (234,696
Proceeds from exercise of stock options	85	—
Payment of dividends	(396	) (396
Net Cash Provided (Used) by Financing Activities	2,019	(119,142
Effect of exchange rate changes on cash	442	42
Decrease in cash and cash equivalents	(8,525	) (13,710
Cash and cash equivalents at beginning of year	29,785	38,791
Cash and cash equivalents at end of period	\$21,260	\$25,081

See notes to condensed consolidated financial statements.

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

Accounting Policies

Nature of Operations: Invacare Corporation is a leading manufacturer and distributor of medical equipment used in the home or institutional setting 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, 2014, the results of its operations for the three months ended March 31, 2014 and changes in its cash flow for the three months ended March 31, 2014 and 2013, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using a February 28th 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, 2014 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 February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-04, Liabilities (Topic 405), Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. This update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The Company adopted ASU No. 2013-04 in the first quarter of 2014 with no impact on the Company's Condensed Consolidated Statement of Comprehensive Income (Loss), Balance Sheets or Statement of Cash Flows.

In July 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASU 2013-11 requires an entity to present an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, with limited exceptions. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. ASU 2013-11 was adopted by the Company on January 1, 2014 and did not have a significant impact on the Company's financial statements.

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 must be prospectively applied to all reporting periods presented in financial reports issued after the effective date. Early adoption is permitted for disposals that have not been reported in financial statements previously issued or available for issuance. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2014. If applicable, this standard will change the presentation of the Company's financial statements but will not affect the calculation of net income, comprehensive income or earnings per share. The Company plans to adopt ASU 2014-08 effective January 1, 2015.

Discontinued Operations

On December 21, 2012, as part of the Company's globalization strategy, and to allow it to focus on its core equipment product lines, the Company entered into an agreement to sell Invacare Supply Group (ISG) and accordingly, the Company determined on that date that the "held for sale" criteria of ASC 360-10-45-9 were met. On January 18, 2013, the Company completed the sale of the ISG medical supplies business to AssuraMed, Inc. for a purchase price of \$150,800,000 in cash. ISG had been operated on a stand-alone basis and reported as a reportable segment of the Company. The Company recorded a gain of \$59,402,000 pre-tax in

FS-4

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

the first quarter of 2013 which represented the excess of the net sales price over the book value of the assets and liabilities of ISG, excluding cash. The sale of this business was dilutive to the Company's results. The Company utilized the proceeds from the sale to reduce debt outstanding under its revolving credit facility in the first quarter of 2013. The Company recorded expenses related to the sale of \$5,350,000, of which \$5,002,000 were paid as of March 31, 2014. The net sales and earnings before income taxes of the ISG discontinued operation were \$18,498,000 and \$402,000 for the three months ended March 31, 2013, respectively.

On August 6, 2013, the Company sold Champion Manufacturing, Inc. (Champion), its domestic medical recliner business for dialysis clinics, to Champion Equity Holdings, LLC for \$45,000,000 in cash, which is subject to final post-closing adjustments. Champion had been operated on a stand-alone basis and reported as part of the IPG segment of the Company. The Company recorded a gain of \$22,761,000 pre-tax in the third quarter of 2013, which represented the excess of the net sales price over the book value of the assets and liabilities of Champion. The sale of this business was dilutive to the Company's results. The Company utilized the proceeds from the sale to reduce debt outstanding under its revolving credit facility in the third quarter of 2013. The Company recorded expenses related to the sale of \$2,130,000, of which \$1,519,000 were paid as of March 31, 2014. The gain recorded by the Company reflects the Company's estimated final purchase adjustments.

The net sales and earnings before income taxes of the Champion discontinued operation were \$6,179,000 and \$1,200,000 for the three months ended March 31, 2013, respectively. Results for Champion include an interest expense allocation from continuing operations to discontinued operations of \$186,000 for the three months ended March 31, 2013 as proceeds from the sale were required to be utilized to pay down debt. The interest allocation was based on the net proceeds assumed to pay down debt applying the Company's average interest rates for the periods presented.

The Company recorded an incremental intra-period tax allocation expense to discontinued operations for the three months ended March 31, 2013 representing the cumulative intra-period allocation expense to discontinued operations based on the Company's March 31, 2013 estimate of the projected domestic taxable loss related to continuing operations for 2013.

The Company has classified ISG and Champion as discontinued operations for all periods presented.

Receivables

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the Company's receivables are due from health care, medical equipment providers and long term care facilities located throughout the United States, Australia, Canada, New Zealand and Europe. A significant portion of products sold to providers, both foreign and domestic, is ultimately funded through government reimbursement programs such as Medicare and Medicaid in the U.S. As a consequence, changes in these programs can have an adverse impact on dealer liquidity and profitability. The estimated allowance for uncollectible amounts (\$16,912,000 at March 31, 2014 and \$17,715,000 at December 31, 2013) is based primarily on management's evaluation of the financial condition of specific customers. In addition, as a result of the financing arrangement with De Lage Landen, Inc. ("DLL"), a third party financing company which the Company has worked with since 2000, management monitors the collection status of these contracts in accordance with the Company's limited recourse obligations and provides amounts necessary for estimated losses in the allowance for doubtful accounts and establishing reserves for specific customers as needed. The Company charges off uncollectible trade accounts receivable after such receivables are moved to collection status and legal remedies are exhausted. See Concentration of Credit Risk in the Notes to the Consolidated Financial Statements for a description of the financing arrangement. Long-term installment receivables

are included in "Other Assets" on the consolidated balance sheet.

The Company's U.S. customers electing to finance their purchases can do so using DLL. In addition, 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 3 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 12 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

FS-5

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

accounts adjusted accordingly. Installments are individually and not collectively reviewed for impairment. The Company assesses the bad debt reserve levels based upon the status of the customer's adherence to a legally negotiated payment schedule and the Company's ability to enforce judgments, liens, etc.

For purposes of granting or extending credit, the Company utilizes a scoring model to generate a composite score that considers each customer's consumer credit score and/or D&B credit rating, payment history, security collateral and time in business. Additional analysis is performed for customers desiring credit greater than \$250,000, which generally includes a detailed review of the customer's financials as well as consideration of other factors such as exposure to changing reimbursement laws.

Interest income is recognized on installment receivables based on the terms of the installment agreements. Installment accounts are monitored and if a customer defaults on payments and is moved to collection, interest income is no longer recognized. Subsequent payments received once an account is put on non-accrual status are generally first applied to the principal balance and then to the interest. Accruing of interest on collection accounts 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 of adjudication 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 estimation allowances for doubtful accounts in the last twelve months.

Installment receivables consist of the following (in thousands):

	March 31, 2014			December 31, 2013			
	Current	Long-Term	Total	Current	Long-Term	Total	
Installment receivables	\$3,217	\$6,164	\$9,381	\$3,242	\$5,677	\$8,919	
Less: Unearned interest	(60) —	(60) (61) —	(61)
	3,157	6,164	9,321	3,181	5,677	8,858	
Allowance for doubtful accounts	(1,567) (4,654) (6,221) (1,619) (4,420) (6,039)
	\$1,590	\$1,510	\$3,100	\$1,562	\$1,257	\$2,819	

Installment receivables purchased from DLL during the three months ended March 31, 2014 increased the gross installment receivables balance by \$1,212,000. 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	Year Ended	
	March 31, 2014	December 31, 2013	
Balance as of beginning of period	\$6,039	\$3,823	
Current period provision	322	3,457	
Direct write-offs charged against the allowance	(140) (1,241)
Balance as of end of period	\$6,221	\$6,039	

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

Installment receivables by class as of March 31, 2014 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	\$8,014	\$8,014	\$6,136	\$—
Canada				
Non-Impaired Installment receivables with no related allowance recorded	1,282	1,222	—	20
Impaired Installment receivables with a related allowance recorded	85	85	85	—
Total Canadian Installment Receivables	\$1,367	\$1,307	\$85	\$20
Total				
Non-Impaired Installment receivables with no related allowance recorded	1,282	1,222	—	20
Impaired Installment receivables with a related allowance recorded	8,099	8,099	6,221	—
Total Installment Receivables	\$9,381	\$9,321	\$6,221	\$20

Installment receivables by class as of December 31, 2013 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
U.S.				
Impaired Installment receivables with a related allowance recorded	\$7,464	\$7,464	\$5,951	\$—
Canada				
Non-Impaired Installment receivables with no related allowance recorded	1,367	1,306	—	101
Impaired Installment receivables with a related allowance recorded	88	88	88	—
Total Canadian Installment Receivables	\$1,455	\$1,394	\$88	\$101
Total				
Non-Impaired Installment receivables with no related allowance recorded	1,367	1,306	—	101
Impaired Installment receivables with a related allowance recorded	7,552	7,552	6,039	—
Total Installment Receivables	\$8,919	\$8,858	\$6,039	\$101

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, 2014, the Company had no U.S.

installment receivables past due of 90 days or more for which the Company is still accruing interest. Individually, all U.S. installment receivables are assigned a specific allowance for doubtful accounts based on management's review when the Company does not expect to receive both the contractual principal and interest payments as specified in the loan agreement. However, while the full balance may be deemed to be impaired, the Company has historically collected a large percentage of the principal of its U.S. installment receivables.

FS-7

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

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, 2014 and December 31, 2013 for which the Company is still accruing interest.

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

	March 31, 2014			December 31, 2013		
	Total	U.S.	Canada	Total	U.S.	Canada
Current	\$1,242	\$—	\$1,242	\$1,338	\$—	\$1,338
0-30 Days Past Due	9	—	9	7	—	7
31-60 Days Past Due	11	—	11	—	—	—
61-90 Days Past Due	1	—	1	—	—	—
90+ Days Past Due	8,118	8,014	104	7,574	7,464	110
	\$9,381	\$8,014	\$1,367	\$8,919	\$7,464	\$1,455

Inventories

Inventories consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Finished goods	\$83,759	\$77,909
Raw materials	68,590	63,123
Work in process	12,994	14,605
	\$165,343	\$155,637

Other Current Assets

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

	March 31, 2014	December 31, 2013
Value added tax receivables	\$20,176	\$19,699
Recoverable income taxes	1,644	2,465
Derivatives (foreign currency forward contracts)	599	789
Prepaid insurance	3,652	4,556
Prepays and other current assets	12,965	13,663
	\$39,036	\$41,172

Other Long-Term Assets

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

	March 31, 2014	December 31, 2013
Cash surrender value of life insurance policies	\$36,887	\$36,522
Deferred Financing Fees	597	1,096
Investments	990	998
Long-term installment receivables	1,510	1,257
Long-term deferred taxes	4,741	4,741
Other	1,305	1,322
	\$46,030	\$45,936

FS-8

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

Property and Equipment

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

	March 31, 2014	December 31, 2013
Machinery and equipment	\$363,045	\$358,061
Land, buildings and improvements	92,169	91,389
Furniture and fixtures	13,183	12,774
Leasehold improvements	15,302	14,931
	483,699	477,155
Less allowance for depreciation	(379,954)	(371,006)
	\$103,745	\$106,149

Goodwill

The goodwill change reflected on the balance sheet from December 31, 2013 to March 31, 2014 was due to foreign currency translation.

Other Intangibles

All of the Company's other intangible assets have been assigned definite lives and continue to be amortized over their useful lives, except for \$32,178,000 related to trademarks, which have indefinite lives. The changes in intangible balances reflected on the balance sheet from December 31, 2013 to March 31, 2014 were the result of foreign currency translation and amortization. The Company's intangibles consist of the following (in thousands):

	March 31, 2014		December 31, 2013	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer Lists	\$92,408	\$66,592	\$92,637	\$65,158
Trademarks	32,178	—	31,944	—
License Agreements	1,382	1,382	1,393	1,393
Developed Technology	10,028	6,621	9,916	6,390
Patents	6,261	5,657	6,107	5,568
Other	7,163	8,104	7,407	8,311
	\$149,420	\$88,356	\$149,404	\$86,820

Amortization expense related to other intangibles was \$2,162,000 in the first three months of 2014 and is estimated to be \$8,436,000 in 2014, \$7,260,000 in 2015, \$5,787,000 in 2016, \$2,281,000 in 2017, \$2,272,000 in 2018 and \$2,266,000 in 2019. Amortized intangibles are being amortized on a straight-line basis over remaining lives of 1 to 11 years with the majority of the intangibles being amortized over an average remaining life of approximately 6 years.

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

Current Liabilities

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

	March 31, 2014	December 31, 2013
Salaries and wages	\$40,019	\$40,252
Taxes other than income taxes, primarily Value Added Taxes	21,827	24,525
Warranty cost	27,540	27,393
Freight	7,372	7,636
Professional	7,393	6,516
Product liability, current portion	3,403	3,183
Rebates	1,957	1,681
Insurance	2,535	2,549
Interest	842	1,041
Derivative liabilities	2,321	1,212
Severance	3,755	3,986
Other items, principally trade accruals	12,381	13,126
	\$131,345	\$133,100

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 as a product recall, which could warrant additional warranty reserve provision. The increase in the liability for pre-existing warranties in 2014 is primarily the result of product recalls. The warranty accrual as of March 31, 2014 includes additional warranty expense related to the power wheelchair joystick recall of \$2,237,000 (\$2,100,000 after-tax) provided for during the first quarter of 2014, which impacted the North America/HME segment by \$1,171,000 after-tax and the Asia/Pacific segment by \$929,000 after-tax. The increase in the Company's estimate of total cost related to this matter is attributable to higher than previously anticipated response rates from larger customers in United States and Canada. As previously indicated, the reserve is subject to adjustments as new developments change the Company's estimate of the total cost of this matter.

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

Balance as of January 1, 2014	\$27,393
Warranties provided during the period	3,119
Settlements made during the period	(5,594)
Changes in liability for pre-existing warranties during the period, including expirations	2,622
Balance as of March 31, 2014	\$27,540

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

Long-Term Debt

Debt consists of the following (in thousands):

	March 31, 2014	December 31, 2013
Senior secured revolving credit facility, due in October 2015	\$31,794	\$28,109
Convertible senior subordinated debentures at 4.125%, due in February 2027	10,811	10,641
Other notes and lease obligations	6,352	6,536
	48,957	45,286
Less current maturities of long-term debt	(1,763	) (14,102
	\$47,194	\$31,184

On January 31, 2014, the Company entered into an Amended and Restated Credit Agreement ("the Amended and Restated Credit Agreement") by and among the Company, the other Borrowers party thereto, the Guarantors party thereto, the Lenders party thereto and PNC Bank, National Association, as administrative agent, which amended and restated the Credit Agreement, dated as of October 28, 2010, by and among the Company and the other parties named therein, as amended (the "Prior Credit Agreement").

The Amended and Restated Credit Agreement, among other things, provides for the following:

• An increase in the maximum leverage ratio for the first three quarters of 2014, with quarterly ratios as described in the following table:

Fiscal Quarter Ending	Maximum Leverage Ratio		
March 31, 2014	4.75	to	1.00
June 30, 2014	4.50	to	1.00
September 30, 2014	4.00	to	1.00
December 31, 2014 and thereafter	3.50	to	1.00

The quarterly minimum interest coverage ratio remains 3.50 to 1.00 in the Amended and Restated Credit Agreement.

• In calculating the Company's EBITDA for purposes of determining the leverage and interest coverage ratios, the Amended and Restated Credit Agreement allows the Company to add back to EBITDA up to \$20,000,000 for one-time cash restructuring charges incurred after May 30, 2013, which is an incremental increase of \$5,000,000 from the terms of the Prior Credit Agreement.

• A decrease in the aggregate principal amount of the revolving credit facility to \$100,000,000 from \$250,000,000 through the maturity date of the facility in October 2015, as well as reductions in the facility's swing line loan, optional currency and foreign borrower sublimits.

• Reductions in the allowances under the facility for capital expenditures (down to \$25,000,000 annually), dividends, other indebtedness and liens.

• Further restrictions on acquisitions, share repurchases, certain investments and repurchases of convertible debt until after the Company confirms compliance with the Amended and Restated Credit Agreement following the quarter ending December 31, 2014.

• An increase of 25 basis points in the margin applicable to determining the interest rate on borrowings under the revolving credit facility.

As a result of the amendment, the Company incurred \$351,000 in fees in the first quarter of 2014 which were capitalized and are being amortized through October, 2015. In addition, as a result of reducing the capacity of the facility from \$250,000,000 to \$100,000,000, the Company wrote-off \$1,070,000 in fees previously capitalized in the first quarter of 2014, which is reflected in the expense of the North America / HME segment.

In 2007, the Company issued \$135,000,000 principal amount of Convertible Senior Subordinated Debentures due 2027. The debentures are unsecured senior subordinated obligations of the Company guaranteed by substantially all of

the Company's domestic subsidiaries, pay interest at 4.125% per annum on each February 1 and August 1, and are convertible upon satisfaction of certain

FS-11

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

conditions into cash, common shares of the Company, or a combination of cash and common shares of the Company, subject to certain conditions. The debentures allow the Company to satisfy the conversion using any combination of cash or stock, and at the Company's discretion. The Company intends to satisfy the accreted value of the debentures using cash. Assuming adequate cash on hand at the time of conversion, the Company also intends to satisfy the conversion spread using cash, as opposed to stock.

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

The liability components of the Company's convertible debt consist of the following (in thousands):

	March 31, 2014	December 31, 2013
Principal amount of liability component	\$13,350	\$13,350
Unamortized discount	(2,539	) (2,709
Net carrying amount of liability component	\$10,811	\$10,641

The Company is a party to an interest rate swap agreement to effectively convert a portion of floating rate revolving credit facility debt to fixed rate debt to avoid the risk of changes in market interest rates. Specifically, an interest rate swap agreement for a notional amount of \$12,000,000 through April 2014 was entered into that fixed the LIBOR component of the interest rate on that portion of the revolving credit facility debt at a rate of 0.54% for an effective aggregate rate 2.79%. As of March 31, 2014, the weighted average floating interest rate on revolving credit borrowings was 2.41% compared to 2.39% as of December 31, 2013.

Shareholders' Equity Transactions

On May 16, 2013, the shareholders of the Company approved the Invacare Corporation 2013 Equity Compensation Plan (the "2013 Plan"), which was adopted on March 27, 2013 by the Company's Board of Directors (the "Board"). The Board adopted the 2013 Plan because the ten-year term of the Company's prior equity plan, the Invacare Corporation Amended and Restated 2003 Performance Plan (the "2003 Plan"), expired on May 21, 2013. No new awards will be granted under the 2003 Plan following its expiration, but awards granted prior to its expiration will remain in effect under their original terms.

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

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

the authority to determine which participants will receive awards, the amount of the awards and the other terms and conditions of the awards.

As of March 31, 2014, there was \$17,457,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the Company's 2013 Plan and previous plans, which is related to non-vested options and shares, and includes \$7,230,000 related to restricted stock awards, \$7,217,000 related to non-qualified stock options and \$3,010,000 related to performance share awards. Total unrecognized compensation cost will be adjusted for future changes in actual and estimated forfeitures and for updated vesting assumptions for the performance share awards (see "Performance Shares and Performance Share Units" below). No tax benefit for share-based compensation was realized during 2014 or 2013 as a result of a valuation allowance against deferred tax assets.

FS-12

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

The amount of amount of stock-based compensation expense recognized under the provisions of Compensation-Stock Compensation, ASC 718 was as follows (in thousands):

	For the Three Months Ended March 31,	
	2014	2013
Stock-based compensation expense recognized as part of selling, general and administrative expense	\$ 699	\$ 1,160
Stock Options		

During the three months ended March 31, 2014, the Compensation Committee did not grant any non-qualified stock options. Generally, non-qualified stock option awards typically have a term of ten years and are granted at the fair market value of the Company's Common Shares on the date of grant. Compensation expense of \$530,000 was recognized during the three months ended March 31, 2014 related to stock options previously awarded. The Company expects the compensation expense to be recognized over a weighted-average period of approximately 2 years.

The following table summarizes information about stock option activity for the three months ended March 31, 2014:

	March 31, 2014	Weighted Average Exercise Price
Options outstanding at January 1, 2014	4,533,782	\$23.86
Granted	—	—
Exercised	(5,411)	) 15.75
Canceled	(109,302)	) 28.13
Options outstanding at March 31, 2014	4,419,069	\$23.97
Options exercise price range at March 31, 2014	\$ 12.42 to \$47.80	
Options exercisable at March 31, 2014	2,967,156	
Shares available for grant at March 31, 2014*	3,625,869	

* Shares available for grant as of March 31, 2014 reduced by net restricted stock and restricted stock unit award and performance share and performance share unit award activity of 376,068 shares and 458,400 shares, respectively during the quarter.

The following table summarizes information about stock options outstanding at March 31, 2014:

Exercise Prices	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
	Number Outstanding At 3/31/14	Weighted Average Remaining Contractual Life (Years)		Number Exercisable At 3/31/14	Weighted Average Exercise Price
\$ 12.42 – \$15.00	1,256,124	7.9	\$13.95	461,239	\$13.78
\$ 15.01 – \$25.00	1,563,747	4.4	22.52	1,419,474	22.38
\$ 25.01 – \$35.00	912,383	4.5	25.73	893,223	25.71
\$ 35.01 – \$47.80	686,815	0.3	43.23	667,740	43.22
Total	4,419,069	4.8	\$23.97	3,441,676	\$26.13

When stock options have been awarded, they generally become exercisable over a four-year vesting period whereby options vest in equal installments each year. Options granted with graded vesting are accounted for as single options. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate and expected life. The assumed expected life is based on the

FS-13

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

Company's historical analysis of option history. The expected stock price volatility is also based on actual historical volatility, and expected dividend yield is based on historical dividends as the Company has no current intention of changing its dividend policy.

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

Restricted Stock and Restricted Stock Units

During the three months ended March 31, 2014, in aggregate of 188,034 restricted shares and restricted share units (for non-U.S. recipients) were granted without cost to the recipients, 7,575 restricted shares were forfeited, and no awards vested. The awards granted during the first quarter are subject to cliff vesting and thus vest in their entirety on May 15, 2017. The awards of restricted shares/units are classified as equity awards as they are issued as common shares, or will be settled in common shares upon vesting. The fair value of the awards is based on the stock price on the date of grant discounted for the estimated value of dividends foregone as the awards are not eligible for dividends except to the extent vested. The fair value of the awards granted during the three months ended March 31, 2014 was \$20.05 per share. Compensation expense is recognized ratably over the service period and \$115,000 was recognized during the three months ended March 31, 2014 related to restricted shares/units and there were shares/units outstanding totaling 598,137 shares that were not vested. The Company expects the compensation expense to be recognized over a weighted-average period of approximately 1.5 years.

Performance Shares and Performance Share Units

During the three months ended March 31, 2014, an aggregate of 152,800 performance shares and performance share units (for non-U.S. recipients) were granted as performance awards with a 3 year performance period with payouts based on achievement of certain performance goals. There were no forfeitures, cancellations or vesting of performance awards during the period. The awards are classified as equity awards as they will be settled in common shares upon vesting. The number of shares earned will be determined at the end of the performance period based on achievement of performance criteria for January 1, 2016 through December 31, 2016 established by the Compensation Committee at the time of grant. Recipients will be entitled to receive a number of common shares equal to the number of performance shares that vest based upon the levels of achievement which may range between 0% and 150% of the target number of shares with the target being 100% of the initial grant.

The fair value of the performance awards is based on the stock price on the date of grant discounted for the estimated value of dividends foregone as the awards are not eligible for dividends except to the extent vested. The fair value of the awards granted during the three months ended March 31, 2014 was \$20.05 per share. The Company assesses the probability that the performance targets will be met with expense recognized whenever it is probable that at least the minimum performance criteria will be achieved. Depending upon the Company's assessment of the probability of achievement of the goals, the Company may not recognize any expense associated with performance awards in a given period, may reverse prior expense recorded or record additional expense to make up for expense not recorded in a prior period. Compensation expense of \$54,000 was recognized during the three months ended March 31, 2014 related to performance awards. The Company expects the compensation expense to be recognized over a weighted-average period of approximately 1.5 years.

Accumulated Other Comprehensive Income (Loss) by Component

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Changes in accumulated other comprehensive income (Loss) ("OCI") during the quarter ended March 31, 2014 were as follows (in thousands):

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
December 31, 2013	\$143,845	\$(12,566)	\$(5,414)	\$(709)	\$125,156
OCI before reclassifications	6,103	545	484	(626)	6,506
Amount reclassified from accumulated OCI	—	—	58	126	184
Net current-period OCI	6,103	545	542	(500)	6,690
March 31, 2014	\$149,948	\$(12,021)	\$(4,872)	\$(1,209)	\$131,846

FS-14

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

Changes in OCI during the three months ended March 31, 2013 were as follows (in thousands):

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
December 31, 2012	\$117,465	\$2,845	\$(6,785)	\$(782)	\$112,743
OCI before reclassifications	194	(1,692)	123	1,243	(132)
Amount reclassified from accumulated OCI	—	—	13	253	266
Net current-period OCI	194	(1,692)	136	1,496	134
March 31, 2013	\$117,659	\$1,153	\$(6,649)	\$714	\$112,877

Reclassifications out of accumulated OCI for the three months ended March 31, 2014 and March 31, 2013 were as follows (in thousands):

	Amount reclassified from OCI Three Months Ended		Affected line item in the Statement of Comprehensive Income (Loss)
	March 31, 2014	March 31, 2013	
Defined Benefit Plans			
Service and interest costs	\$58	\$15	Selling, General and Administrative
Tax	—	(2)	) Income Taxes
Total after tax	\$58	\$13	
Derivatives			
Foreign currency forward contracts hedging sales	\$10	\$(136)	) Net Sales
Foreign currency forward contracts hedging purchases	133	356	Cost of Products Sold
Interest rate swaps	—	67	Interest Expense
Total before tax	143	287	
Tax	(17)	(34)	) Income Taxes
Total after tax	\$126	\$253	

Charges Related to Restructuring Activities

The Company's restructuring charges recorded since 2011 were necessitated primarily by continued declines in Medicare and Medicaid reimbursement by the U.S. government, as well as similar healthcare reimbursement pressures abroad, which negatively affect the Company's customers (e.g. home health care providers) and continued pricing pressures faced by the Company as a result of outsourcing by competitors to lower cost locations. In addition, restructuring decisions were also the result of reduced profitability in the North America/HME segment impacted by the FDA consent decree. While the Company's restructuring efforts have been executed on a timely basis resulting in operating cost savings, the savings have been more than offset by continued margin decline, principally as a result of product mix, reduced volumes and regulatory and compliance costs related to quality system improvements which are unrelated to the restructuring actions. The Company expects any near-term cost savings from restructuring will be offset by the continued investment in regulatory and compliance costs related to quality system improvements at least until the Company has completed its quality systems remediation efforts, and reduced net sales in the North America/HME segment at least until the Company has successfully completed the previously described third-party expert certification audit and FDA inspection and has received written notification from the FDA that the Company may resume full operations.

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

FS-15

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

in addition to the elimination of various positions principally in the North America/Home Medical Equipment (HME) and Asia/Pacific segments.

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

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

Charges for the year ended December 31, 2013 totaled \$9,336,000 including charges for severance (\$8,282,000), lease termination costs (\$698,000) and other miscellaneous charges principally in North America/HME (\$356,000). Severance charges were primarily incurred in the North America/HME segment (\$5,405,000), Europe segment (\$1,640,000) and Asia/Pacific segment (\$970,000). The charges were incurred as a result of the elimination of various positions as part of the Company's globalization initiatives. North America/HME segment severance was principally related to positions eliminated due to lost sales volumes resulting from the impact of the FDA consent decree. The savings from these charges have been reflected primarily in reduced selling, general and administrative expenses and manufacturing expenses for the Company. In Europe, severance was incurred for the elimination of certain sales and supply chain positions. In Asia/Pacific, severance was principally incurred at the Company's microprocessor controller production subsidiary as a result of the Company's decision in 2012 to cease the contract manufacturing business for companies outside of the healthcare industry. The lease termination costs were principally related to Australia as a result of the restructuring announced in 2012. Payments for the year ended December 31, 2013 were \$11,844,000 and were funded with operating cash flows and cash on hand. The majority of the 2013 charges are expected to be paid out in 2014.

Restructuring continued during 2014 resulting in restructuring charges of \$2,240,000 in the first three months of 2014 related to severance costs (\$1,521,000) and other costs (\$719,000), which principally include a building write-down in the IPG segment. The severance costs were incurred principally in the NA/HME segment, and to a lesser extent the Europe and IPG segments. The building write-down in the IPG segment was associated with the previously announced closure of the London, Canada facility. Payments for the three months ended March 31, 2014 were \$2,625,000 and were funded with the Company's credit facility. The majority of the outstanding charge accruals at March 31, 2014 are expected to be paid out within the next twelve months.

There have been no material changes in accrued balances related to the charges, either as a result of revisions in the plan or changes in estimates. In addition, the savings anticipated as a result of the Company's restructuring plans have been or are expected to be achieved, primarily resulting in reduced salary and benefit costs principally impacting Selling, General and Administrative expenses, and to a lesser extent, Costs of Products Sold. However, to date, these savings have been more than offset by continued margin decline, principally as a result of product mix, and higher regulatory and compliance costs related to

FS-16

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

quality system improvements and reduced net sales volumes primarily related to mobility and seating products impacted by the consent decree, which are unrelated to the restructuring actions.

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

	Severance	Product Line Discontinuance	Contract Terminations	Other	Total	
December 31, 2010						
Balance						
Total	\$—	\$—	\$—	\$—	\$—	
Charges						
NA/HME	4,755	—	—	4	4,759	
IPG	123	—	—	—	123	
Europe	3,288	277	1,788	113	5,466	
Asia/Pacific	186	—	—	—	186	
Total	8,352	277	1,788	117	10,534	
Payments						
NA/HME	(1,663	) —	—	(4	) (1,667)
IPG	(52	) —	—	—	(52)
Europe	(1,546	) (277	) (1,714	) (113	) (3,650)
Asia/Pacific	(186	) —	—	—	(186)
Total	(3,447	) (277	) (1,714	) (117	) (5,555)
December 31, 2011						
Balance						
NA/HME	3,092	—	—	—	3,092	
IPG	71	—	—	—	71	
Europe	1,742	—	74	—	1,816	
Asia/Pacific	—	—	—	—	—	
Total	4,905	—	74	—	4,979	
Charges						
NA/HME	4,242	—	5	—	4,247	
IPG	35	—	—	—	35	
Europe	817	—	53	1,223	2,093	
Asia/Pacific	1,681	491	1,667	1,181	5,020	
Total	6,775	491	1,725	2,404	11,395	
Payments						
NA/HME	(3,587	) —	(5	) —	(3,592)
IPG	(106	) —	—	—	(106)
Europe	(1,964	) —	(127	) (1,223	) (3,314)
Asia/Pacific	(812	) (340	) (42	) (1,175	) (2,369)
Total	(6,469	) (340	) (174	) (2,398	) (9,381)
December 31, 2012						
Balance						
NA/HME	3,747	—	—	—	3,747	
IPG	—	—	—	—	—	
Europe	595	—	—	—	595	
Asia/Pacific	869	151	1,625	6	2,651	

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Total	5,211	151	1,625	6	6,993
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FS-17

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

	Severance	Product Line Discontinuance	Contract Terminations	Other	Total	
Charges						
NA/HME	5,405	—	164	353	5,922	
IPG	267	—	—	—	267	
Europe	1,640	—	—	—	1,640	
Asia/Pacific	970	—	534	3	1,507	
Total	8,282	—	698	356	9,336	
Payments						
NA/HME	(6,347	) —	(164	) (353	) (6,864)
IPG	(175	) —	—	—	(175)
Europe	(1,146	) —	—	—	(1,146)
Asia/Pacific	(1,839	) (151	) (1,660	) (9	) (3,659)
Total	(9,507	) (151	) (1,824	) (362	) (11,844)
December 31, 2013						
Balance						
NA/HME	2,805	—	—	—	2,805	
IPG	92	—	—	—	92	
Europe	1,089	—	—	—	1,089	
Asia/Pacific	—	—	499	—	499	
Total	3,986	—	499	—	4,485	
Charges						
NA/HME	803	—	—	—	803	
IPG	340	—	—	719	1,059	
Europe	378	—	—	—	378	
Asia/Pacific	—	—	—	—	—	
Total	1,521	—	—	719	2,240	
Payments						
NA/HME	(1,120	) —	—	—	(1,120)
IPG	(35	) —	—	(719	) (754)
Europe	(597	) —	—	—	(597)
Asia/Pacific	—	—	(154	) —	(154)
Total	(1,752	) —	(154	) (719	) (2,625)
March 31, 2014 Balance						
NA/HME	2,488	—	—	—	2,488	
IPG	397	—	—	—	397	
Europe	870	—	—	—	870	
Asia/Pacific	—	—	345	—	345	
Total	\$3,755	\$—	\$345	\$—	\$4,100	

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

Income Taxes

The Company had an effective tax rate provision of 14.1% on losses before tax from continuing operations for the three months ended March 31, 2014 compared to an expected benefit at the U.S. statutory rate of 35%. The Company's effective tax rate for the three months ended March 31, 2014 was greater than the U.S. federal statutory rate, 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 rate was benefitted by taxes outside the United States, excluding countries with tax valuation allowance, at an effective rate lower than the U.S. statutory rate.

The Company had an effective tax rate benefit of 56.7% on losses before tax from continuing operations for the three months ended March 31, 2013 compared to the expected U.S. statutory rate of 35%. The Company's effective tax rate for the three months ended March 31, 2013 was a greater benefit than the U.S. federal statutory rate, principally due to an intraperiod tax allocation resulting in recognizing a tax benefit for the continuing loss in the United States as part of the annual effective rate. The rate was also benefitted by taxes outside the United States, excluding countries with tax valuation allowances that were in losses in 2013, at an effective rate lower than the U.S. statutory rate.

Net Earnings (Loss) Per Common Share

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

(In thousands except per share data)	For the Three Months Ended	
	March 31, 2014	2013
Basic		
Average common shares outstanding	32,013	31,902
Net loss from continuing operations	\$(17,976)	\$(5,708)
Net earnings from discontinued operations	\$—	\$40,889
Net earnings (loss)	\$(17,976)	\$35,181
Net loss per common share from continuing operations	\$(0.56)	\$(0.18)
Net earnings per common share from discontinued operations	\$—	\$1.28
Net earnings (loss) per common share	\$(0.56)	\$1.10
Diluted		
Average common shares outstanding	32,013	31,902
Shares related to convertible debt	—	—
Stock options and awards	288	32
Average common shares assuming dilution	32,301	31,934
Net loss from continuing operations	\$(17,976)	\$(5,708)
Net earnings from discontinued operations	\$—	\$40,889
Net earnings (loss)	\$(17,976)	\$35,181
Net loss per common share from continuing operations *	\$(0.56)	\$(0.18)
Net earnings per common share from discontinued operations	\$—	\$1.28
Net earnings (loss) per common share *	\$(0.56)	\$1.10

* Net loss per common share assuming dilution calculated utilizing weighted average shares outstanding-basic for the period in which there was a net loss.

At March 31, 2014, 2,525,703 shares associated with stock options were excluded from the average common shares assuming dilution for the three months ended March 31, 2014 as they were anti-dilutive. At March 31, 2014, the majority of the anti-dilutive shares were granted at an exercise price of \$41.87, which was higher than the average fair market value price of \$20.57 for the

FS-19

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

three months ended March 31, 2014. At March 31, 2013, 5,103,319 shares associated with stock options were excluded from the average common shares assuming dilution for the three months ended March 31, 2013 as they were anti-dilutive. At March 31, 2013, the majority of the anti-dilutive shares were granted at an exercise price of \$41.87, which was higher than the average fair market value price of \$15.41 for the three months ended March 31, 2013. For the three months ended March 31, 2014 and March 31, 2013, there were no shares necessary to settle a conversion spread on the convertible notes to be included in the common shares assuming dilution as the average market price of the Company stock for these periods did not exceed the conversion price.

Concentration of Credit Risk

The Company manufactures and distributes durable medical equipment to the home health care, retail and extended care markets. The Company performs credit evaluations of its customers' financial condition. The Company utilizes De Lage Landen, Inc. ("DLL"), a third party financing company, to provide the majority of future lease financing to the Company's North America customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The Company retains a recourse obligation of \$4,493,000 at March 31, 2014 to DLL for events of default under the contracts, which total \$40,528,000 at March 31, 2014. The Company's recourse is re-evaluated by DLL biannually, considers activity between the biannual dates and excludes any receivables repurchased by the Company from DLL. The Company monitors the collections status of these contracts and has provided amounts for estimated losses in its allowances for doubtful accounts in accordance with Receivables, ASC 310-10-05-4. Credit losses are provided for in the financial statements.

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

Derivatives

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

Cash Flow Hedging Strategy

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

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

During the first three months of 2014 and 2013, the Company was a party to interest rate swap agreements that qualified as cash flow hedges and effectively converted floating-rate debt to fixed-rate debt, so the Company could avoid the risk of changes in market interest rates. The gains or losses on interest rate swaps are reflected in interest expense on the consolidated statement of comprehensive income (loss).

To protect against increases/decreases in forecasted foreign currency cash flows resulting from inventory purchases/sales over the next year, the Company utilizes foreign currency forward contracts to hedge portions of its forecasted purchases/sales denominated in foreign currencies. The gains and losses are included in cost of products sold and selling, general and administrative

FS-20

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

expenses on the consolidated statement of comprehensive income (loss). If it is later determined that a hedged forecasted transaction is unlikely to occur, any prospective gains or losses on the forward contracts would be recognized in earnings. The Company does not expect any material amount of hedge ineffectiveness related to forward contract cash flow hedges during the next twelve months.

The Company has historically not recognized any material amount of ineffectiveness related to forward contract cash flow hedges because the Company generally limits its hedges to between 60% and 90% of total forecasted transactions for a given entity's exposure to currency rate changes and the transactions hedged are recurring in nature. Furthermore, the majority of the hedged transactions are related to intercompany sales and purchases for which settlement occurs on a specific day each month. Forward contracts with a total notional amount in USD of \$33,623,000 matured during the three months ended March 31, 2014 compared to forward contracts with a total notional amount in USD of \$33,494,000 that matured during the three months ended March 31, 2013.

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

	March 31, 2014		December 31, 2013	
	Notional Amount	Unrealized Net Gain (Loss)	Notional Amount	Unrealized Net Gain (Loss)
USD / AUD	\$1,650	\$(54) \$—	\$—
USD / CNY	10,600	(207	) 11,730	(66
USD / CHF	339	(8	) 486	4
USD / EUR	39,317	(767	) 51,106	(168
USD / GBP	2,132	(85	) 2,686	(45
USD / NZD	1,204	(47) —	—
USD / SEK	1,734	(5	) 2,485	58
USD / MXP	8,683	174	5,960	102
EUR / AUD	500	(16) —	—
EUR / CAD	1,326	71	1,710	(1
EUR / CHF	2,322	32	2,654	1
EUR / DKK	1,096	(3	) 1,382	(5
EUR / GBP	23,440	(601	) 29,614	(501
EUR / SEK	2,790	11	3,432	75
EUR / NOK	2,480	31	3,135	66
EUR / NZD	5,679	224	6,959	(111
AUD / CAD	1,323	(18) —	—
AUD / NZD	883	(6) —	—
GBP / CHF	661	(16	) 837	(26
GBP / SEK	1,644	(78	) 2,078	(101
DKK / SEK	3,981	(29	) 5,337	(94
NOK / SEK	2,575	24	3,418	31
	\$116,359	\$(1,373	) \$135,009	\$(781

Derivatives Not Qualifying or Designated for Hedge Accounting Treatment

The Company also utilizes foreign currency forward contracts that are not designated as hedges in accordance with ASC 815. These contracts are entered into to eliminate the risk associated with the settlement of short-term

intercompany trading receivables and payables between Invacare Corporation and its foreign subsidiaries. The currency forward contracts are entered into at the same time as the intercompany receivables or payables are created so that upon settlement, the gain/loss on the settlement

FS-21

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

is offset by the gain/loss on the foreign currency forward contract. No material net gain or loss was realized by the Company in 2014 or 2013 related to these contracts and the associated short-term intercompany trading receivables and payables.

Foreign currency forward exchange contracts not qualifying or designated for hedge accounting treatment entered into in 2014 and 2013, respectively, and outstanding were as follows (in thousands USD):

	March 31, 2014		March 31, 2013	
	Notional Amount	Gain (Loss)	Notional Amount	Gain (Loss)
AUD / USD	\$2,100	\$(52)	\$—	\$—
CAD / USD	5,612	(184)	24,120	\$(544)
CNY / USD	1,482	(40)	—	—
EUR / USD	15,138	18	—	—
CHF / USD	678	1	—	—
DKK / USD	6,636	13	22,970	(598)
NZD / USD	5,000	(86)	—	—
EUR / AUD	—	—	1,500	(35)
EUR / DKK	5,548	(9)	—	—
AUD / EUR	2,106	(6)	—	—
AUD / GBP	—	—	2,966	6
	\$44,300	\$(345)	\$51,556	\$(1,171)

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

	March 31, 2014		December 31, 2013	
	Assets	Liabilities	Assets	Liabilities
Derivatives designated as hedging instruments under ASC 815				
Foreign currency forward exchange contracts	\$568	\$1,941	\$414	\$1,195
Interest rate swap contracts	—	4	—	12
Derivatives not designated as hedging instruments under ASC 815				
Foreign currency forward exchange contracts	31	376	375	5
Total derivatives	\$599	\$2,321	\$789	\$1,212

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

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

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

	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Derivatives in ASC 815 cash flow hedge relationships			
Three months ended March 31, 2014			
Foreign currency forward exchange contracts	\$ (382)	) \$(126)) \$—
Interest rate swap contracts	8	—	—
	\$ (374)	) \$(126)) \$—
Three months ended March 31, 2013			
Foreign currency forward exchange contracts	\$ 1,601	\$ (220)	) \$57
Interest rate swap contracts	263	(67)) —
	\$ 1,864	\$ (287)	) \$57
Derivatives not designated as hedging instruments under ASC 815			Amount of Gain (Loss) Recognized in Income on Derivatives
Three months ended March 31, 2014			
Foreign currency forward exchange contracts			) \$(345)
Three months ended March 31, 2013			
Foreign currency forward exchange contracts			) \$(1,171)

The gains or losses recognized as the result of the settlement of cash flow hedge foreign currency forward contracts are recognized in net sales for hedges of inventory sales or cost of product sold for hedges of inventory purchases. For the three months ended March 31, 2014, net sales were decreased by \$10,000 and cost of product sold was increased by \$133,000 for a net realized loss of \$143,000. For the three months ended March 31, 2013, net sales were increased by \$136,000 and cost of product sold was increased by \$356,000 for a net realized loss of \$220,000.

The Company recognized expense of \$11,000 for the three and three months ended March 31, 2014 compared to expense of \$226,000 for three months ended March 31, 2013 related to interest rate swap agreements, which is reflected in interest expense on the consolidated statement of comprehensive income (loss).

A loss of \$345,000 versus a loss of \$1,171,000 was recognized in selling, general and administrative (SG&A) expenses for the three months ended March 31, 2014 and March 31, 2013, respectively, on ineffective forward contracts and forward contracts not designated as hedging instruments that are entered into to offset gains/losses also recorded in SG&A expenses on intercompany trade receivables or payables. Any gains/losses on the non-designated hedging instruments were substantially offset by gains/losses also recorded in SG&A expenses on intercompany trade payables.

The Company has entered into foreign currency forward exchange contracts and interest rate swap contracts (the “agreements”) with various bank counterparties, each of which are subject to provisions which are similar to a master netting agreement. The agreements provide for a net settlement payment in a single currency upon a default by the

Company. Furthermore, the agreements provide the counterparty with a right of set off in the event of a default that would enable the counterparty to offset any net payment due by the counterparty to the Company under the applicable agreement by any amount due by the Company to the counterparty under any other agreement. For example, the terms of the agreement would permit a counterparty to a derivative contract that is also a lender under the Company's Credit Agreement to reduce any derivative settlement amounts owed to the Company under the derivative contract by any amounts owed to the counterparty by the Company under the Credit Agreement. In addition, the agreements contain cross-default provisions that could trigger a default by the Company under the agreement in the event of a default by the Company under another agreement with the same counterparty. The Company does not present any

FS-23

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

derivatives on a net basis in its financial statements and all derivative balances presented are subject to provisions that are similar to master netting agreements.

Fair Values

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

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

	Total	Basis for Fair Value Measurements at Reporting Date		
		Quoted Prices in Active Markets for Identical Assets / (Liabilities) Level I	Significant Other Observable Inputs Level II	Significant Other Unobservable Inputs Level III
March 31, 2014				
Forward Exchange Contracts—net	\$(1,718)	—	\$(1,718)	—
Interest Rate Swap Agreements—net	(4)	—	(4)	—
December 31, 2013				
Forward Exchange Contracts—net	\$(411)	—	\$(411)	—
Interest Rate Swap Agreements—net	(12)	—	(12)	—

Forward Contracts: The Company operates internationally and as a result is exposed to foreign currency fluctuations. Specifically, the exposure includes intercompany loans and third party sales or payments. In an attempt to reduce this exposure, foreign currency forward contracts are utilized and accounted for as hedging instruments. The forward contracts are used to hedge the following currencies: AUD, CAD, CHF, CNY, DKK, EUR, GBP, MXP, NOK, NZD, SEK and USD. The Company does not use derivative financial instruments for speculative purposes. Fair values for the Company's foreign exchange forward contracts are based on quoted market prices for contracts with similar maturities.

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

	March 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$21,260	\$21,260	\$29,785	\$29,785
Other investments	990	990	998	998
Installment receivables, net of reserves	3,100	3,100	2,819	2,819
Long-term debt (including current maturities of long-term debt)	(48,957)	(48,471)	(45,286)	(46,124)
Forward contracts in Other Current Assets	599	599	789	789
Forward contracts in Accrued Expenses	(2,317)	(2,317)	(1,200)	(1,200)
	(4)	(4)	(12)	(12)

Interest rate swap agreements in Accrued
Expenses

FS-24

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

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

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

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

Installment receivables: The carrying value reported in the balance sheet for installment receivables approximates its fair value. The interest rates associated with these receivables have not varied significantly since inception.

Management believes that after consideration of the credit risk, the net book value of the installment receivables approximates market value.

Long-term debt: Fair values for the Company's convertible debt is based on quoted market-based estimates as of the end of the period, while the revolving credit facility fair values are based upon the Company's estimate of the market for similar borrowing arrangements. The fair values are deemed to be categorized as Level 2 in the fair value hierarchy.

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

Business Segments

The Company operates in four primary business segments: North America/Home Medical Equipment (North America/HME), Institutional Products Group (IPG), Europe and Asia/Pacific.

The North America/HME segment sells each of three primary product lines, which includes: lifestyle, mobility and seating and respiratory therapy products. IPG sells or rents long-term care medical equipment, health care furnishings and accessory products. Europe and Asia/Pacific sell product lines similar to North America/HME and IPG. Each business segment sells to the home health care, retail and extended care markets.

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

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

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

	For the Three Months Ended	
	March 31, 2014	March 31, 2013
Revenues from external customers		
North America/HME	\$129,110	\$151,882
Institutional Products Group	25,136	29,224
Europe	142,768	137,634
Asia/Pacific	12,055	12,697
Consolidated	\$309,069	\$331,437
Intersegment revenues		
North America/HME	\$18,673	\$18,836
Institutional Products Group	1,573	1,107
Europe	1,682	1,953
Asia/Pacific	6,192	6,882
Consolidated	\$28,120	\$28,778
Restructuring charges before income taxes		
North America/HME	\$803	\$1,679
Institutional Products Group	1,059	188
Europe	378	115
Asia/Pacific	—	540
Consolidated	\$2,240	\$2,522
Earnings (loss) before income taxes		
North America/HME	\$(16,799)	\$(11,179)
Institutional Products Group	(251)	474
Europe	9,246	5,843
Asia/Pacific	(2,801)	(2,261)
All Other (1)	(5,146)	(6,060)
Consolidated	\$(15,751)	\$(13,183)

(1) Consists of un-allocated corporate SG&A costs and intercompany profits, which do not meet the quantitative criteria for determining reportable segments.

Contingencies

General

In the ordinary course of its business, the Company is a defendant in a number of lawsuits, primarily product liability actions in which various plaintiffs seek damages for injuries allegedly caused by defective products. All of the product liability lawsuits that the Company faces in the United States have been referred to the Company's captive insurance company and/or excess insurance carriers while all non-U.S. lawsuits have been referred to the Company's commercial insurance carriers. All such lawsuits are generally contested vigorously. The coverage territory of the Company's insurance is worldwide with the exception of those countries with respect to which, at the time the product is sold for use or at the time a claim is made, the U.S. government has suspended or prohibited diplomatic or trade relations. The amount recorded for identified contingent liabilities is based on estimates. Amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. Actual costs to be incurred in future periods may vary from the estimates, given the inherent uncertainties in evaluating

certain exposures.

As a medical device manufacturer, the Company is subject to extensive government regulation, including numerous laws directed at preventing fraud and abuse and laws regulating reimbursement under various government programs. The marketing,

FS-26

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

invoicing, documenting and other practices of health care suppliers and manufacturers are all subject to government scrutiny. The Company's facilities are subject to periodic inspection by the FDA. Violations of law or regulations can result in administrative, civil and criminal penalties and sanctions, including disqualification from Medicare and other reimbursement programs, which could have a material adverse effect on the Company's business.

On February 14, 2014, an amended complaint, in a lawsuit originally instituted on August 26, 2013, was filed against Invacare Corporation, Gerald B. Blouch, A. Malachi Mixon III and Patricia Stumpp, as well as outside directors Dale C. LaPorte, Michael F. Delaney and Charles S. Robb, in the U.S. District Court for the Northern District of Ohio, alleging that the defendants breached their fiduciary duties and violated the Employment Retirement Security Act (ERISA) in the administration and maintenance of the Company stock fund in the Company's Retirement Savings Plan (401(k) Plan). The lawsuit seeks class certification and unspecified damages and attorneys' fees for participants in the Company's stock fund of the 401(k) Plan between July 22, 2010 and the present. This lawsuit has been referred to the Company's insurance carriers. The Company intends to vigorously defend this lawsuit.

Medical Device Regulatory Matters

The FDA regulates virtually all aspects of the development, testing, manufacturing, labeling, promotion, distribution and marketing of a medical device. The Company and its products are subject to the laws and regulations of the FDA and other regulatory bodies in the various jurisdictions where the Company's products are manufactured or sold. The Company's failure to comply with the regulatory requirements of the FDA and other applicable medical device regulatory requirements can subject the Company to administrative or judicially imposed sanctions. These sanctions include injunctions, consent decrees, warning letters, civil penalties, criminal penalties, product seizure or detention, product recalls and total or partial suspension of production.

In December 2012, the Company reached agreement with the FDA on the terms of the consent decree of injunction with respect to the Company's Corporate facility and its Taylor Street wheelchair manufacturing facility in Elyria, Ohio. A complaint and consent decree were filed in the U.S. District Court for the Northern District of Ohio, and on December 21, 2012. The Court approved the consent decree and it became effective. The consent decree limits the Company's manufacture and distribution of power and manual wheelchairs, wheelchair components and wheelchair sub-assemblies at or from its Taylor Street manufacturing facility. The decree also temporarily limited design activities related to wheelchairs and power beds that take place at the impacted Elyria, Ohio facilities. The Company is entitled to continue to produce from the Taylor Street manufacturing facility certain medically necessary wheelchairs provided that documentation and record-keeping requirements are followed, as well as ongoing replacement, service and repair of products already in use, under terms delineated in the consent decree. Under the terms of the consent decree, in order to resume full operations at the impacted facilities, the Company must successfully complete a third-party expert certification audit at the impacted Elyria facilities, which is comprised of three distinct reports that must be submitted to, and accepted by, the FDA. After the final certification report is submitted to the FDA, as well as the Company's own report as to its compliance status together with its responses to any observations in the certification report, the FDA is expected to inspect the Company's Corporate and Taylor Street facilities to determine whether they are in compliance with the Quality System Regulation (QSR) governing the manufacture of medical devices and the terms of the consent decree. If the FDA is satisfied with the Company's compliance, the FDA will provide written notification that the Company is permitted to resume full operations at the impacted facilities.

During 2013, the Company completed the first two of the expert certification audits, and the FDA found the results of both to be acceptable. In these reports, the third-party expert certified that the Company's equipment and process validation procedures and its design control systems are compliant with the FDA's QSR. As a result of the FDA's acceptance of the first certification report on May 13, 2013, the Taylor Street facility was able to resume supplying parts and components for the further manufacturing of medical devices at other Company facilities. The Company's receipt of the FDA's acceptance of the second certification report on July 15, 2013, resulted in the Company being able to resume design activities at the impacted facilities related to power wheelchairs and power beds.

The third, most comprehensive expert certification audit is a comprehensive review of the Company's compliance with the FDA's QSR at the impacted Elyria facilities. At the time of filing this Quarterly Report on Form 10-Q, the Company is continuing its work with the third-party expert auditor, as the auditor proceeds with the final certification audit process. This audit is the most comprehensive and challenging of the three expert certification audits, and it encompasses all areas of the Company's Corporate and Taylor Street quality system, including the two areas where the third-party expert had previously indicated more work was required. The Company respects the comprehensive nature of the audit process and is working diligently with the third-party expert auditor with the ultimate goal of demonstrating the Company's compliance to the FDA.

FS-27

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

The Company cannot predict the timing of the completion or the outcome of the third-party expert's final certification report. However, after the expert's certification report is completed and submitted to the FDA, as well as the Company's own report related to its compliance status together with its responses to any observations in the certification report, the FDA is expected to inspect the Company's Corporate and Taylor Street facilities to determine whether they are in compliance with the FDA's QSR and the consent decree. If the FDA is satisfied with the Company's compliance, the FDA will provide written notification that the Company is permitted to resume full operations at the impacted facilities.

After resumption of full operations, the Company must undergo five years of audits by a third-party expert auditor to determine whether the facilities are in continuous compliance with FDA's QSR and the consent decree. The auditor will inspect the Corporate and Taylor Street facilities' activities every six months during the first year following the resumption of full operations and then every 12 months for the next four years thereafter.

As described above, because the limitations on production are expected to be temporary in nature, and partial production is allowed, the Company does not anticipate any major repair, replacement or scrapping of its fixed assets at the Taylor Street manufacturing facility. Based on the Company's expectations at the time of filing of this Quarterly Report on Form 10-Q with respect to the utilization of such raw material and with respect to expected future cash flows from production at the Taylor Street manufacturing facility, the Company concluded that there is no impairment in the value of the fixed assets related to the Taylor Street manufacturing facility at March 31, 2014.

The majority of the production from the Taylor Street facility is "made to order" custom wheelchairs for customers and, as a result, there was not a significant amount of finished goods inventory on hand at March 31, 2014, and the inventory is expected to be fully utilized. Accordingly, the Company concluded that there was not an impairment of the work in process and finished goods at the Taylor Street facility at March 31, 2014. Further, based on its analysis of the raw material inventory at the Taylor Street facility and the Company's expectations at the time of filing of this Quarterly Report on Form 10-Q with respect to the time frame for completion of the third-party expert certification audits and FDA inspection, the Company concluded that the value of the inventory was not excessive or impaired at March 31, 2014. However, if the Company's expectations regarding the impacts of the limitations in the consent decree or the time frame for completion of the third-party expert certification audits and FDA inspection were to change, the Company may, in future periods, conclude that an impairment exists with respect to its fixed assets or inventory at the Taylor Street facility.

North America/HME and Asia/Pacific segments: The North America/HME segment is the segment primarily impacted by the limitations in the FDA consent decree. However, the Asia/Pacific segment also is negatively affected as a result of the consent decree due to the lower sales volume of microprocessor controllers. During 2012, before the effective date of the consent decree, the Company started to experience decreases in net sales in the North America/HME and Asia/Pacific segments. Those decreases were primarily related to delays in new product introductions, uncertainty on the part of the Company's customers as they coped with prepayment reviews and post-payment audits by the Centers for Medicare and Medicaid Services ("CMS") and contemplated their participation in the next round of National Competitive Bidding ("NCB"), and, the Company believes, uncertainty regarding the resolution of the consent decree which limited the Company's ability to renegotiate and bid on certain customer contracts and otherwise led to a decline in customer orders. The negative effect of the consent decree on customer orders and net sales has been considerable, and the Company expects to experience continued low levels in net sales as a result of the limitations imposed by the consent decree. The Company expects to continue to experience lower levels of net sales in the North America/HME and Asia/Pacific segments at least until it has successfully completed the previously-described third-party expert certification audit and FDA inspection and has received written notification from the FDA that the Company may resume full operations at the Corporate and Taylor Street facilities. Even after the Company is permitted to resume full operations at the affected facilities, it is uncertain as to whether, or how quickly, the Company will be able to rebuild net sales to more typical historical levels, irrespective of market conditions. Accordingly, when compared to the Company's 2010 results, the limitations in the consent decree had, and likely will continue to have, a material adverse effect on the Company's business, financial condition and results of

operations.

For additional information regarding the consent decree, please see the following sections of the Company's Annual Report on Form 10-K for the year ending December 31, 2013: Item 1. Business - Government Regulation and Item 1A. Risk Factors and the following sections of this Quarterly Report on Form 10-Q: Item 1. Legal Proceedings; and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Outlook and - Liquidity and Capital Resources.

In the first quarter of 2014, the Company recorded additional warranty expense related to the power wheelchair joystick recall of \$2,237,000 (\$2,100,000 after-tax), which impacted the North America/HME segment by \$1,171,000 after-tax and the Asia/Pacific segment by \$929,000 after-tax. The increase in the Company's estimate of total cost related to this matter is attributable

FS-28

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

to higher than previously anticipated response rates from larger customers in United States and Canada. As previously indicated, the reserve is subject to adjustments as new developments change the Company's estimate of the total cost of this matter.

In addition, in December 2010, the Company received a warning letter from the FDA related to quality system processes and procedures at the Company's Sanford, Florida facility. The Company has taken actions which it believes address all of the FDA's concerns in the warning letter. However, the results of regulatory claims, proceedings, investigations, or litigation are difficult to predict. An unfavorable resolution or outcome of the FDA warning letter could materially and adversely affect the Company's business, financial condition, and results of operations.

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

Supplemental Guarantor Information

Effective February 12, 2007, substantially all of the domestic subsidiaries (the "Guarantor Subsidiaries") of the Company became guarantors of the indebtedness of Invacare Corporation under its 4.125% Convertible Senior Subordinated Debentures due 2027 (the "Debentures") with an original aggregate principal amount of \$135,000,000. The majority of the Company's subsidiaries are not guaranteeing the indebtedness of the Debentures (the "Non-Guarantor Subsidiaries"). Each of the Guarantor Subsidiaries has fully and unconditionally guaranteed, on a joint and several basis, to pay principal, premium, and interest related to the Debentures and each of the Guarantor Subsidiaries are directly or indirectly 100%-owned subsidiaries of the Company. Specifically, the Debentures are guaranteed on an unsecured senior subordinated basis by all of the Company's existing domestic subsidiaries (other than the Company's captive insurance subsidiary and any receivables subsidiaries) and certain future direct and indirect 100% owned domestic subsidiaries. All of the guarantors are released and relieved of any liability under such guarantees upon the satisfaction and discharge of the indenture governing the debentures and the payment in full of the debentures. Additionally, in the event any subsidiary guarantor no longer guarantees any of the Company's existing or future senior debt incurred in a public or private U.S. capital markets transaction, such guarantor shall be released and relieved of any liability which it has under the indenture governing the debentures.

Presented below are the consolidating condensed financial statements of Invacare Corporation (Parent), its combined Guarantor Subsidiaries and combined Non-Guarantor Subsidiaries with their investments in subsidiaries accounted for using the equity method. The Company does not believe that separate financial statements of the Guarantor Subsidiaries are material to investors and accordingly, separate financial statements and other disclosures related to the Guarantor Subsidiaries are not presented.

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Three month period ended March 31, 2014	(in thousands)				
Net sales	\$50,109	\$106,454	\$173,800	\$(21,294)	\$309,069
Cost of products sold	45,704	77,584	121,890	(21,357)	223,821
Gross Profit	4,405	28,870	51,910	63	85,248
Selling, general and administrative expenses	31,650	22,268	44,103	—	98,021
Charge related to restructuring activities	1,164	(95)	1,171	—	2,240
Income (loss) from equity investee	10,310	6,931	(36)	(17,205)	—

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Interest expense (income)—net	(284) 865	157	—	738
Earnings (Loss) from Continuing Operations before Income Taxes	(17,815) 12,763	6,443	(17,142) (15,751)
Income taxes	161	—	2,064	—	2,225
Net Earnings (loss)	\$(17,976	) \$12,763	\$ 4,379	\$(17,142	) \$(17,976)
Other Comprehensive Income (Loss), Net of Tax	6,690	(2,290	) 8,955	(6,665	) 6,690
Comprehensive Income (Loss)	\$(11,286	) \$10,473	\$ 13,334	\$(23,807	) \$(11,286)

FS-29

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

CONSOLIDATING CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Three month period ended March 31, 2013	(in thousands)				
Net sales	\$60,909	\$118,436	\$173,925	\$(21,833)	\$331,437
Cost of products sold	52,353	85,849	121,705	(22,054)	237,853
Gross Profit	8,556	32,587	52,220	221	93,584
Selling, general and administrative expenses	34,863	23,051	43,977	1,344	103,235
Charge related to restructuring activities	1,671	—	851	—	2,522
Income (loss) from equity investee	48,018	5,808	65	(53,891)	—
Interest expense (income)—net	(45)	) 436	619	—	1,010
Earnings (Loss) from Continuing Operations before Income Taxes	20,085	14,908	6,838	(55,014)	(13,183)
Income taxes (benefit)	(15,096)	) (25)	) 7,646	—	(7,475)
Net Earnings (Loss) from Continuing Operations	35,181	14,933	(808)	(55,014)	(5,708)
Net Earnings from Discontinued Operations	—	40,889	—	—	40,889
Net Earnings (loss)	\$35,181	\$55,822	\$(808)	\$(55,014)	\$35,181
Other Comprehensive Income (Loss), Net of Tax	134	(2,186)	) 1,787	399	134
Comprehensive Income (Loss)	\$35,315	\$53,636	\$979	\$(54,615)	\$35,315

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

CONSOLIDATING CONDENSED BALANCE SHEETS

	The Company (Parent) (in thousands)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
March 31, 2014					
Assets					
Current Assets					
Cash and cash equivalents	\$2,733	\$212	\$18,315	\$—	\$21,260
Trade receivables, net	62,104	29,569	95,246	—	186,919
Installment receivables, net	—	557	1,033	—	1,590
Inventories, net	21,169	27,076	119,646	(2,548)	) 165,343
Deferred income taxes	—	—	2,714	—	2,714
Intercompany advances, net	8,750	521	49,043	(58,314)) —
Other current assets	8,643	507	32,903	(3,017)	) 39,036
Total Current Assets	103,399	58,442	318,900	(63,879)	) 416,862
Investment in subsidiaries	1,492,163	458,521	—	(1,950,684)) —
Intercompany advances, net	974,444	1,639,111	181,460	(2,795,015)) —
Other Assets	42,655	1,320	2,055	—	46,030
Other Intangibles	543	16,272	44,249	—	61,064
Property and Equipment, net	33,904	16,914	52,927	—	103,745
Goodwill	—	16,660	451,654	—	468,314
Total Assets	\$2,647,108	\$2,207,240	\$1,051,245	\$(4,809,578)	) \$1,096,015
Liabilities and Shareholders' Equity					
Current Liabilities					
Accounts payable	\$51,340	\$7,834	\$65,268	\$—	\$124,442
Accrued expenses	29,871	16,351	88,140	(3,017)	) 131,345
Accrued income taxes	4,220	—	8,051	—	12,271
Intercompany advances, net	45,945	1,956	10,412	(58,313)) —
Short-term debt and current maturities of long-term obligations	794	8	961	—	1,763
Total Current Liabilities	132,170	26,149	172,832	(61,330)	) 269,821
Long-Term Debt	41,811	41	5,342	—	47,194
Other Long-Term Obligations	53,359	—	65,730	—	119,089
Intercompany advances, net	1,759,857	974,811	60,347	(2,795,015)) —
Total Shareholders' Equity	659,911	1,206,239	746,994	(1,953,233)	) 659,911
Total Liabilities and Shareholders' Equity	\$2,647,108	\$2,207,240	\$1,051,245	\$(4,809,578)	) \$1,096,015

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

CONSOLIDATING CONDENSED BALANCE SHEETS

	The Company (Parent) (in thousands)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
December 31, 2013					
Assets					
Current Assets					
Cash and cash equivalents	\$1,401	\$313	\$28,071	\$—	\$29,785
Trade receivables, net	72,272	28,317	88,033	—	188,622
Installment receivables, net	—	452	1,110	—	1,562
Inventories, net	30,806	27,472	100,444	(3,085)	155,637
Deferred income taxes	—	—	2,761	—	2,761
Intercompany advances, net	4,179	380	44,292	(48,851)	—
Other current assets	9,970	568	35,461	(4,827)	41,172
Total Current Assets	118,628	57,502	300,172	(56,763)	419,539
Investment in subsidiaries	1,475,156	450,021	—	(1,925,177)	—
Intercompany advances, net	959,071	1,620,683	179,451	(2,759,205)	—
Other Assets	42,831	1,061	2,044	—	45,936
Other Intangibles	466	17,109	45,009	—	62,584
Property and Equipment, net	35,169	17,774	53,206	—	106,149
Goodwill	—	16,660	445,566	—	462,226
Total Assets	\$2,631,321	\$2,180,810	\$1,025,448	\$(4,741,145)	\$1,096,434
Liabilities and Shareholders' Equity					
Current Liabilities					
Accounts payable	\$42,521	\$7,237	\$66,946	\$—	\$116,704
Accrued expenses	30,314	17,228	90,385	(4,827)	133,100
Accrued income taxes	5,375	—	6,884	—	12,259
Intercompany advances, net	42,314	2,124	4,413	(48,851)	—
Short-term debt and current maturities of long-term obligations	13,118	8	976	—	14,102
Total Current Liabilities	133,642	26,597	169,604	(53,678)	276,165
Long-Term Debt	25,642	61	5,481	—	31,184
Other Long-Term Obligations	53,470	—	64,806	—	118,276
Intercompany advances, net	1,747,758	959,172	52,275	(2,759,205)	—
Total Shareholders' Equity	670,809	1,194,980	733,282	(1,928,262)	670,809
Total Liabilities and Shareholders' Equity	\$2,631,321	\$2,180,810	\$1,025,448	\$(4,741,145)	\$1,096,434

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS

	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Three month period ended March 31, 2014	(in thousands)				
Net Cash Provided (Used) by Operating Activities	\$(1,033)	\$2,824	\$(8,811)	\$—	\$(7,020)
Investing Activities					
Purchases of property and equipment	(649)	(615)	(2,362)	—	(3,626)
Proceeds from sale of property and equipment	—	—	1	—	1
Other long-term assets	(193)	—	(4)	—	(197)
Other	(144)	—	—	—	(144)
Net Cash Used for Investing Activities	(986)	(615)	(2,365)	—	(3,966)
Financing Activities					
Proceeds from revolving lines of credit and long-term borrowings	61,547	—	978	—	62,525
Payments on revolving lines of credit and long-term borrowings	(57,885)	(2,310)	—	—	(60,195)
Proceeds from exercise of stock options	85	—	—	—	85
Payment of dividends	(396)	—	—	—	(396)
Net Cash Provided (Used) by Financing Activities	3,351	(2,310)	978	—	2,019
Effect of exchange rate changes on cash	—	—	442	—	442
Decrease in cash and cash equivalents	1,332	(101)	(9,756)	—	(8,525)
Cash and cash equivalents at beginning of year	1,401	313	28,071	—	29,785
Cash and cash equivalents at end of period	\$2,733	\$212	\$18,315	\$—	\$21,260

FS-33

Table of Contents

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2014

CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS

	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries	Eliminations	Total
Three month period ended March 31, 2013	(in thousands)				
Net Cash Provided (Used) by Operating Activities	\$9,297	\$(89,758)	\$(7,929)	\$53,087	\$(35,303)
Investing Activities					
Purchases of property and equipment	(2,223)	(580)	(1,062)	—	(3,865)
Proceeds from sale of property and equipment	—	—	4		