

INVACARE CORP
Form 10-Q
August 06, 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 June 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

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

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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 August 4, 2009, the registrant had 31,019,577 Common Shares and 1,109,685 Class B Common Shares outstanding.

INVACARE CORPORATION

INDEX

<u>Part I. FINANCIAL INFORMATION:</u>	Page No.
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets – June 30, 2009 and December 31, 2008</u>	3
<u>Condensed Consolidated Statement of Operations – Three and Six Months Ended June 30, 2009 and 2008</u>	4
<u>Condensed Consolidated Statement of Cash Flows – Three and Six Months Ended June 30, 2009 and 2008</u>	5
<u>Notes to Condensed Consolidated Financial Statements - June 30, 2009</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	32
<u>Item 4. Controls and Procedures</u>	33
<u>Part II. OTHER INFORMATION:</u>	
<u>Item 1A. Risk Factors</u>	33
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	33
<u>Item 6. Exhibits</u>	34
<u>SIGNATURES</u>	34

Index

Part I. FINANCIAL INFORMATION
 Item 1. Financial Statements.

INVACARE CORPORATION AND SUBSIDIARIES
 Condensed Consolidated Balance Sheets (unaudited)

	June 30, 2009	December 31, 2008
(In thousands)		
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 49,709	\$ 47,516
Marketable securities	144	72
Trade receivables, net	265,321	266,483
Installment receivables, net	3,841	4,267
Inventories, net	180,135	178,737
Deferred income taxes	1,873	2,051
Other current assets	45,617	51,932
TOTAL CURRENT ASSETS	546,640	551,058
OTHER ASSETS	58,485	60,451
OTHER INTANGIBLES	87,327	84,766
PROPERTY AND EQUIPMENT, NET	141,193	143,512
GOODWILL	523,727	474,686
TOTAL ASSETS	\$ 1,357,372	\$ 1,314,473
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 123,356	\$ 119,633
Accrued expenses	126,876	143,612
Accrued income taxes	604	3,054
Short-term debt and current maturities of long-term obligations	17,300	18,699
TOTAL CURRENT LIABILITIES	268,136	284,998
LONG-TERM DEBT	376,993	407,707
OTHER LONG-TERM OBLIGATIONS	94,201	88,826
SHAREHOLDERS' EQUITY		
Preferred shares	-	-
Common shares	8,120	8,119
Class B common shares	278	278
Additional paid-in-capital	217,060	215,279
Retained earnings	315,956	306,698
Accumulated other comprehensive earnings	124,914	50,789
Treasury shares	(48,286)	(48,221)
TOTAL SHAREHOLDERS' EQUITY	618,042	532,942
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,357,372	\$ 1,314,473

See notes to condensed consolidated financial statements.

3

Index

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

(In thousands except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net sales	\$ 412,541	\$ 447,152	\$ 810,536	\$ 863,430
Cost of products sold	294,486	322,979	584,013	626,049
Gross profit	118,055	124,173	226,523	237,381
Selling, general and administrative expense	97,939	104,520	192,072	202,215
Charge related to restructuring activities	1,124	859	1,900	1,370
Interest expense	8,783	10,589	18,336	21,490
Interest income	(352)	(892)	(793)	(1,590)
Earnings before income taxes	10,561	9,097	15,008	13,896
Income taxes	2,900	3,750	4,950	6,340
NET EARNINGS	\$ 7,661	\$ 5,347	\$ 10,058	\$ 7,556
DIVIDENDS DECLARED PER COMMON SHARE	.0125	.0125	.0250	.0250
Net earnings per share – basic	\$ 0.24	\$ 0.17	\$ 0.31	\$ 0.24
Weighted average shares outstanding - basic	31,935	31,905	31,933	31,890
Net earnings per share – assuming dilution	\$ 0.24	\$ 0.17	\$ 0.31	\$ 0.24
Weighted average shares outstanding - assuming dilution	31,939	31,916	31,936	31,946

See notes to condensed consolidated financial statements.

Index

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

	Six Months Ended June 30,	
	2009	2008
	(In thousands)	
OPERATING ACTIVITIES		
Net earnings	\$ 10,058	\$ 7,556
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Amortization of convertible debt discount	2,012	1,794
Depreciation and amortization	19,825	22,552
Provision for losses on trade and installment receivables	8,397	6,622
Provision for other deferred liabilities	1,378	1,584
Provision (benefit) for deferred income taxes	259	(787)
Provision for stock-based compensation	1,782	1,279
Loss on disposals of property and equipment	99	227
Changes in operating assets and liabilities:		
Trade receivables	4,648	(30,847)
Installment sales contracts, net	(1,362)	(2,390)
Inventories	6,588	(14,065)
Other current assets	10,501	(1,311)
Accounts payable	(839)	11,502
Accrued expenses	(24,984)	(4,680)
Other deferred liabilities	750	(2,004)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	39,112	(2,968)
INVESTING ACTIVITIES		
Purchases of property and equipment	(7,186)	(11,636)
Proceeds from sale of property and equipment	1,049	36
Other long term assets	(1,147)	4,550
Business acquisitions, net of cash acquired	-	(2,152)
Other	(145)	1,509
NET CASH USED FOR INVESTING ACTIVITIES	(7,429)	(7,693)
FINANCING ACTIVITIES		
Proceeds from revolving lines of credit and long-term borrowings	191,811	177,617
Payments on revolving lines of credit and long-term and capital lease obligations	(223,815)	(190,536)
Proceeds from exercise of stock options	-	821
Payment of dividends	(800)	(799)
NET CASH USED BY FINANCING ACTIVITIES	(32,804)	(12,897)
Effect of exchange rate changes on cash	3,314	1,319
Increase (decrease) in cash and cash equivalents	2,193	(22,239)
Cash and cash equivalents at beginning of period	47,516	62,200
Cash and cash equivalents at end of period	\$ 49,709	\$ 39,961

See notes to condensed consolidated financial statements.

Index

INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated
Financial Statements
(Unaudited)
June 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 includes all adjustments, which were of a normal recurring nature, necessary to present fairly the financial position of the company as of June 30, 2009, the results of its operations for the three and six months ended June 30, 2009 and 2008, respectively, and changes in its cash flows for the six months ended June 30, 2009 and 2008, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using a May 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 six months ended June 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 May 2009, the FASB issued SFAS 165, Subsequent Events (SFAS 165). SFAS 165 provides authoritative guidance regarding subsequent events as this guidance was previously only addressed in auditing literature. The company adopted SFAS 165 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, August 6, 2009, the date of filing of this report with the Securities and Exchange Commission.

On May 9, 2008, the FASB issued FASB Staff Position APB 14-1 (FSP APB 14-1) 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 FSP APB 14-1 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. FSP APB 14-1 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 FSP APB 14-1 effective January 1, 2009 and, as a result, reported interest expense increased and net earnings decreased by \$1,020,000 (\$0.03 per share) and \$910,000 (\$0.03 per share) for the quarters ended June 30, 2009 and 2008, respectively; by \$2,012,000 (\$0.06 per share) and \$1,794,000 (\$0.06 per share) for the six month periods ended June 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. FSP APB 14-1 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 six month periods ended June 30, 2009 as management changed how it views segment earnings.

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.

Index

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 FSP APB 14-1. As a result of the restatement, earnings before income taxes decreased by \$1,020,000 and \$2,012,000 for NA/HME and the consolidated company for the three and six months ended June 30, 2009, respectively, and decreased by \$910,000 and \$1,794,000 for NA/HME and the consolidated company for the three and six months ended June 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. The information by segment is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues from external customers				
North America / HME	\$ 188,076	\$ 187,163	\$ 374,779	\$ 362,944
Invacare Supply Group	68,550	64,523	133,863	129,779
Institutional Products Group	21,233	23,177	44,007	48,474
Europe	117,218	145,977	225,605	271,980
Asia/Pacific	17,464	26,312	32,282	50,253
Consolidated	\$ 412,541	\$ 447,152	\$ 810,536	\$ 863,430
Intersegment Revenues				
North America / HME	\$ 14,454	\$ 15,310	\$ 28,684	\$ 28,387
Invacare Supply Group	107	159	198	235
Institutional Products Group	279	728	1,150	1,383
Europe	1,928	4,183	3,851	7,139
Asia/Pacific	7,058	7,679	15,393	15,870
Consolidated	\$ 23,826	\$ 28,059	\$ 49,276	\$ 53,014
Charge related to restructuring before income taxes				
North America / HME	\$ 117	\$ 29	\$ 335	\$ 255

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Invacare Supply Group	-	-	-	-
Institutional Products Group	-	115	171	115
Europe	338	557	624	783
Asia/Pacific	669	218	770	288
Consolidated	\$ 1,124	\$ 919	\$ 1,900	\$ 1,441
Earnings (loss) before income taxes				
North America / HME	\$ 10,588	\$ 4,978	\$ 15,307	\$ 7,185
Invacare Supply Group	1,011	204	1,875	793
Institutional Products Group	610	371	3,092	1,369
Europe	7,421	11,431	11,021	17,608
Asia/Pacific	(612)	2,625	(337)	4,223
All Other *	(8,457)	(10,512)	(15,950)	(17,282)
Consolidated	\$ 10,561	\$ 9,097	\$ 15,008	\$ 13,896

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

Index

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		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
	(In thousands, except per share data)			
Basic				
Average common shares outstanding	31,935	31,905	31,933	31,890
Net earnings	\$ 7,661	\$ 5,347	\$ 10,058	\$ 7,556
Net earnings per common share	\$ 0.24	\$ 0.17	\$ 0.31	\$ 0.24
Diluted				
Average common shares outstanding	31,935	31,905	31,933	31,890
Stock options and awards	4	11	3	56
Average common shares assuming dilution	31,939	31,916	31,936	31,946
Net earnings	\$ 7,661	\$ 5,347	\$ 10,058	\$ 7,556
Net earnings per common share	\$ 0.24	\$ 0.17	\$ 0.31	\$ 0.24

At June 30, 2009, 4,478,099 and 4,495,782 shares were excluded from the average common shares assuming dilution for the three and six months ended June 30, 2009, respectively, as they were anti-dilutive. At June 30, 2008, 3,765,467 and 3,696,544 shares were excluded from the average common shares assuming dilution for the three and six months ended June 30, 2008, respectively, as they were anti-dilutive. For the three and six months ended June 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 \$16.56 for both periods, respectively. For the three and six months ended June 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 \$19.50 and \$21.57, 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 \$31,789,000 at June 30, 2009 to DLL for events of default under the contracts, which total \$89,108,000 at June 30, 2009. FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, 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 \$814,000 for this guarantee obligation within accrued expenses. 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 SFAS No. 5, Accounting for Contingencies. 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.

Index

Goodwill and Other Intangibles - The change in goodwill reflected on the balance sheet from December 31, 2008 to June 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 \$33,321,000 related to trademarks, which have indefinite lives.

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

	June 30, 2009		December 31, 2008	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer lists	\$ 76,086	\$ 31,832	\$ 72,155	\$ 28,526
Trademarks	33,321	—	30,934	—
License agreements	5,517	4,895	5,494	4,688
Developed technology	7,149	2,180	6,698	1,942
Patents	6,788	5,011	6,761	4,790
Other	8,874	6,490	8,890	6,220
	\$ 137,735	\$ 50,408	\$ 130,932	\$ 46,166

Amortization expense related to other intangibles was \$4,242,000 in the first six months of 2009 and is estimated to be \$8,367,000 in 2010, \$7,947,000 in 2011, \$7,294,000 in 2012, \$6,470,000 in 2013 and \$6,119,000 in 2014.

Accounting for Stock-Based Compensation - The company accounts for share based compensation under the provisions of Statement of Financial Accounting Standard No. 123 (Revised 2004), Share Based Payment ("SFAS 123R"). 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):

	Three Months Ended		Six Months Ended	
	June 30, 2009	2008	June 30, 2009	2008
Stock-based compensation expense recognized as part of selling, general and administrative expense	\$ 885	\$ 614	\$ 1,782	\$ 1,279

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 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 six months of 2009, the Committee granted 31,358 non-qualified stock options with a term of ten years at the fair

market value of the company's Common Shares on the date of grant under the 2003 Plan.

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 \$849,000 was recognized related to restricted stock awards in the first six months of 2009 and as of June 30, 2009, outstanding restricted stock awards totaling 190,986 were not yet vested. Restricted stock awards totaling 5,500 were granted in the first half of 2009.

Index

Stock option activity during the six months ended June 30, 2009 was as follows:

	2009	Weighted Average Exercise Price
Options outstanding at January 1	4,910,547	\$ 29.38
Granted	31,358	17.59
Exercised	-	-
Canceled	(376,293)	24.54
Options outstanding at June 30	4,565,612	\$ 29.66
Options price range at June 30	\$ 10.70 to	
	\$ 47.80	
Options exercisable at June 30	3,364,278	
Options available for grant at June 30*	3,824,067	

* Options available for grant as of June 30, 2009 are reduced by net restricted stock award activity of 289,238 shares.

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

Exercise Prices	Number Outstanding At 6/30/09	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable At 6/30/09	Weighted Average Exercise Price
10.70 - \$ 16.03	32,822	2.3 years	\$ 12.23	8,680	\$ 16.03
16.26 - \$ 23.71	1,665,118	4.3	\$ 21.85	1,104,348	\$ 21.50
24.43 - \$ 36.40	1,645,184	5.0	\$ 29.04	1,028,762	\$ 30.93
37.70 - \$ 47.80	1,222,488	5.2	\$ 41.61	1,222,488	\$ 41.61
Total	4,565,612	4.8	\$ 29.66	3,364,278	\$ 31.68

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 June 30, 2009, there was \$10,598,000 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 \$3,663,000 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 half of 2009.

Index

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	6,503
Settlements made during the period	(4,781)
Changes in liability for pre-existing warranties during the period, including expirations	1,110
Balance as of June 30, 2009	\$ 19,630

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 \$1,900,000 and \$1,441,000 incurred in the first six months of 2009 and 2008, respectively, of which \$0 and \$71,000, 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 June 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)

Index

	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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12

Index

	Severance	Product Line Discontinuance	Contract Terminations	Other	Total
December 31, 2008 Balance					
NA/HME	226	1	156	—	383
Europe	547	—			