

INVACARE CORP
Form 10-Q
November 05, 2009

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 September 30, 2009

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)

44036
(Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” 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 November 4, 2009, the registrant had 31,195,416 Common Shares and 1,109,685 Class B Common Shares outstanding.

INVACARE CORPORATION

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements.

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (unaudited)

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| (In thousands) | | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 27,821 | \$ 47,516 |
| Marketable securities | 316 | 72 |
| Trade receivables, net | 259,223 | 266,483 |
| Installment receivables, net | 3,820 | 4,267 |
| Inventories, net | 183,426 | 178,737 |
| Deferred income taxes | 2,310 | 2,051 |
| Other current assets | 47,398 | 51,932 |
| TOTAL CURRENT ASSETS | 524,314 | 551,058 |
| OTHER ASSETS | 57,521 | 60,451 |
| OTHER INTANGIBLES | 86,026 | 84,766 |
| PROPERTY AND EQUIPMENT, NET | 139,573 | 143,512 |
| GOODWILL | 534,365 | 474,686 |
| TOTAL ASSETS | \$ 1,341,799 | \$ 1,314,473 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 135,083 | \$ 119,633 |
| Accrued expenses | 128,279 | 143,612 |
| Accrued income taxes | 2,383 | 3,054 |
| Short-term debt and current maturities of long-term obligations | 2,800 | 18,699 |
| TOTAL CURRENT LIABILITIES | 268,545 | 284,998 |
| LONG-TERM DEBT | 320,696 | 407,707 |
| OTHER LONG-TERM OBLIGATIONS | 95,076 | 88,826 |
| SHAREHOLDERS' EQUITY | | |
| Preferred shares | - | - |
| Common shares | 8,231 | 8,119 |
| Class B common shares | 278 | 278 |
| Additional paid-in-capital | 224,938 | 215,279 |
| Retained earnings | 329,031 | 306,698 |
| Accumulated other comprehensive earnings | 148,946 | 50,789 |
| Treasury shares | (53,942) | (48,221) |
| TOTAL SHAREHOLDERS' EQUITY | 657,482 | 532,942 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,341,799 | \$ 1,314,473 |

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Operations - (unaudited)

| (In thousands except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net sales | \$ 434,031 | \$ 461,836 | \$ 1,244,567 | \$ 1,325,266 |
| Cost of products sold | 302,577 | 330,905 | 886,590 | 956,954 |
| Gross profit | 131,454 | 130,931 | 357,977 | 368,312 |
| Selling, general and administrative expense | 104,344 | 106,181 | 296,416 | 308,396 |
| Charge related to restructuring activities | 1,857 | 283 | 3,757 | 1,653 |
| Interest expense | 7,760 | 10,570 | 26,096 | 32,060 |
| Interest income | (283) | (753) | (1,076) | (2,343) |
| Earnings before income taxes | 17,776 | 14,650 | 32,784 | 28,546 |
| Income taxes | 4,300 | 3,925 | 9,250 | 10,265 |
| NET EARNINGS | \$ 13,476 | \$ 10,725 | \$ 23,534 | \$ 18,281 |
| DIVIDENDS DECLARED PER COMMON SHARE | .0125 | .0125 | .0375 | .0375 |
| Net earnings per share – basic | \$ 0.42 | \$ 0.34 | \$ 0.74 | \$ 0.57 |
| Weighted average shares outstanding - basic | 31,970 | 31,908 | 31,945 | 31,896 |
| Net earnings per share – assuming dilution | \$ 0.42 | \$ 0.33 | \$ 0.74 | \$ 0.57 |
| Weighted average shares outstanding - assuming dilution | 32,004 | 32,031 | 31,952 | 31,977 |

See notes to condensed consolidated financial statements.

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------------|
| | 2009 | 2008 |
| | (In thousands) | |
| OPERATING ACTIVITIES | | |
| Net earnings | \$ 23,534 | \$ 18,281 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Amortization of convertible debt discount | 3,062 | 2,730 |
| Depreciation and amortization | 29,852 | 33,305 |
| Provision for losses on trade and installment receivables | 14,157 | 10,576 |
| Provision for other deferred liabilities | 1,976 | 2,313 |
| Provision for deferred income taxes | 460 | 619 |
| Provision for stock-based compensation | 3,310 | 2,173 |
| Loss (gain) on disposals of property and equipment | 379 | (110) |
| Changes in operating assets and liabilities: | | |
| Trade receivables | 9,782 | (26,799) |
| Installment sales contracts, net | (2,821) | (3,082) |
| Inventories | 6,131 | (18,047) |
| Other current assets | 9,257 | 4,436 |
| Accounts payable | 9,613 | (8,002) |
| Accrued expenses | (22,585) | 785 |
| Other deferred liabilities | (100) | (3,544) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 86,007 | 15,634 |
| INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (10,516) | (15,007) |
| Proceeds from sale of property and equipment | 1,111 | 58 |
| Other long term assets | (461) | 4,470 |
| Business acquisitions, net of cash acquired | - | (2,152) |
| Other | (270) | 1,348 |
| NET CASH USED FOR INVESTING ACTIVITIES | (10,136) | (11,283) |
| FINANCING ACTIVITIES | | |
| Proceeds from revolving lines of credit and long-term borrowings | 274,420 | 266,054 |
| Payments on revolving lines of credit, long-term borrowings and capital lease obligations | (373,335) | (294,448) |
| Proceeds from exercise of stock options | 1,001 | 834 |
| Payment of dividends | (1,201) | (1,199) |
| NET CASH USED BY FINANCING ACTIVITIES | (99,115) | (28,759) |
| Effect of exchange rate changes on cash | 3,549 | (412) |
| Decrease in cash and cash equivalents | (19,695) | (24,820) |
| Cash and cash equivalents at beginning of period | 47,516 | 62,200 |
| Cash and cash equivalents at end of period | \$ 27,821 | \$ 37,380 |

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated
Financial Statements
(Unaudited)
September 30, 2009

Nature of Operations - Invacare Corporation is the world's leading manufacturer and distributor in the \$8.0 billion worldwide market for medical equipment used in the home based upon our 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 September 30, 2009, the results of its operations for the three and nine months ended September 30, 2009 and 2008, respectively, and changes in its cash flows for the nine months ended September 30, 2009 and 2008, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using an August 31 quarter end in order to meet filing deadlines. No material subsequent events have occurred related to the European segment, which would require disclosure or adjustment to the company's financial statements. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year. All significant intercompany transactions are eliminated.

Adoption of new Accounting Standard - In June 2009, the Financial Accounting Standards Board ("FASB") issued ASC 105 which modifies the Generally Accepted Accounting Principles ("GAAP") hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification ("ASC"), also known collectively as the "Codification," is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. Nonauthoritative guidance and literature would include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issue Papers and Technical Practice Aids and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. This statement applies beginning in third quarter 2009. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references.

In May 2009, Subsequent Events, ASC 855, was issued that provides authoritative guidance regarding subsequent events as this guidance was previously only addressed in auditing literature. The company adopted ASC 855 effective June 30, 2009 and the adoption had no material impact on the company's financial position, results of operations or cash flows. The company has evaluated subsequent events through, November 5, 2009, the date of filing of this report with the Securities and Exchange Commission.

On May 9, 2008, Convertible Debt, ASC 470-20, was issued that provides clarification of the accounting for convertible debt that can be settled in cash upon conversion. The FASB believed this clarification was needed because the accounting that was being applied for convertible debt prior to ASC 470-20 did not fully reflect the true economic impact on the issuer since the conversion option was not captured as a borrowing cost and its full dilutive effect was not included in earnings per share. ASC 470-20 requires separate accounting for the liability and equity components of the convertible debt in a manner that would reflect Invacare's nonconvertible debt borrowing rate. Accordingly, the company had to bifurcate a component of its convertible debt as a component of stockholders' equity (\$59,012,000 as of the retrospective adoption date of February 12, 2007) and will accrete the resulting debt discount as interest expense. The company adopted ASC 470-20 effective January 1, 2009 and, as a result, reported

interest expense increased and net earnings decreased by \$1,050,000 (\$0.03 per share) and \$936,000 (\$0.03 per share) for the quarters ended September 30, 2009 and 2008, respectively; by \$3,062,000 (\$0.10 per share) and \$2,730,000 (\$0.09 per share) for the nine month periods ended September 30, 2009 and 2008, respectively and by \$3,695,000 (\$0.12 per share) and \$2,904,000 (\$0.09 per share) for the years 2008 and 2007, respectively. ASC 470-20 required retrospective application upon adoption and accordingly, amounts for 2008 and 2007 are being and will continue to be restated in the 2009 financial statements.

Reclassifications - Certain segment reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the three and nine month periods ended September 30, 2009 as management changed how it views segment earnings.

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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.

Business Segments - The company operates in five primary business segments: North America / Home Medical Equipment (NA/HME), Invacare Supply Group (ISG), Institutional Products Group (IPG), Europe and Asia/Pacific. The NA/HME segment sells each of three primary product lines, which includes: standard, rehab and respiratory products. Invacare Supply Group sells distributed product and the Institutional Products Group sells health care furnishings and accessory products. Europe and Asia/Pacific sell all of the same product lines with the exception of distributed products. Each business segment sells to the home health care, retail and extended care markets.

Invacare distributes numerous lines of branded medical supplies including ostomy, incontinence, diabetic, interals, wound care and urology products as wells as home medical equipment, including aids for daily living. ISG also sells through the retail market.

Invacare, operating as IPG, is a manufacturer and distributor of healthcare furnishings including beds, case goods and patient handling equipment for the long-term care markets, specialty clinical recliners for dialysis and oncology clinics and certain other home medical equipment and accessory products. The company's Asia/Pacific operations consist of Invacare Australia, which distributes the Invacare range of products which includes: manual and power wheelchairs, lifts, ramps, beds, furniture and pressure care products; Dynamic Controls, which manufactures electronic operating components used in power wheelchairs, scooters and other products; Invacare New Zealand, which distributes a wide range of home medical equipment; and Invacare Asia, which imports and distributes home medical equipment to the Asian markets.

The company's European operations operate as a "common market" company with sales throughout Europe. The European operations currently sell a line of products providing room for growth as Invacare continues to broaden its product line offerings to more closely resemble those of its North American operations. 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.

Earnings (loss) before income tax amounts for 2008 have been restated to reflect the amortization of the convertible debt discount recorded as a result of the company's adoption of ASC 470-20. As a result of the restatement, earnings before income taxes decreased by \$1,050,000 and \$3,062,000 for NA/HME and the consolidated company for the three and nine months ended September 30, 2009, respectively, and decreased by \$936,000 and \$2,730,000 for NA/HME and the consolidated company for the three and nine months ended September 30, 2008, respectively. In addition, effective January 1, 2009, segment earnings before income taxes have been changed to reflect how management currently views earnings before income taxes for the segments. Specifically, Asia/Pacific earnings before income taxes now includes profit on intercompany sales with an offsetting adjustment to All Other and NA/HME now includes a greater allocation of interest expense with an offsetting reduction for Europe. The prior year has been reclassified to conform to the current year presentation.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|--------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues from external customers | | | | |
| North America / HME | \$ 185,072 | \$ 191,218 | \$ 559,851 | \$ 554,162 |
| Invacare Supply Group | 70,825 | 67,604 | 204,688 | 197,383 |
| Institutional Products Group | 23,462 | 26,320 | 67,469 | 74,794 |
| Europe | 134,604 | 151,478 | 360,209 | 423,458 |
| Asia/Pacific | 20,068 | 25,216 | 52,350 | 75,469 |
| Consolidated | \$ 434,031 | \$ 461,836 | \$ 1,244,567 | \$ 1,325,266 |
| Intersegment Revenues | | | | |
| North America / HME | \$ 21,775 | \$ 15,456 | \$ 50,459 | \$ 43,843 |
| Invacare Supply Group | 16 | 189 | 214 | 424 |
| Institutional Products Group | 561 | 694 | 1,711 | 2,077 |
| Europe | 2,868 | 2,549 | 6,719 | 9,688 |
| Asia/Pacific | 7,331 | 8,499 | 22,724 | 24,369 |
| Consolidated | \$ 32,551 | \$ 27,387 | \$ 81,827 | \$ 80,401 |
| Charge related to restructuring before income taxes | | | | |
| North America / HME | \$ (80) | \$ (153) | \$ 255 | \$ 102 |
| Invacare Supply Group | 60 | 1,598 | 60 | 1,598 |
| Institutional Products Group | - | - | 171 | 115 |
| Europe | 1,810 | 213 | 2,434 | 996 |
| Asia/Pacific | 365 | 223 | 1,135 | 511 |
| Consolidated | \$ 2,155 | \$ 1,881 | \$ 4,055 | \$ 3,322 |
| Earnings (loss) before income taxes | | | | |
| North America / HME | \$ 9,679 | \$ 3,720 | \$ 24,986 | \$ 10,905 |
| Invacare Supply Group | 1,567 | (323) | 3,442 | 470 |
| Institutional Products Group | 3,629 | 1,654 | 6,721 | 3,023 |
| Europe | 12,372 | 15,736 | 23,393 | 33,344 |
| Asia/Pacific | 468 | 2,565 | 131 | 6,788 |
| All Other * | (9,939) | (8,702) | (25,889) | (25,984) |
| Consolidated | \$ 17,776 | \$ 14,650 | \$ 32,784 | \$ 28,546 |

“All Other” consists of un-allocated corporate selling, general and administrative costs, which do not meet the quantitative criteria for determining reportable segments.

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Net Earnings Per Common Share - The following table sets forth the computation of basic and diluted net earnings per common share for the periods indicated (amounts in thousands, except per share amounts).

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands, except per share data) | | | |
| Basic | | | | |
| Average common shares outstanding | 31,970 | 31,908 | 31,945 | 31,896 |
| Net earnings | \$ 13,476 | \$ 10,725 | \$ 23,534 | \$ 18,281 |
| Net earnings per common share | \$ 0.42 | \$ 0.34 | \$ 0.74 | \$ 0.57 |
| Diluted | | | | |
| Average common shares outstanding | 31,970 | 31,908 | 31,945 | 31,896 |
| Stock options and awards | 34 | 123 | 7 | 81 |
| Average common shares assuming dilution | 32,004 | 32,031 | 31,952 | 31,977 |
| Net earnings | \$ 13,476 | \$ 10,725 | \$ 23,534 | \$ 18,281 |
| Net earnings per common share | \$ 0.42 | \$ 0.33 | \$ 0.74 | \$ 0.57 |

At September 30, 2009, 4,436,375 and 4,778,393 shares were excluded from the average common shares assuming dilution for the three and nine months ended September 30, 2009, respectively, as they were anti-dilutive. At September 30, 2008, 2,881,198 and 4,299,531 shares were excluded from the average common shares assuming dilution for the three and nine months ended September 30, 2008, respectively, as they were anti-dilutive. For the three and nine months ended September 30, 2009, the majority of the anti-dilutive shares were granted at an exercise price of \$41.87 which was higher than the average fair market value prices of \$20.41 and \$17.87, respectively. For the three and nine months ended September 30, 2008, the majority of the anti-dilutive shares were granted at an exercise price of \$41.87 which was higher than the average fair market value prices of \$23.71 and \$22.27, respectively.

Concentration of Credit Risk - The company manufactures and distributes durable medical equipment and supplies to the home health care, retail and extended care markets. The company performs credit evaluations of its customers' financial condition. Prior to December 2000, the company financed equipment to certain customers. In December 2000, Invacare entered into an agreement with De Lage Landen, Inc. ("DLL"), a third party financing company, to provide the majority of future lease financing to Invacare's North America customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The company retains a recourse obligation of \$29,234,000 at September 30, 2009 to DLL for events of default under the contracts, which total \$82,107,000 at September 30, 2009. Guarantees, ASC 460, requires the company to record a guarantee liability as it relates to the limited recourse obligation. As such, the company has a recorded a liability of \$768,000 for this guarantee obligation within other long-term obligations. 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. In addition, 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.

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Goodwill and Other Intangibles - The change in goodwill reflected on the balance sheet from December 31, 2008 to September 30, 2009 was entirely the result of foreign currency translation.

All of the company's other intangible assets have definite lives and are amortized over their useful lives, except for \$34,548,000 related to trademarks, which have indefinite lives.

As of September 30, 2009 and December 31, 2008, other intangibles consisted of the following (in thousands):

| | September 30, 2009 | | December 31, 2008 | |
|----------------------|--------------------|--------------------------|-------------------|--------------------------|
| | Historical Cost | Accumulated Amortization | Historical Cost | Accumulated Amortization |
| Customer lists | \$ 78,118 | \$ 34,512 | \$ 72,155 | \$ 28,526 |
| Trademarks | 34,548 | — | 30,934 | — |
| License agreements | 4,323 | 4,015 | 5,494 | 4,688 |
| Developed technology | 7,207 | 2,305 | 6,698 | 1,942 |
| Patents | 7,868 | 6,178 | 6,761 | 4,790 |
| Other | 5,874 | 4,902 | 8,890 | 6,220 |
| | \$ 137,938 | \$ 51,912 | \$ 130,932 | \$ 46,166 |

Amortization expense related to other intangibles was \$6,445,000 in the first nine months of 2009 and is estimated to be \$8,578,000 in 2010, \$8,170,000 in 2011, \$7,633,000 in 2012, \$6,803,000 in 2013 and \$6,473,000 in 2014.

Accounting for Stock-Based Compensation - The company accounts for share based compensation under the provisions of the Compensation – Stock Compensation, ASC 718. The company has not made any modifications to the terms of any previously granted options and no changes have been made regarding the valuation methodologies or assumptions used to determine the fair value of options granted since 2005 and the company continues to use a Black-Scholes valuation model. The amounts of stock-based compensation expense recognized were as follows (in thousands):

| | Nine Months Ended September 30, | | Nine Months Ended September 30, | |
|--|------------------------------------|--------|------------------------------------|----------|
| | 2009 | 2008 | 2009 | 2008 |
| Stock-based compensation expense recognized as part of selling, general and administrative expense | \$ 1,528 | \$ 894 | \$ 3,310 | \$ 2,173 |

The 2009 and 2008 amounts above reflect compensation expense related to restricted stock awards and nonqualified stock options awarded under the 2003 Performance Plan. Stock-based compensation is not allocated to the business segments, but is reported as part of All Other as shown in the company's Business Segment Note to the Consolidated Financial Statements.

Stock Incentive Plans - The 2003 Performance Plan, as amended (the "2003 Plan"), allows the Compensation and Management Development Committee of the Board of Directors (the "Committee") to grant up to 6,800,000 Common Shares in connection with incentive stock options, non-qualified stock options, stock appreciation rights and stock awards (including the use of restricted stock), which includes the addition of 3,000,000 Common Shares authorized for issuance under the 2003 Plan, as approved by the Company's shareholders on May 21, 2009. The Committee has the authority to determine which employees and directors will receive awards, the amount of the awards and the other

terms and conditions of the awards. During the first nine months of 2009, the Committee granted 738,708 non-qualified stock options under the 2003 Plan with a term of ten years, each with an exercise price equal to the fair market value of the company's Common Shares on the date of grant.

Under the terms of the company's outstanding restricted stock awards, all of the shares granted vest ratably over the four years after the grant date. Compensation expense of \$1,238,000 was recognized related to restricted stock awards in the first nine months of 2009 and as of September 30, 2009, outstanding restricted stock awards totaling 302,026 were not yet vested. Restricted stock awards totaling 125,840 were granted in the first nine months of 2009.

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Stock option activity during the nine months ended September 30, 2009 was as follows:

| | 2009 | Weighted Average Exercise Price |
|--|-------------|------------------------------------|
| Options outstanding at January 1 | 4,910,547 | \$ 29.38 |
| Granted | 738,708 | 20.73 |
| Exercised | (346,163) | 18.63 |
| Cancelled | (421,595) | 23.16 |
| Options outstanding at September 30 | 4,881,497 | \$ 29.10 |
| Options price range at September 30 | \$ 10.70 to | |
| | \$ 47.80 | |
| Options exercisable at September 30 | 3,325,662 | |
| Options available for grant at September 30* | 3,036,340 | |

* Options available for grant as of September 30, 2009 are reduced by net restricted stock award activity of 400,278 shares.

The following table summarizes information about stock options outstanding at September 30, 2009:

| Exercise Prices | Number Outstanding At 9/30/09 | Options Outstanding | | Weighted Average Exercise Price | Options Exercisable | |
|------------------------|-------------------------------------|---|---------------------------------------|---------------------------------------|-------------------------------------|---------------------------------------|
| | | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | | Number Exercisable At 9/30/09 | Weighted Average Exercise Price |
| \$ 10.70 - \$ 16.03 | 25,195 | 2.7 years | \$ 11.08 | 1,053 | \$ 16.03 | |
| \$ 16.26 - \$ 23.71 | 2,015,469 | 6.8 | \$ 21.91 | 943,113 | \$ 22.81 | |
| \$ 24.43 - \$ 36.40 | 1,635,409 | 4.7 | \$ 29.05 | 1,176,072 | \$ 30.28 | |
| \$ 37.70 - \$ 47.80 | 1,205,424 | 4.9 | \$ 41.57 | 1,205,424 | \$ 41.57 | |
| Total | 4,881,497 | 5.6 | \$ 29.10 | 3,325,662 | \$ 32.25 | |

When stock options are awarded, they generally become exercisable over a four-year vesting period whereby options vest in equal installments each year. Options granted with graded vesting are accounted for as single options. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with assumptions for expected dividend yield, expected stock price volatility, risk-free interest rate and expected life. The assumed expected life is based on the company's historical analysis of option history. The expected stock price volatility is also based on actual historical volatility, and expected dividend yield is based on historical dividends as the company has no current intention of changing its dividend policy.

The 2003 Plan provides that shares granted come from the company's authorized but unissued Common Shares or treasury shares. In addition, the company's stock-based compensation plans allow participants to exchange shares for

withholding taxes, which results in the company acquiring treasury shares.

As of September 30, 2009, there was \$16,077,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the company's plans, which is related to non-vested options and shares, and includes \$5,534,000 related to restricted stock awards. The company expects the compensation expense to be recognized over approximately four years.

Warranty Costs - 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 sale 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. No material adjustments to warranty reserves based on other events were necessary in the first nine months of 2009.

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

| | |
|---|-----------|
| Balance as of January 1, 2009 | \$ 16,798 |
| Warranties provided during the period | 9,317 |
| Settlements made during the period | (7,055) |
| Changes in liability for pre-existing warranties during the period, including expirations | 1,722 |
| Balance as of September 30, 2009 | \$ 20,782 |

Charges Related to Restructuring Activities – In 2005, the company announced multi-year cost reductions and profit improvement actions, which included: reducing global headcount, outsourcing improvements utilizing the company's China manufacturing capability and third parties, shifting substantial resources from product development to manufacturing cost reduction activities and product rationalization, reducing freight exposure through freight auctions and changing the freight policy and general expense reductions. The restructuring was necessitated by the continued decline in reimbursement by the U.S. government as well as similar reimbursement pressures abroad and continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations.

To date, the company has made substantial progress on its restructuring activities, including exiting manufacturing and distribution facilities and eliminating positions, which resulted in restructuring charges of \$4,055,000 and \$3,322,000 incurred in the first nine months of 2009 and 2008, respectively, of which \$298,000 and \$1,669,000, respectively, were recorded in cost of products sold as it relates to inventory markdowns and the remaining charge amount is included on the Charge Related to Restructuring Activities in the Condensed Consolidated Statement of Operations as part of operations. There have been no material changes in accrued balances related to the charge, either as a result of revisions in the plan or changes in estimates, and the company expects to utilize the accruals recorded through September 30, 2009 during 2009.

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

| | Severance | Product Line Discontinuance | Contract Terminations | Other | Total |
|-------------------------|-----------|--------------------------------|--------------------------|----------|-----------|
| January 1, 2006 Balance | | | | | |
| NA/HME | \$ 2,130 | \$ — | \$ — | \$ — | 2,130 |
| ISG | 112 | — | 165 | — | 277 |
| Europe | 799 | — | — | — | 799 |
| Asia/Pacific | 63 | — | — | — | 63 |
| Total | \$ 3,104 | \$ — | 165 | \$ — | 3,269 |
| Accruals | | | | | |
| NA/HME | 5,549 | 2,719 | 1,346 | — | 9,614 |
| ISG | 457 | 552 | — | — | 1,009 |
| IPG | 38 | — | — | — | 38 |
| Europe | 5,208 | 455 | — | 2,995 | 8,658 |
| Asia/Pacific | 621 | 557 | 745 | 8 | 1,931 |
| Total | \$ 11,873 | \$ 4,283 | \$ 2,091 | \$ 3,003 | \$ 21,250 |
| Payments | | | | | |
| NA/HME | (6,320) | (682) | (789) | — | (7,791) |
| ISG | (403) | (552) | (165) | — | (1,120) |

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| | | | | | |
|--------------|------------|------------|------------|------------|-------------|
| IPG | (38) | — | — | — | (38) |
| Europe | (2,273) | (455) | — | (2,995) | (5,723) |
| Asia/Pacific | (684) | (557) | (623) | (8) | (1,872) |
| Total | \$ (9,718) | \$ (2,246) | \$ (1,577) | \$ (3,003) | \$ (16,544) |

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| | Severance | Product Line Discontinuance | Contract Terminations | Other | Total |
|---------------------------|------------|--------------------------------|--------------------------|------------|-------------|
| December 31, 2006 Balance | | | | | |
| NA/HME | 1,359 | 2,037 | 557 | — | 3,953 |
| ISG | 166 | — | — | — | 166 |
| Europe | 3,734 | — | — | — | 3,734 |
| Asia/Pacific | — | — | 122 | — | 122 |
| Total | \$ 5,259 | \$ 2,037 | \$ 679 | \$ — | \$ 7,975 |
| Accruals | | | | | |
| NA/HME | 3,705 | 178 | (19) | — | 3,864 |
| ISG | 67 | — | — | — | 67 |
| IPG | 19 | — | 98 | 55 | 172 |
| Europe | 862 | 386 | — | 3,247 | 4,495 |
| Asia/Pacific | 1,258 | 1,253 | 299 | — | 2,810 |
| Total | \$ 5,911 | \$ 1,817 | \$ 378 | \$ 3,302 | \$ 11,408 |
| Payments | | | | | |
| NA/HME | (4,362) | (2,183) | (172) | — | (6,717) |
| ISG | (228) | — | — | — | (228) |
| IPG | (19) | — | (98) | (55) | (172) |
| Europe | (4,591) | (386) | — | (3,202) | (8,179) |
| Asia/Pacific | (746) | (1,253) | (382) | — | (2,381) |
| Total | \$ (9,946) | \$ (3,822) | \$ (652) | \$ (3,257) | \$ (17,677) |
| December 31, 2007 Balance | | | | | |
| NA/HME | 702 | 32 | 366 | — | 1,100 |
| ISG | 5 | — | — | — | 5 |
| Europe | 5 | — | — | 45 | 50 |
| Asia/Pacific | 512 | — | 39 | — | 551 |
| Total | \$ 1,224 | \$ 32 | \$ 405 | \$ 45 | \$ 1,706 |
| Accruals | | | | | |
| NA/HME | 217 | — | (15) | — | 202 |
| ISG | — | 1,598 | — | — | 1,598 |
| IPG | — | — | 115 | — | 115 |
| Europe | 1,371 | 208 | — | 649 | 2,228 |
| Asia/Pacific | 522 | 11 | 90 | — | 623 |
| Total | \$ 2,110 | \$ 1,817 | \$ 190 | \$ 649 | \$ 4,766 |
| Payments | | | | | |
| NA/HME | (693) | (31) | (195) | — | (919) |
| ISG | (5) | (1,598) | — | — | (1,603) |
| IPG | — | — | (115) | — | (115) |
| Europe | (829) | (208) | — | (574) | (1,611) |
| Asia/Pacific | (1,034) | (11) | (129) | — | (1,174) |

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| | | | | | | | | | | |
|-------|----|---------|----|---------|----|-------|----|-------|----|---------|
| Total | \$ | (2,561) | \$ | (1,848) | \$ | (439) | \$ | (574) | \$ | (5,422) |
|-------|----|---------|----|---------|----|-------|----|-------|----|---------|

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| | Severance | Product Line Discontinuance | Contract Terminations | Other | Total |
|----------------------------|------------|--------------------------------|--------------------------|----------|------------|
| December 31, 2008 Balance | | | | | |
| NA/HME | 226 | 1 | 156 | — | 383 |
| Europe | 547 | — | — | 120 | 667 |
| Total | \$ 773 | \$ 1 | \$ 156 | \$ 120 | \$ 1,050 |
| Accruals | | | | | |
| NA/HME | 255 | — | — | — | 255 |
| ISG | 60 | — | — | — | 60 |
| IPG | 171 | — | — | — | 171 |
| Europe | 986 | — | — | 1,448 | 2,434 |
| Asia/Pacific | 1,105 | — | 30 | — | 1,135 |
| Total | \$ 2,577 | \$ — | \$ 30 | \$ 1,448 | \$ 4,055 |
| Payments | | | | | |
| NA/HME | (481) | — | (50) | — | (531) |
| ISG | (60) | — | — | — | (60) |
| IPG | (56) | — | — | — | (56) |
| Europe | (887) | — | — | (927) | (1,814) |
| Asia/Pacific | (1,105) | — | (30) | — | (1,135) |
| Total | \$ (2,589) | \$ — | \$ (80) | \$ (927) | \$ (3,596) |
| September 30, 2009 Balance | | | | | |
| NA/HME | — | 1 | 106 | — | 107 |
| IPG | 115 | — | — | — | 115 |
| Europe | 646 | — | — | 641 | 1,287 |
| Asia/Pacific | — | — | — | — | — |
| Total | \$ 761 | \$ 1 | \$ 106 | \$ 641 | \$ 1,509 |

Comprehensive Earnings - Total comprehensive earnings were as follows (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Net earnings | \$ 13,476 | \$ 10,725 | \$ 23,534 | \$ 18,281 |
| Foreign currency translation gain (loss) | 22,544 | (57,500) | 94,494 | (19,714) |
| Unrealized gain (loss) on available for sale securities | 115 | 19 | 162 | (60) |
| SERP/DBO amortization of prior service costs and unrecognized losses | 249 | 647 | 440 | 1,746 |
| Current period unrealized gain on cash flow hedges | 1,124 | 1,338 | 3,061 | 829 |
| Total comprehensive earnings (loss) | \$ 37,508 | \$ (44,771) | \$ 121,691 | \$ 1,082 |

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Inventories - Inventories determined under the first in, first out method consist of the following components (in thousands):

| | September 30, 2009 | December 31, 2008 |
|-----------------|-----------------------|----------------------|
| Finished goods | \$ 114,568 | \$ 99,486 |
| Raw Materials | 57,929 | 64,493 |
| Work in Process | 10,929 | 14,758 |
| | \$ 183,426 | \$ 178,737 |

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

| | September 30, 2009 | December 31, 2008 |
|----------------------------------|-----------------------|----------------------|
| Machinery and equipment | \$ 323,086 | \$ 308,532 |
| Land, buildings and improvements | 95,353 | 90,410 |
| Furniture and fixtures | 26,549 | 25,041 |
| Leasehold improvements | 14,473 | 15,720 |
| | 459,461 | 439,703 |
| Less allowance for depreciation | (319,888) | (296,191) |
| | \$ 139,573 | \$ 143,512 |

Acquisitions- In the first nine months of 2009, the company made no acquisitions. In October 2008, Invacare Corporation purchased a billing company operating as Homecare Collection Services (HCS) for \$6,268,000. Pursuant to the HCS purchase agreement, the company agreed to pay contingent consideration based upon earnings before interest, taxes and depreciation over the three years subsequent to the acquisition up to a maximum of \$3,000,000. When the contingency related to the acquisition is determinable, any additional consideration paid will increase the respective purchase price and reported goodwill.

Derivatives - In March 2008, Derivatives and Hedging, ASC 815, was issued which requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The company adopted ASC 815 effective January 1, 2009.

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 commodity price risk, foreign currency exchange risk and interest rate risk. Foreign 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 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 2009, 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 and or losses on interest rate swaps are reflected in interest expense on the consolidated statement of operations. As of September 30, 2009, none of the company's debt had its interest payments designated as the hedged forecasted transactions to interest rate swap agreements.

To protect against increases/decreases in forecasted foreign currency cash flows resulting from inventory purchases/sales over the next year, the company utilizes foreign currency forward contracts to hedge portions of its forecasted purchases/sales denominated in foreign currencies. The gains and losses are included in cost of products sold and selling, general and administrative expenses on the consolidated statement of operations. If it is later determined that a hedged forecasted transaction is unlikely to occur, any gains or losses on the forward contracts would be reclassified from other comprehensive income into earnings. The company does not expect this to occur during the next twelve months.

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The company has historically not recognized any 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. Forward contracts with a total notional amount in USD of \$48,588,000 and \$82,212,000 matured during the three and nine months ended September 30, 2009.

As of September 30, 2009, foreign exchange forward contracts qualifying and designated for hedge accounting treatment were as follows (in thousands USD):

| | Notional Amount | Unrealized Gain (Loss) |
|-----------|-----------------|---------------------------|
| USD / AUD | \$ 2,124 | \$ (544) |
| USD / CAD | 12,612 | 106 |
| USD / EUR | 11,841 | (601) |
| USD / GBP | 4,257 | (498) |
| USD / NZD | 2,794 | 461 |
| USD / SEK | 1,369 | 234 |
| USD / MXN | 2,326 | 204 |
| EUR / CHF | 2,733 | (24) |
| EUR / GBP | 2,592 | (94) |
| EUR / SEK | 4,711 | 279 |
| EUR / NZD | 2,581 | 428 |
| GBP / CHF | 519 | 4 |
| GBP / SEK | 991 | 64 |
| GBP / DKK | 800 | (34) |
| DKK / SEK | 1,669 | 64 |
| DKK / NOK | 582 | (4) |
| NOK / CHF | 912 | (31) |
| NOK / SEK | 956 | 12 |
| | \$ 56,369 | \$ 26 |

Fair Value Hedging Strategy

In 2009 and 2008, the company did not utilize any derivatives designated as fair value hedges. However, the company has in the past utilized fair value hedges in the form of forward contracts to manage the foreign exchange risk associated with certain firm commitments and has entered into interest rate swaps to effectively convert fixed-rate debt to floating-rate debt in an attempt to avoid paying higher than market interest rates. For derivative instruments designated and qualifying as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item associated with the hedged risk are recognized in the same line item associated with the hedged item in earnings.

Derivatives Not Qualifying or Designated for Hedge Accounting Treatment

The company utilizes foreign currency forward or option contracts that do not qualify for hedge accounting treatment in an attempt to manage the risk associated with the conversion of earnings in foreign currencies into U.S. Dollars. While these derivative instruments do not qualify for hedge accounting treatment in accordance with ASC 815, these derivatives do provide the company with a means to manage the risk associated with currency translation. These instruments are recorded at fair value in the consolidated balance sheet and any gains or losses are recorded as part of earnings in the current period. No such contracts were outstanding and a gain of \$32,000 was recorded by the company for the quarter and nine months ended September 30, 2009 related to any derivatives not

qualifying for hedge accounting treatment.

The company also utilizes foreign currency forward contracts that are not designated as hedges in accordance with ASC 815 although they could qualify for hedge accounting treatment. These contracts are entered into to eliminate the risk associated with the settlement of short-term intercompany trading receivables and payables between Invacare Corporation and its foreign subsidiaries. The currency forward contracts are entered into at the same time as the intercompany receivables or payables are created so that upon settlement, the gain / loss on the settlement is offset by the gain / loss on the foreign currency forward contract accordingly no material net gain or loss was realized by the company for the quarter or nine months ended September 30, 2009 related to these forward contracts and the associated short-term intercompany trading receivables and payables.

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As of September 30, 2009, foreign exchange forward contracts not qualifying or designated for hedge accounting treatment entered into in the first nine months of 2009 and outstanding were as follows (in thousands USD):

| | Notional Amount | Unrealized Gain (Loss) |
|-----------|-----------------|---------------------------|
| CAD / USD | \$ 16,052 | \$ 289 |
| EUR / USD | 12,022 | 202 |
| SEK / USD | 24,799 | 25 |
| NZD / USD | 6,161 | (37) |
| | \$ 59,034 | \$ 479 |

As of September 30, 2009, the fair values of the company's derivative instruments were as follows (in thousands):

| | Assets | Liabilities |
|---|----------|-------------|
| Derivatives designated as hedging instruments under ASC 815 | | |
| Foreign currency forward contracts | \$ 3,102 | \$ 3,076 |
| Derivatives not designated as hedging instruments under ASC 815 | | |
| Foreign currency forward contracts | 537 | 59 |
| Total derivatives | \$ 3,639 | \$ 3,135 |

The fair values of the company's foreign currency forward assets and liabilities are included in Other Current Assets and Accrued Expenses, respectively in the Consolidated Balance Sheets. Swap assets are recorded in either Other Current Assets or Other Assets, while swap liabilities are recorded in Accrued Expenses or Other Long-Term Obligations in the Consolidated Balance Sheets. For the quarter ended September 30, 2009, no swaps were outstanding.

The effect of derivative instruments on the Statement of Operations for the three and nine months ended September 30, 2009 was as follows (in thousands):

| Derivatives in ASC 815 cash flow hedge relationships | Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) | Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing) |
|--|--|---|--|
| Three months ended September 30 | | | |
| Foreign currency forward contracts | \$ 954 | \$ (345) | \$ - |
| Interest rate swap contracts | 857 | (426) | - |
| | \$ 1,811 | \$ (771) | \$ - |
| Nine months ended September 30 | | | |
| Foreign currency forward contracts | \$ 587 | \$ (277) | \$ - |
| Interest rate swap contracts | 5,556 | (2,819) | - |

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\$ 6,143 \$ (3,096) \$ -

| Derivatives not designated as hedging instruments under ASC 815 | Amount of Gain (Loss) Recognized in Income on Derivatives |
|---|---|
| Three months ended September 30 | |
| Foreign currency forward contracts | \$ (78) |
| Nine months ended September 30 | |
| Foreign currency forward contracts | \$ 2,425 |

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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 quarter and nine months ended September 30, 2009, net sales were increased by \$1,583,000 and \$2,413,000, respectively, and cost of product sold was increased by \$1,927,000 and \$2,690,000, respectively for net realized losses of \$345,000 and \$277,000, respectively. The \$426,000 and \$2,819,000 losses for the quarter and nine months ended September 30, 2009 related to interest rate swap agreements were recorded in interest expense for the period. There was an immaterial amount reported in interest expense due to ineffectiveness related to the interest rate swap contracts. The \$78,000 loss and \$2,425,000 gain recognized on foreign currency forward contracts not designated as hedging instruments was recognized in selling, general and administrative (SG&A) expenses for the quarter and nine months ended September 30, 2009 were offset by gains/losses of comparable amounts also recorded in SG&A expenses on the intercompany trade payables for which the derivatives were entered into to offset.

Fair Value Measurements - The Company has adopted Fair Value Measurements and Disclosures, ASC 820, as of January 1, 2008 for assets and liabilities measured at fair value on a recurring basis and the adoption had no material impact on the company's financial position, results of operations or cash flows. For assets and liabilities measured at fair value on a nonrecurring basis, such as goodwill and intangibles, the company deferred its adoption until January 1, 2009, as allowed under the provisions of ASC 820. The adoption of ASC 820 for assets and liabilities measured at fair value on a nonrecurring basis had no material impact on the company's financial position, results of operations or cash flows.

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

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

| | Basis for Fair Value Measurements at Reporting Date | | | |
|-------------------------------|---|---|--|---|
| | September 30, 2009 | Quoted Prices in Active Markets for Identical Assets / (Liabilities) | Significant Other Observable Inputs | Significant Other Unobservable Inputs |
| | | Level I | Level II | Level III |
| Marketable Securities | \$ 316 | \$ 316 | \$ - | \$ - |
| Forward Exchange Contracts | 504 | - | 504 | - |
| Total | \$ 820 | \$ 316 | \$ 504 | \$ - |

Marketable Securities: The Company's marketable securities are recorded based on quoted prices in active markets multiplied by the number of shares owned without any adjustments for transactional costs or other costs that may be incurred to sell the securities.

Interest Rate Swaps: The company was a party to interest rate swap agreements, which were entered into in the normal course of business, to reduce exposure to fluctuations in interest rates. The agreements were with major financial institutions, which were expected to fully perform under the terms of the agreements thereby mitigating the credit risk from the transactions. The agreements were contracts to exchange floating rate payments for fixed rate payments without the exchange of the underlying notional amounts. The notional amounts of such agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The amounts to be paid or received under the interest rate swap agreements are accrued consistent with the terms of the agreements and market interest rates. Fair value for the company's interest rate swaps are based on pricing models in which all significant inputs, such as interest rates and yield curves, are observable in active markets. No swaps were outstanding as of September 30, 2009.

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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 amounts and fair values of the company's financial instruments at September 30, 2009 and December 31, 2008 are as follows (in thousands):

| | September 30, 2009 | | December 31, 2008 | |
|---|--------------------|------------|-------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Cash and cash equivalents | \$ 27,821 | \$ 27,821 | \$ 47,516 | \$ 47,516 |
| Marketable securities | 316 | 316 | 72 | 72 |
| Other investments | 7,470 | 7,470 | 8,657 | 8,657 |
| Installment receivables, net | 8,065 | 8,065 | 9,946 | 9,946 |
| Long-term debt (including current maturities of long-term debt) | (323,496) | (451,870) | (426,406) | (321,729) |
| Interest rate swaps | - | - | (2,737) | (2,737) |
| Forward contracts in Other Current Assets | 3,639 | 3,639 | 1,413 | 1,413 |
| Forward contracts in accrued expenses | (3,135) | (3,135) | (1,719) | (1,719) |

Long-term debt carrying value and fair value as of December 31, 2008 have been restated to reflect the company's adoption of ASC 470-20.

The aggregate cost of the Company's cost-method investments totaled \$7,470,000 as of September 30, 2009. These investments were not evaluated for impairment because the Company did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments.

Income Taxes - The Company had an effective tax rate of 24.2% and 28.2% on earnings before tax for the three and nine month periods ended September 30, 2009, respectively, compared to an expected rate at the US statutory rate of 35%. For the three and nine month periods ended September 30, 2008, the company had an effective rate of 26.8% and 36.0%, respectively, compared to an expected rate at the US statutory rate of 35%. The company's effective tax rate for the three and nine month periods ended September 30, 2009 and three month period ending September 30, 2008 was lower than the U.S. federal statutory rate as a result of the company not being able to record tax benefits related to losses in countries which had tax valuation allowances, while normal tax expense was recognized in countries without tax allowances and earnings abroad being taxed at rates generally lower than the U.S. federal statutory rate. For the nine month period ended September 30, 2008, the effective tax rate was higher than the U.S. federal statutory rate as a result of the company not being able to record tax benefits related to losses in countries which had tax valuation allowances, while normal tax expense was recognized in countries without tax valuation allowances.

Supplemental Guarantor Information - Effective February 12, 2007, many of the non-domestic subsidiaries (the "Guarantor Subsidiaries") of the company became guarantors of the indebtedness of Invacare Corporation under its 9

$\frac{3}{4}$ % Senior Notes due 2015 (the “Senior Notes”) with an aggregate principal amount of \$175,000,000 and under its 4.125% Convertible Senior Subordinated Debentures due 2027 (the “Debentures”) with an aggregate principal amount of \$135,000,000. The majority of the company’s subsidiaries are not guaranteeing the indebtedness of the Senior Notes or 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 Senior Notes and to the Debentures and each of the Guarantor Subsidiaries are directly or indirectly wholly-owned subsidiaries of the company.

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.

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CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS

(in thousands)

| Three month period ended September 30, 2009 | The Company (Parent) | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations | Total |
|---|----------------------------|---------------------------------------|---|--------------|------------|
| Net sales | \$ 104,511 | \$ 171,241 | \$ 181,938 | \$ (23,659) | \$ 434,031 |
| Cost of products sold | 74,084 | 133,629 | 118,540 | (23,676) | 302,577 |
| Gross Profit | 30,427 | 37,612 | 63,398 | 17 | 131,454 |
| Selling, general and administrative expenses | 43,607 | 21,650 | 39,087 | - | 104,344 |
| Charge related to restructuring activities | (80) | 60 | 1,877 | - | 1,857 |
| Income (loss) from equity investee | 33,209 | 9,365 | (3,615) | (38,959) | - |
| Interest expense - net | 6,277 | (849) | 2,049 | - | 7,477 |
| Earnings (loss) before Income Taxes | 13,832 | 26,116 | 16,770 | (38,942) | 17,776 |
| Income taxes | 356 | 100 | 3,844 | - | 4,300 |
| Net Earnings (loss) | \$ 13,476 | \$ 26,016 | \$ 12,926 | \$ (38,942) | \$ 13,476 |
| Three month period ended September 30, 2008 | | | | | |
| Net sales | \$ 100,366 | \$ 169,877 | \$ 210,841 | \$ (19,248) | \$ 461,836 |
| Cost of products sold | 74,605 | 136,829 | 138,637 | (19,166) | 330,905 |
| Gross Profit | 25,761 | 33,048 | 72,204 | (82) | 130,931 |
| Selling, general and administrative expenses | 29,717 | 34,062 | 42,402 | - | 106,181 |
| Charge related to restructuring activities | (155) | - | 438 | - | 283 |
| Income (loss) from equity investee | 22,561 | 12,097 | 16,205 | (50,863) | - |
| Interest expense - net | 8,024 | (451) | 2,244 | - | 9,817 |
| Earnings (loss) before Income Taxes | 10,736 | 11,534 | 43,325 | (50,945) | 14,650 |
| Income taxes | 11 | 300 | 3,614 | - | 3,925 |
| Net Earnings (loss) | \$ 10,725 | \$ 11,234 | \$ 39,711 | \$ (50,945) | \$ 10,725 |

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CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS

(in thousands)

| Nine month period ended September 30, 2009 | The Company (Parent) | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations | Total |
|---|----------------------------|---------------------------------------|---|--------------|--------------|
| Net sales | \$ 288,590 | \$ 522,818 | \$ 491,486 | \$ (58,327) | \$ 1,244,567 |
| Cost of products sold | 205,662 | 411,488 | 327,891 | (58,451) | 886,590 |
| Gross Profit | 82,928 | 111,330 | 163,595 | 124 | 357,977 |
| Selling, general and administrative expenses | 103,802 | 80,907 | 111,707 | - | 296,416 |
| Charge related to restructuring activities | 255 | 60 | 3,442 | - | 3,757 |
| Income (loss) from equity investee | 67,216 | 15,661 | (9,848) | (73,029) | - |
| Interest expense - net | 21,467 | (2,085) | 5,638 | - | 25,020 |
| Earnings (loss) before Income Taxes | 24,620 | 48,109 | 32,960 | (72,905) | 32,784 |
| Income taxes | 1,086 | 300 | 7,864 | - | 9,250 |
| Net Earnings (loss) | \$ 23,534 | \$ 47,809 | \$ 25,096 | \$ (72,905) | \$ 23,534 |
| Nine month period ended September 30, 2008 | | | | | |
| Net sales | \$ 272,946 | \$ 509,923 | \$ 599,262 | \$ (56,865) | \$ 1,325,266 |
| Cost of products sold | 204,993 | 409,707 | 399,078 | (56,824) | 956,954 |
| Gross Profit | 67,953 | 100,216 | 200,184 | (41) | 368,312 |
| Selling, general and administrative expenses | 87,256 | 93,193 | 127,947 | - | 308,396 |
| Charge related to restructuring activities | 100 | - | 1,553 | - | 1,653 |
| Income (loss) from equity investee | 61,570 | 31,448 | 8,750 | (101,768) | - |
| Interest expense - net | 23,036 | (1,124) | 7,805 | - | 29,717 |
| Earnings (loss) before Income Taxes | 19,131 | 39,595 | 71,629 | (101,809) | 28,546 |
| Income taxes | 850 | 900 | 8,515 | - | 10,265 |
| Net Earnings (loss) | \$ 18,281 | \$ 38,695 | \$ 63,114 | \$ (101,809) | \$ 18,281 |

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CONSOLIDATING CONDENSED BALANCE SHEETS

| (in thousands) | The Company (Parent) | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations | Total |
|---|-------------------------|---------------------------------------|---|----------------|--------------|
| September 30, 2009 | | | | | |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 3,583 | \$ 2,477 | \$ 21,761 | \$ - | \$ 27,821 |
| Marketable securities | 316 | - | - | - | 316 |
| Trade receivables, net | 98,526 | 65,518 | 101,427 | (6,248) | 259,223 |
| Installment receivables, net | - | 1,163 | 2,657 | - | 3,820 |
| Inventories, net | 45,924 | 38,610 | 100,199 | (1,307) | 183,426 |
| Deferred income taxes | - | - | 2,310 | - | 2,310 |
| Other current assets | 17,467 | 6,703 | 24,616 | (1,388) | 47,398 |
| Total Current Assets | 165,816 | 114,471 | 252,970 | (8,943) | 524,314 |
| Investment in subsidiaries | 1,451,170 | 648,542 | - | (2,099,712) | - |
| Intercompany advances, net | 132,328 | 949,522 | 90,961 | (1,172,811) | - |
| Other Assets | 52,216 | 4,101 | 1,204 | - | 57,521 |
| Other Intangibles | 1,519 | 8,448 | 76,059 | - | 86,026 |
| Property and Equipment, net | 49,195 | 9,335 | 81,043 | - | 139,573 |
| Goodwill | 4,868 | 24,634 | 504,863 | - | 534,365 |
| Total Assets | \$ 1,857,112 | \$ 1,759,053 | \$ 1,007,100 | \$ (3,281,466) | \$ 1,341,799 |
| Liabilities and Shareholders' Equity | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | \$ 73,146 | \$ 13,688 | \$ 48,249 | \$ - | \$ 135,083 |
| Accrued expenses | 34,982 | 22,448 | 78,485 | (7,636) | 128,279 |
| Accrued income taxes | 500 | - | 1,883 | - | 2,383 |
| Short-term debt and current maturities of long-term obligations | 2,191 | - | 609 | - | 2,800 |
| Total Current Liabilities | 110,819 | 36,136 | 129,226 | (7,636) | 268,545 |
| Long-Term Debt | 310,580 | - | 10,116 | - | 320,696 |
| Other Long-Term Obligations | 46,997 | 2,040 | 46,039 | - | 95,076 |
| Intercompany advances, net | 731,234 | 403,262 | 38,315 | (1,172,811) | - |
| Total Shareholders' Equity | 657,482 | 1,317,615 | 783,404 | (2,101,019) | 657,482 |
| Total Liabilities and Shareholders' Equity | \$ 1,857,112 | \$ 1,759,053 | \$ 1,007,100 | \$ (3,281,466) | \$ 1,341,799 |

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CONSOLIDATING CONDENSED BALANCE SHEETS

| (in thousands) | The Company (Parent) | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations | Total |
|---|-------------------------|---------------------------------------|---|----------------|--------------|
| December 31, 2008 | | | | | |
| Assets | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ 10,920 | \$ 2,284 | \$ 34,312 | \$ - | \$ 47,516 |
| Marketable securities | 72 | - | - | - | 72 |
| Trade receivables, net | 114,961 | 56,037 | 101,301 | (5,816) | 266,483 |
| Installment receivables, net | - | 1,559 | 2,708 | - | 4,267 |
| Inventories, net | 49,243 | 37,320 | 93,586 | (1,412) | 178,737 |
| Deferred income taxes | - | - | 2,051 | - | 2,051 |
| Other current assets | 15,210 | 6,358 | 30,364 | - | 51,932 |
| Total Current Assets | 190,406 | 103,558 | 264,322 | (7,228) | 551,058 |
| Investment in subsidiaries | 1,350,463 | 683,148 | - | (2,033,611) | - |
| Intercompany advances, net | 191,209 | 844,433 | 66,851 | (1,102,493) | - |
| Other Assets | 53,793 | 5,425 | 1,233 | - | 60,451 |
| Other Intangibles | 2,778 | 9,722 | 72,266 | - | 84,766 |
| Property and Equipment, net | 52,632 | 9,753 | 81,127 | - | 143,512 |
| Goodwill | 4,975 | 24,293 | 445,418 | - | 474,686 |
| Total Assets | 1,846,256 | \$ 1,680,332 | \$ 931,217 | \$ (3,143,332) | \$ 1,314,473 |
| Liabilities and Shareholders' Equity | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | \$ 59,779 | \$ 12,734 | \$ 47,120 | \$ - | \$ 119,633 |
| Accrued expenses | 50,034 | 24,208 | 75,186 | (5,816) | 143,612 |
| Accrued income taxes | 500 | - | 2,554 | - | 3,054 |
| Short-term debt and current maturities of long-term obligations | 17,793 | - | 906 | - | 18,699 |
| Total Current Liabilities | 128,106 | 36,942 | 125,766 | (5,816) | 284,998 |
| Long-Term Debt | 398,328 | - | 9,379 | - | 407,707 |
| Other Long-Term Obligations | 45,290 | 2,040 | 41,496 | - | 88,826 |
| Intercompany advances, net | 741,590 | 335,125 | 25,778 | (1,102,493) | - |
| Total Shareholders' Equity | 532,942 | 1,306,225 | 728,798 | (2,035,023) | 532,942 |
| Total Liabilities and Shareholders' Equity | \$ 1,846,256 | \$ 1,680,332 | \$ 931,217 | \$ (3,143,332) | \$ 1,314,473 |

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CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

| Nine month period ended September 30, 2009 | The Company (Parent) | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations | Total |
|---|-------------------------|---------------------------------------|---|--------------|-----------|
| Net Cash Provided (Used) by Operating Activities | \$ 95,736 | \$ 1,453 | \$ (11,182) | \$ - | \$ 86,007 |
| Investing Activities | | | | | |
| Purchases of property and equipment | (3,926) | (1,479) | (5,111) | - | (10,516) |
| Proceeds from sale of property and equipment | - | - | 1,111 | - | 1,111 |
| Increase in other long-term assets | (350) | (122) | 11 | - | (461) |
| Other | (523) | 341 | (88) | - | (270) |
| Net Cash Used for Investing Activities | (4,799) | (1,260) | (4,077) | - | (10,136) |
| Financing Activities | | | | | |
| Proceeds from revolving lines of credit and long-term borrowings | 274,420 | - | - | - | 274,420 |
| Payments on revolving lines of credit and long-term borrowings | (372,494) | - | (841) | - | (373,335) |
| Proceeds from exercise of stock options | 1,001 | - | - | - | 1,001 |
| Payment of dividends | (1,201) | - | - | - | (1,201) |
| Net Cash Used by Financing Activities | (98,274) | - | (841) | - | (99,115) |
| Effect of exchange rate changes on cash | - | - | 3,549 | - | 3,549 |
| Increase (decrease) in cash and cash equivalents | (7,337) | 193 | (12,551) | - | (19,695) |
| Cash and cash equivalents at beginning of period | 10,920 | 2,284 | 34,312 | - | 47,516 |
| Cash and cash equivalents at end of period | \$ 3,583 | \$ 2,477 | \$ 21,761 | \$ - | \$ 27,821 |

Nine month period
ended September 30,

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| 2008 | | | | | | | | | | |
|--|----|-----------|----|---------|----|----------|----|---|----|-----------|
| Net Cash Provided (Used) by Operating Activities | \$ | (13,939) | \$ | 2,340 | \$ | 27,233 | \$ | - | \$ | 15,634 |
| Investing Activities | | | | | | | | | | |
| Purchases of property and equipment | | (3,292) | | (916) | | (10,799) | | - | | (15,007) |
| Proceeds from sale of property and equipment | | - | | - | | 58 | | - | | 58 |
| Increase in other long-term assets | | 4,470 | | - | | - | | - | | 4,470 |
| Business acquisitions, net of cash acquired | | - | | (2,152) | | - | | - | | (2,152) |
| Other | | (1,499) | | 1,521 | | 1,326 | | - | | 1,348 |
| Net Cash Used for Investing Activities | | (321) | | (1,547) | | (9,415) | | - | | (11,283) |
| Financing Activities | | | | | | | | | | |
| Proceeds from revolving lines of credit and long-term borrowings | | 243,919 | | - | | 22,135 | | - | | 266,054 |
| Payments on revolving lines of credit and long-term borrowings | | (252,096) | | - | | (42,352) | | - | | (294,448) |
| Proceeds from exercise of stock options | | 834 | | - | | - | | - | | 834 |
| Payment of dividends | | (1,199) | | - | | - | | - | | (1,199) |
| Net Cash Used by Financing Activities | | (8,542) | | - | | (20,217) | | - | | (28,759) |
| Effect of exchange rate changes on cash | | - | | - | | (412) | | - | | (412) |
| Increase (decrease) in cash and cash equivalents | | (22,802) | | 793 | | (2,811) | | - | | (24,820) |
| Cash and cash equivalents at beginning of period | | 27,133 | | 1,773 | | 33,294 | | - | | 62,200 |
| Cash and cash equivalents at end of period | \$ | 4,331 | \$ | 2,566 | \$ | 30,483 | \$ | - | \$ | 37,380 |

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

The following discussion and analysis should be read in conjunction with the company's Condensed Consolidated Financial Statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and in the company's Current Report on Form 8-K as furnished to the Securities and Exchange Commission on October 22, 2009.

OUTLOOK

For the nine months ended September 30, 2009, the Company's earnings were in line with internal planning on a consolidated basis and ahead of plan on both cash flow and debt repayment. For the fourth quarter, the Company expects continued improvements from cost reduction activities compared to last year. However, commodity costs have started to rise recently compared to earlier in 2009. Compared to the third quarter, these higher costs will pressure margins in the fourth quarter. Offsetting that impact, foreign currency rates have recently strengthened against the U.S. dollar.

The Company remains more focused on delivering cash flow and operating performance over sales growth, in some cases, limiting business with customers who do not provide an adequate return. Additionally, pricing and reimbursement pressures are expected to continue in certain European markets, particularly in France where funding rules have changed for nursing homes. For the IPG business and the Australian distribution business, delays in purchases by long-term care facilities will likely continue to negatively impact sales growth. In the NA/HME region, organic sales growth in the fourth quarter should improve compared to the third quarter in part due to higher Respiratory product line sales. The Company's organic sales growth, effective tax rate, earnings and cash flow for 2009 are expected, as of the date of this filing, to be consistent with the guidance provided in the Company's October 22, 2009 press release.

RESULTS OF OPERATIONS

NET SALES

Net sales for the three months ended September 30, 2009 were \$434,031,000, compared to \$461,836,000 for the same period a year ago, representing a 6.0% decrease. Foreign currency translation decreased net sales by four percentage points while acquisitions increased net sales by less than a percentage point. Organic net sales for the quarter declined 2.2% compared to the same period last year driven by organic net sales declines in North America/Home Medical Equipment, Asia/Pacific and Institutional Products Group, which were partially offset by an organic net sales increase for Invacare Supply Group. For the nine months ended September 30, 2009, net sales decreased 6.1% to \$1,244,567,000 compared to \$1,325,266,000 for the same period a year ago. Foreign currency translation decreased net sales by six percentage points while acquisitions increased net sales by less than a percentage point. Organic net sales for the nine months ended September 30, 2009 decreased 0.3% compared to the same period last year.

North American/Home Medical Equipment (NA/HME)

NA/HME net sales decreased 3.2% for the quarter to \$185,072,000 as compared to \$191,218,000 for the same period a year ago. Foreign currency translation decreased net sales by less than one percentage point while acquisitions increased net sales by approximately one percentage point. The decrease for the quarter was principally due to net sales decreases in Respiratory and Rehab product lines. For the first nine months of 2009, net sales increased 1.0% to \$559,851,000 as compared to \$554,162,000 for the same period a year ago. Foreign currency translation decreased net sales by approximately one percentage point while acquisitions increased net sales by approximately one

percentage point.

Standard product line net sales for the third quarter increased 2.5% compared to the third quarter of last year, driven by increased volumes in home care beds and low air loss therapy products. Rehab product line net sales decreased by 1.8% compared to the third quarter last year, driven primarily by declines in sales of the Top End® sports wheelchair, custom manual and consumer power product lines. Primarily driven by cash sales, Top End® has been negatively impacted by the economic downturn. Reliant on reimbursement, sales of custom manual wheelchairs have been negatively impacted by coverage rules, such as the State of Ohio's recent change related to ceasing reimbursement at nursing homes for HME products. Respiratory product line net sales decreased 20.2%, primarily driven by lower sales of HomeFill® oxygen delivery systems, largely due to continued inventory adjustments by some customers.

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Invacare Supply Group (ISG)

ISG net sales for the quarter increased 4.8% to \$70,825,000 compared to \$67,604,000 in the third quarter last year. The net sales increase was primarily in wound care, incontinence and enteral products. In addition, increased home delivery program sales were offset in part by decreased sales to larger providers. For the first nine months of 2009, net sales increased 3.7% to \$204,688,000 as compared to \$197,383,000 for the same period a year ago.

Institutional Products Group (IPG)

IPG net sales for the quarter decreased by 10.9% to \$23,462,000 compared to \$26,320,000 for the third quarter last year. Foreign currency translation decreased net sales by less than one percentage point. The net sales decrease was largely driven by continued weakness in capital expenditures by nursing home customers, due primarily to budgetary pressures in state Medicaid programs. For the first nine months of 2009, net sales decreased 9.8% to \$67,469,000 as compared to \$74,794,000 for the same period a year ago. Foreign currency translation decreased net sales by two percentage points.

Europe

European net sales decreased 11.1% for the quarter to \$134,604,000 as compared to \$151,478,000 for the same period a year ago. Foreign currency translation decreased net sales by eleven percentage points. Organic net sales for the quarter were basically flat, with sales growth in the U.K. and certain other markets, offset primarily by a sales decline in France, where the sales of beds and wheelchairs into nursing homes continued to weaken as a result of changed funding rules. European net sales for the first nine months of 2009 decreased 14.9% to \$360,209,000 as compared to \$423,458,000 for the same period a year ago. Foreign currency translation decreased net sales by fourteen percentage points.

Asia/Pacific

Asia/Pacific net sales decreased 20.4% for the quarter to \$20,068,000 as compared to \$25,216,000 for the same period a year ago. Foreign currency translation decreased net sales by five percentage points. The sales decline at the Company's subsidiary which manufactures controllers was largely due to external customers whose demand for inventory remained weak in the current economic environment. The Company's Australian distribution business had lower sales due in large part to weak demand from long-term care facilities which continue to delay capital purchases. For the first nine months of 2009, net sales decreased 30.6% to \$52,350,000 as compared to \$75,469,000 for the same period a year ago. Foreign currency translation decreased net sales by sixteen percentage points.

GROSS PROFIT

Gross profit as a percentage of net sales for the three and nine-month periods ended September 30, 2009 was 30.3% and 28.8%, respectively, compared to 28.4% and 27.8%, respectively, in the same periods last year. The margin improvement compared to the prior year in virtually all segments was the result of cost reduction activities, including commodity cost and freight reductions, along with a favorable customer mix toward higher margin customers, which were partially offset by volume declines and currency weakness in Asia Pacific related to purchases of sourced product.

For the first nine months of the year, NA/HME margins as a percentage of net sales increased to 33.5% compared with 30.7% in the same period last year primarily due to cost reduction activities, including commodity cost and

freight reductions, along with a favorable customer mix toward higher margin customers. ISG gross margins increased by 1.5 percentage points primarily due to benefits from cost reduction activities, including freight reduction programs, and favorable customer mix towards higher margin customers. IPG gross margin increased by 6.7 percentage points primarily as a result of cost reduction activities, including the benefits of freight recovery programs. In Europe, gross margin as a percentage of net sales declined by 1.2 percentage points primarily due to the unfavorable foreign currency impact from the weakness of the British pound as compared to the Euro and the Euro as compared to the U.S. dollar. Gross margin, as a percentage of net sales in Asia/Pacific, decreased by 8.3 percentage points, primarily due to unfavorable foreign currency impact due to the strengthening of the U.S. dollar.

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SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative (“SG&A”) expense as a percentage of net sales for the three and nine months ended September 30, 2009 was 24.0% and 23.8%, respectively, compared to 23.0% and 23.3% for the same periods a year ago. The dollar decreases were \$1,837,000 and \$11,980,000, or 1.7% and 3.9%, respectively, for the quarter and first nine months of the year, as compared to the same period a year ago. Acquisitions increased these expenses by \$574,000 in the quarter and \$1,804,000 in the first nine months of the year, while foreign currency translation decreased these expenses by \$3,879,000 in the quarter and \$19,017,000 in the first nine months of the year compared to the same periods a year ago. Excluding the impact of foreign currency translation and acquisitions, selling, general and administrative expense increased 1.4% for the quarter and 1.7% for the first nine months of 2009 as compared to the same periods a year ago. The dollar increase, excluding foreign currency translation and acquisitions, was \$1,468,000 and \$5,233,000 for the quarter and first nine months of the year, as compared to the same periods a year ago. The year to date increase is primarily attributable to increases in bad debt and stock compensation expense as well as unfavorable foreign currency transactions related to the Euro and the British Pound.

North American/HME SG&A expense increased \$2,621,000, or 4.9%, for the quarter and \$5,249,000, or 3.4%, in the first nine months of 2009 compared to the same periods a year ago. For the quarter, foreign currency translation decreased SG&A expense by \$225,000, or .4%, while acquisitions increased SG&A expense by \$574,000, or 1.1%. For the first nine months of 2009, foreign currency translation decreased SG&A expense by \$1,578,000 or 1.0% while acquisitions increased SG&A by \$1,804,000 or 1.2%. Excluding the impact of foreign currency translation and acquisitions, SG&A expense increased by 4.3% for the quarter and increased by 3.3% year to date. The year to date increase is primarily attributable to increased bad debt expense and stock compensation expense.

Invacare Supply Group SG&A expense increased \$509,000, or 7.6%, for the quarter and increased by \$1,065,000, or 5.4%, in the first nine months of 2009 compared to the same periods a year ago with the year to date increase primarily due to increased bad debt expense.

Institutional Products Group SG&A expense decreased \$336,000, or 8.6%, for the quarter and decreased \$399,000, or 3.3%, in the first nine months of 2009 compared to the same periods a year ago. Foreign currency translation decreased SG&A expense by \$32,000, or 0.8%, for the quarter and \$224,000, or 1.9%, for the first nine months of the year. Excluding the impact of foreign currency translation, SG&A expense decreased 7.8% and 1.5% for the quarter and first nine months of 2009, respectively, as compared to last year. The year to date decline is attributable to reduced commission expense driven by the net sales decline.

European SG&A expense decreased \$3,457,000, or 9.9%, for the quarter and \$14,725,000, or 14.4%, for the first nine months of 2009 compared to the same periods a year ago. For the quarter, foreign currency translation decreased SG&A by \$3,195,000, or 9.2%. For the first nine months of 2009, foreign currency translation decreased SG&A expense by \$12,483,000, or 12.2%. Excluding the impact of foreign currency translation, SG&A expense decreased by 0.8% and 2.2% for the quarter and first nine months of the year, respectively, as compared to the same periods a year ago.

Asia/Pacific SG&A expense decreased \$1,174,000, or 15.8%, for the quarter and \$3,170,000, or 14.4%, in the first nine months of the year compared to the same periods a year ago. For the quarter, foreign currency translation decreased SG&A expense by \$427,000, or 5.8%. For the first nine months of 2009, foreign currency translation decreased SG&A by \$4,732,000, or 21.4%. Excluding the impact of foreign currency translation, SG&A expense decreased 10.1% for the quarter and increased by 7.1% for first nine months of 2009, respectively as compared to last year. The year to date decrease is primarily attributable to unfavorable foreign currency transactions related to the

Euro.

CHARGE RELATED TO RESTRUCTURING ACTIVITIES

In 2005, the company announced multi-year cost reductions and profit improvement actions, which included: reducing global headcount, outsourcing improvements utilizing the company's China manufacturing capability and third parties, shifting substantial resources from product development to manufacturing cost reduction activities and product rationalization, reducing freight exposure through freight auctions and changing the freight policy and general expense reductions. The restructuring was necessitated by the continued decline in reimbursement, continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations and commodity cost increases for steel, aluminum and fuel.

Restructuring charges of \$2,155,000 and \$4,055,000 were incurred in the three and nine month periods ended September 30, 2009, including \$298,000 for the three and nine month periods ended September 30, 2009 which was recorded in cost of products sold as it related to inventory markdowns. The remaining charge amount is included on the Charge Related to Restructuring Activities in the Condensed Consolidated Statement of Operations as part of operations.

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For the first nine months of 2009, restructuring charges included \$255,000 in NA/HME, \$60,000 in ISG, \$171,000 in IPG, \$2,434,000 in Europe and \$1,135,000 in Asia/Pacific. Of the total charges incurred to date, \$1,509,000 remained unpaid as of September 30, 2009 with \$107,000 unpaid related to NA/HME; \$115,000 unpaid related to IPG; and \$1,287,000 unpaid related to Europe. There have been no material changes in accrued balances related to the charge, either as a result of revisions in the plan or changes in estimates, and the company expects to utilize the accruals recorded through September 30, 2009 during 2009. With additional actions to be undertaken during the remainder of 2009, the company anticipates recognizing pre-tax restructuring charges of approximately \$6,000,000 for the year.

INTEREST

Interest expense decreased \$2,810,000 and \$5,964,000 for the third quarter and first nine months of 2009, respectively, compared to the same periods last year due to lower debt levels and lower interest rates. Interest income for the third quarter and first nine months of 2009 decreased \$470,000 and \$1,267,000, respectively, compared to the same periods last year, which was primarily on the result of maintaining lower average foreign cash balances.

INCOME TAXES

The Company had an effective tax rate of 24.2% and 28.2% on earnings before tax for the three and nine month periods ended September 30, 2009, respectively, compared to an expected rate at the US statutory rate of 35%. For the three and nine month periods ended September 30, 2008, the company had an effective rate of 26.8% and 36.0%, respectively, compared to an expected rate at the US statutory rate of 35%. The company's effective tax rate for the three and nine month periods ended September 30, 2009 and three month period ending September 30, 2008 was lower than the U.S. federal statutory rate as a result of the company not being able to record tax benefits related to losses in countries which had tax valuation allowances, while normal tax expense was recognized in countries without tax allowances and earnings abroad being taxed at rates generally lower than the U.S. federal statutory rate. For the nine month period ended September 30, 2008, the effective tax rate was higher than the U.S. federal statutory rate as a result of the company not being able to record tax benefits related to losses in countries which had tax valuation allowances, while normal tax expense was recognized in countries without tax valuation allowances.

LIQUIDITY AND CAPITAL RESOURCES

The company's debt decreased by \$105,972,000 from December 31, 2008 to \$372,848,000 at September 30, 2009, excluding the impact of adoption of ASC 470-20, as a result of improved cash flow generation. The company's balance sheet reflects the adoption of ASC 470-20. As a result of adopting ASC 470-20, the company recorded a debt discount, which reduced debt and increased equity by \$49,352,000 as of September 30, 2009 and \$52,414,000 as of December 31, 2008, respectively.

The company's cash and cash equivalents were \$27,821,000 at September 30, 2009, down from \$47,516,000 at the end of the year.

The company's borrowing arrangements contain covenants with respect to maximum amount of debt, minimum loan commitments, interest coverage, net worth, dividend payments, working capital, and funded debt to capitalization, as defined in the company's bank agreements and agreements with its note holders. There are three significant financial covenants: leverage ratio, interest coverage ratio and fixed charge ratio. As of September 30, 2009, the company was in compliance with all covenant requirements. Under the most restrictive covenant of the company's borrowing arrangements as of September 30, 2009, the company had the capacity to borrow up to an additional \$146,747,000.

The leverage ratio is defined as Consolidated Funded Indebtedness at the balance sheet date as compared to Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for the previous twelve months. As of September 30, 2009, the maximum leverage ratio permitted by the borrowing arrangements was 5.0 to 1.0. The actual leverage ratio as of September 30, 2009 was 2.64 to 1.0. On October 1, 2009, the maximum leverage ratio permitted by the borrowing arrangements decreased to 4.0 to 1.0.

The interest coverage ratio is defined as Consolidated EBITDA for the previous twelve months as compared to Consolidated Interest Charges for the previous twelve months. As of September 30, 2009, the minimum interest coverage ratio permitted by the borrowing arrangements was 2.5 to 1.0. The actual interest coverage ratio as of September 30, 2009 was 4.34 to 1.0. On October 1, 2009, the minimum interest coverage ratio permitted by the borrowing arrangements decreased to 3.0 to 1.0.

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The fixed charge ratio takes into consideration several items including: Consolidated EBITDA, rent and lease expense, capital expenditures, interest charges, regularly scheduled principal payments and federal, state and local taxes paid. As of September 30, 2009, the minimum fixed charge ratio permitted by the borrowing arrangements was 1.4 to 1.0. The actual fixed charge ratio as of September 30, 2009 was 2.07 to 1.0. On October 1, 2009, the minimum interest coverage ratio permitted by the borrowing arrangements increased to 1.6 to 1.0.

CAPITAL EXPENDITURES

The company had no individually material capital expenditure commitments outstanding as of September 30, 2009. The company estimates that capital investments for 2009 could approximate \$15,000,000 to \$17,000,000 as compared to \$19,957,000 in 2008. The company believes that its balances of cash and cash equivalents, together with funds generated from operations and existing borrowing facilities will be sufficient to meet its operating cash requirements and to fund required capital expenditures for the foreseeable future.

CASH FLOWS

Cash flows provided by operating activities were \$86,007,000 for the first nine months of 2009 compared to cash provided by operating activities of \$15,634,000 in the first nine months of 2008. Operating cash flows for the first nine months of 2009 were significantly improved compared to the same period a year ago primarily due to improved profitability and better working capital management as accounts receivable collections were higher, inventory levels were reduced and accounts payable increased primarily in NA/HME as a result of improved asset management.

Cash used for investing activities was \$10,136,000 for the first nine months of 2009 compared to \$11,283,000 used in the first nine months of 2008. Purchases of property, plant and equipment in the first nine months of 2009 were less than in the first nine months of 2008 while the first nine months of 2008 included a benefit of cash received from company-owned life insurance policies.

Cash used by financing activities was \$99,115,000 for the first nine months of 2009 compared to cash used of \$28,759,000 in the first nine months of 2008. The increase in cash flow used by financing activities is the result of a reduction in debt outstanding from strong cash flow generated during the year and utilization of cash on the balance sheet.

During the first nine months of 2009, the company generated free cash flow of \$79,814,000 compared to \$3,394,000 generated by the company in the first nine months of 2008. The increase was primarily attributable to the same items as noted above which impacted operating cash flows. Free cash flow is a non-GAAP financial measure that is comprised of net cash provided by operating activities, excluding net cash impact related to restructuring activities, less net purchases of property and equipment, net of proceeds from sales of property and equipment. Management believes that this financial measure provides meaningful information for evaluating the overall financial performance of the company and its ability to repay debt or make future investments (including, for example, acquisitions). However, it should be noted that the company's definition of free cash flow may not be comparable to similar measures disclosed by other companies because not all companies calculate free cash flow in the same manner.

The non-GAAP financial measure is reconciled to the GAAP measure as follows (in thousands):

| | Nine Months Ended September 30, | |
|---|---------------------------------|-----------|
| | 2009 | 2008 |
| Net cash provided by operating activities | \$ 86,007 | \$ 15,634 |

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| | | |
|---|-----------|----------|
| Net cash impact related to restructuring activities | 3,212 | 2,709 |
| Less: Purchases of property and equipment - net | (9,405) | (14,949) |
| Free Cash Flow | \$ 79,814 | \$ 3,394 |

DIVIDEND POLICY

On August 19, 2009, the company's Board of Directors declared a quarterly cash dividend of \$0.0125 per Common Share to shareholders of record as of October 5, 2009, which was paid on October 13, 2009. At the current rate, the cash dividend will amount to \$0.05 per Common Share on an annual basis.

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CRITICAL ACCOUNTING POLICIES

The Consolidated Financial Statements included in this Quarterly Report on Form 10-Q include accounts of the company and all wholly-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying Consolidated Financial Statements and related footnotes. In preparing the financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates.

The following critical accounting policies, among others, affect the more significant judgments and estimates used in preparation of the company's consolidated financial statements.

Revenue Recognition

Invacare's revenues are recognized when products are shipped to unaffiliated customers. Revenue Recognition, ASC 605, provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. The company has concluded that its revenue recognition policy is appropriate and in accordance with GAAP and ASC 605. Shipping and handling costs are included in cost of goods sold.

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

The company offers discounts and rebates, which are accounted for as reductions to revenue in the period in which the sale is recognized. Discounts offered include: cash discounts for prompt payment, base and trade discounts based on contract level for specific classes of customers. Volume discounts and rebates are given based on large purchases and the achievement of certain sales volumes. Product returns are accounted for as a reduction to reported sales with estimates recorded for anticipated returns at the time of sale. The company does not sell any goods on consignment.

Distributed products sold by the company are accounted for in accordance with the revenue recognition guidance in ASC 605-45-05. The company records distributed product sales gross as a principal since the company takes title to the products and has the risks of loss for collections, delivery and returns.

Product sales that give rise to installment receivables are recorded at the time of sale when the risks and rewards of ownership are transferred. In December 2000, the company entered into an agreement with De Lage Landen, Inc. ("DLL"), a third party financing company, to provide the majority of future lease financing to Invacare customers. As such, interest income is recognized based on the terms of the installment agreements. Installment accounts are monitored and if a customer defaults on payments, interest income is no longer recognized. All installment accounts are accounted for using the same methodology, regardless of duration of the installment agreements.

Allowance for Uncollectible Accounts Receivable

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 home health care dealers, medical equipment dealers 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. As a consequence, changes in these programs can have an adverse impact on dealer liquidity and profitability. The estimated allowance for uncollectible amounts is based primarily on management's evaluation of the financial condition of the customer. In addition, as a result of the third party financing arrangement, 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.

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The company continues to closely monitor the credit-worthiness of its customers and adhere to tight credit policies. Due to delays in the implementation of various government reimbursement policies, including national competitive bidding, there still remains significant uncertainty as to the impact that those changes will have on the company's customers.

Invacare has an agreement with DLL, a third party financing company, to provide the majority of future lease financing to Invacare's North America customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The company retains a recourse obligation for events of default under the contracts. The company monitors the collections status of these contracts and has provided amounts for estimated losses in its allowances for doubtful accounts.

Inventories and Related Allowance for Obsolete and Excess Inventory

Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out method. Inventories have been reduced by an allowance for excess and obsolete inventories. The estimated allowance is based on management's review of inventories on hand compared to estimated future usage and sales. A provision for excess and obsolete inventory is recorded as needed based upon the discontinuation of products, redesigning of existing products, new product introductions, market changes and safety issues. Both raw materials and finished goods are reserved for on the balance sheet.

In general, Invacare reviews inventory turns as an indicator of obsolescence or slow moving product as well as the impact of new product introductions. Depending on the situation, the company may partially or fully reserve for the individual item. The company continues to increase its overseas sourcing efforts, increase its emphasis on the development and introduction of new products, and decrease the cycle time to bring new product offerings to market. These initiatives are sources of inventory obsolescence for both raw material and finished goods.

Goodwill, Intangible and Other Long-Lived Assets

Property, equipment, intangibles and certain other long-lived assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. Under Intangibles – Goodwill and Other, ASC 350, goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. Furthermore, goodwill and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The company completes its annual impairment tests in the fourth quarter of each year. The discount rates used have a significant impact upon the discounted cash flow methodology utilized in our annual impairment testing as higher discount rates decrease the fair value estimates used in our testing.

The company utilizes a discounted cash flow method model to analyze reporting units for impairment in which the company forecasts income statement and balance sheet amounts based on assumptions regarding future sales growth, profitability, inventory turns, days' sales outstanding, etc. to forecast future cash flows. The cash flows are discounted using a weighted average cost of capital discount rate where the cost of debt is based on quoted rates for 20-year debt of companies of similar credit risk and the cost of equity is based upon the 20-year treasury rate for the risk free rate, a market risk premium, the industry average beta, a small cap stock adjustment and company specific risk premiums. The assumptions used are based on a market participant's point of view and yielded a discount rate of 8.90% to 9.90% in 2008 compared to 9.25% to 10.25% in 2007. The discount rate has fluctuated in the last 3 years by less than 50 basis points. If the discount rate used were 50 basis points higher for the 2008 impairment analysis, the company would still not have an impairment for any of the reporting units.

While there was no indication of impairment in 2008 related to goodwill or intangibles for any reporting units, a future potential impairment is possible for any of the company's reporting units should actual results differ materially from forecasted results used in the valuation analysis. Furthermore, the company's annual valuation of goodwill can differ materially if the market inputs used to determine the discount rate change significantly. For instance, higher interest rates or greater stock price volatility would increase the discount rate and thus increase the chance of impairment.

Product Liability

The company's captive insurance company, Invatection Insurance Co., currently has a policy year that runs from September 1 to August 31 and insures annual policy losses of \$10,000,000 per occurrence and \$13,000,000 in the aggregate of the company's North American product liability exposure. The company also has additional layers of external insurance coverage insuring up to \$75,000,000 in annual aggregate losses arising from individual claims anywhere in the world that exceed the captive insurance company policy limits or the limits of the company's per country foreign liability limits, as applicable. There can be no assurance that Invacare's current insurance levels will continue to be adequate or available at affordable rates.

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Product liability reserves are recorded for individual claims based upon historical experience, industry expertise and indications from the third-party actuary. Additional reserves, in excess of the specific individual case reserves, are provided for incurred but not reported claims based upon third-party actuarial valuations at the time such valuations are conducted. Historical claims experience and other assumptions are taken into consideration by the third-party actuary to estimate the ultimate reserves. For example, the actuarial analysis assumes that historical loss experience is an indicator of future experience, that the distribution of exposures by geographic area and nature of operations for ongoing operations is expected to be very similar to historical operations with no dramatic changes and that the government indices used to trend losses and exposures are appropriate.

Estimates made are adjusted on a regular basis and can be impacted by actual loss award settlements on claims. While actuarial analysis is used to help determine adequate reserves, the company accepts responsibility for the determination and recording of adequate reserves in accordance with accepted loss reserving standards and practices.

Warranty

Generally, the company's products are covered from the date of sale to the customer by warranties against defects in material and workmanship for various periods depending on the product. Certain components carry a lifetime warranty. A provision for estimated warranty cost is recorded at the time of sale based upon actual experience. The company continuously assesses the adequacy of its product warranty accrual and makes adjustments as needed. Historical analysis is primarily used to determine the company's warranty reserves. Claims history is reviewed and provisions are adjusted as needed. However, the company does consider other events, such as a product recall, which could warrant additional warranty reserve provision. No material adjustments to warranty reserves were necessary in the current year. See Warranty Costs in the Notes to the Condensed Consolidated Financial Statements included in this report for a reconciliation of the changes in the warranty accrual.

Accounting for Stock-Based Compensation

The company accounts for share based compensation under the provisions of Compensation – Stock Compensation, ASC 718. The company has not made any modifications to the terms of any previously granted options and no changes have been made regarding the valuation methodologies or assumptions used to determine the fair value of options granted since 2005 and the company continues to use a Black-Scholes valuation model. As of September 30, 2009, there was \$16,077,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the plans, which is related to non-vested options and shares, and includes \$5,534,000 related to restricted stock awards. The company expects the compensation expense to be recognized over a weighted-average period of approximately two years.

The majority of the options awarded have been granted at exercise prices equal to the market value of the underlying stock on the date of grant. Restricted stock awards granted without cost to the recipients are expensed on a straight-line basis over the vesting periods.

Income Taxes

As part of the process of preparing its financial statements, the company is required to estimate income taxes in various jurisdictions. The process requires estimating the company's current tax exposure, including assessing the risks associated with tax audits, as well as estimating temporary differences due to the different treatment of items for tax and accounting policies. The temporary differences are reported as deferred tax assets and or liabilities. The company also must estimate the likelihood that its deferred tax assets will be recovered from future taxable income and whether or not valuation allowances should be established. In the event that actual results differ from its estimates, the company's provision for income taxes could be materially impacted.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2007, Business Combinations, ASC 805, changed the accounting for business acquisitions. ASC 805 requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction and establishes principles and requirements as to how an acquirer should recognize and measure in its financial statements the assets acquired, liabilities assumed, any non-controlling interest and goodwill acquired. ASC 805 also requires expanded disclosure regarding the nature and financial effects of a business combination. The company adopted ASC 805 as of January 1, 2009 and the adoption had no material impact on the company's financial position, results of operations or cash flows. ASC 805 could have a material impact on the company's financial statements in future periods if the company completes significant acquisitions in the future.

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In March 2008, Derivatives and Hedging, ASC 815 was issued which requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The company adopted ASC 815 effective January 1, 2009 and the adoption had no material impact on the company's financial position, results of operations or cash flows.

On May 9, 2008, Convertible Debt, ASC 470-20, was issued to provide clarification of the accounting for convertible debt that can be settled in cash upon conversion. The FASB believed this clarification was needed because the accounting that was being applied for convertible debt prior to ASC 470-20 did not fully reflect the true economic impact on the issuer since the conversion option was not captured as a borrowing cost and its full dilutive effect was not included in earnings per share. ASC 470-20 requires separate accounting for the liability and equity components of the convertible debt in a manner that would reflect Invacare's nonconvertible debt borrowing rate. Accordingly, the company had to bifurcate a component of its convertible debt as a component of stockholders' equity (\$59,012,000 as of the retrospective adoption date of February 12, 2007) and will accrete the resulting debt discount as interest expense. The company adopted ASC 470-20 effective January 1, 2009 and, as a result, reported interest expense increased and net earnings decreased by \$1,050,000 (\$0.03 per share) and \$936,000 (\$0.03 per share) for the quarters ended September 30, 2009 and 2008, respectively; by \$3,062,000 (\$0.10 per share) and \$2,730,000 (\$0.09 per share) for the nine month periods ended September 30, 2009 and 2008, respectively and by \$3,695,000 (\$0.12 per share) and \$2,904,000 (\$0.09 per share) for the years 2008 and 2007, respectively. ASC 470-20 required retrospective application upon adoption and accordingly, amounts for 2008 and 2007 are being and will continue to be restated in the 2009 financial statements.

In May 2009, Subsequent Events, ASC 855, was issued that provides authoritative guidance regarding subsequent events as this guidance was previously only addressed in auditing literature. The company adopted ASC 855 effective June 30, 2009 and the adoption had no material impact on the company's financial position, results of operations or cash flows. The company has evaluated subsequent events through the date of filing of this report with the Securities and Exchange Commission.

On July 1, 2009, the FASB issued ASC 105, The Accounting Standards Codification (Codification) is the single source of authoritative U.S. accounting and reporting standards, with the exception of guidance issued by the SEC. Although the Codification is not intended to change U.S. GAAP, it does reorganize and supersede current U.S. GAAP and therefore all references to U.S. GAAP in future filings will be changed to Codification references, beginning with the Company's third quarter Form 10-Q.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The company is exposed to market risk through various financial instruments, including fixed rate and floating rate debt instruments. The company uses interest swap agreements to mitigate its exposure to interest rate fluctuations. Based on September 30, 2009 debt levels, a 1% change in interest rates would impact interest expense by approximately \$533,000. Additionally, the company operates internationally and, as a result, is exposed to foreign currency fluctuations. Specifically, the exposure results from intercompany loans and third party sales or payments. In an attempt to reduce this exposure, foreign currency forward contracts are utilized. The company does not believe that any potential loss related to these financial instruments would have a material adverse effect on the company's financial condition or results of operations.

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FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of the “Safe Harbor” provisions of the Private Securities Litigation Reform Act of 1995. Terms such as “will,” “should,” “could”, “plan,” “intend,” “expect,” “continue,” “believe,” “anticipate” and “seek,” as well as similar comments, are forward-looking in nature. Actual results and events may differ significantly from those expressed or anticipated as a result of risks and uncertainties which include, but are not limited to, the following: possible adverse effects of being substantially leveraged, which could impact our ability to raise capital, limit our ability to react to changes in the economy or our industry or expose us to interest rate or event of default risks; adverse changes in government and other third-party payor reimbursement levels and practices, including any health care reform legislation that may be enacted (such as, for example, recently proposed health care reform legislation contemplating a tax on medical device manufacturers that, if adopted, could have an adverse impact on the company); consolidation of health care providers and our competitors; loss of key health care providers; ineffective cost reduction and restructuring efforts; inability to design, manufacture, distribute and achieve market acceptance of new products with higher functionality and lower costs; extensive government regulation of our products; lower cost imports; increased freight costs; failure to comply with regulatory requirements or receive regulatory clearance or approval for our products or operations in the United States or abroad; potential product recalls; uncollectible accounts receivable; the uncertain impact on our providers, on our suppliers and on the demand for our products of the recent global economic downturn and general volatility in the credit and stock markets; difficulties in implementing an Enterprise Resource Planning system; legal actions or regulatory proceedings and governmental investigations; product liability claims; inadequate patents or other intellectual property protection; incorrect assumptions concerning demographic trends that impact the market for our products; provisions of Ohio law or in our debt agreements, our shareholder rights plan or our charter documents that may prevent or delay a change in control; the loss of the services of our key management and personnel; decreased availability or increased costs of raw materials which could increase our costs of producing our products; inability to acquire strategic acquisition candidates because of limited financing alternatives; risks inherent in managing and operating businesses in many different foreign jurisdictions; increased security concerns and potential business interruption risks associated with political and/or social unrest in foreign countries where the company’s facilities or assets are located; exchange rate and tax rate fluctuations, as well as the risks described from time to time in Invacare’s reports as filed with the Securities and Exchange Commission. Except to the extent required by law, we do not undertake and specifically decline any obligation to review or update any forward-looking statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The information called for by this item is provided under the same caption under Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures.

As of September 30, 2009, an evaluation was performed, under the supervision and with the participation of the company’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the company’s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, the company’s management, including the Chief Executive Officer and Chief Financial Officer, concluded that the company’s disclosure controls and procedures were effective as of September 30, 2009, in ensuring that information required to be disclosed by the company in the reports it files and submits under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms and (2) accumulated and communicated to the company’s management, including the

Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure. There were no changes in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Reduced government reimbursement levels and changes in reimbursement policies have in the past added, and could continue to add, significant pressure to the company's revenues and profitability. Any health care reform legislation that is adopted by the U.S. government may increase this pressure. For example, recently proposed health care reform legislation contemplating a tax on medical device manufacturers, if adopted, could have an adverse impact on the company's profitability.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

- (c) The following table presents information with respect to repurchases of common shares made by the company during the three months ended September 30, 2009. In the quarter ended September 30, 2009, shares were repurchased and surrendered to the company by employees for tax withholding purposes in conjunction with the vesting of restricted shares held by the employees under the company's 2003 Performance Plan.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|------------------|----------------------------------|------------------------------|--|--|
| 7/1/2009-7/31/09 | 8,123 | \$ 20.12 | - | 1,362,900 |
| 8/1/2009-8/31/09 | - | - | - | 1,362,900 |
| 9/1/2009-9/30/09 | - | - | - | 1,362,900 |
| Total | 8,123 | \$ 20.12 | - | 1,362,900 |

Item 6. Exhibits.

Exhibit No.

- 10.1 Amendment No.1 to Invacare Corporation Deferred Compensation Plus Plan (filed herewith).
Amendment No.1 to Invacare Corporation Cash Balance Supplemental Executive Retirement
10.2 Plan (filed herewith).
31.1 Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification (filed herewith).
31.2 Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification (filed herewith).
Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted
32.1 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted
32.2 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INVACARE CORPORATION

Date: November 5, 2009

By: /s/ Robert K. Gudbranson
Name: Robert K. Gudbranson
Title: Chief Financial Officer
(As Principal Financial and Accounting
Officer and on behalf of the registrant)

