INVACARE CORP
Form 10-Q
August 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 001-15103

INVACARE CORPORATION
(Exact name of registrant as specified in its charter)

Ohio	95-2680965
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
One Invacare Way, P.O. Box 4028, Elyria, Ohio	44036
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “small reporting company” in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 8, 2013, the registrant had 30,918,692 Common Shares and 1,084,747 Class B Common Shares outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements.

INVACARE CORPORATION AND SUBSIDIARIES

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

(In thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales	$351,796	$372,719	$689,412	$727,819
Cost of products sold	255,716	256,935	497,554	501,438
Gross Profit	96,080	115,784	191,858	226,381
Selling, general and administrative expenses	104,929	104,461	208,948	205,174
Charges related to restructuring activities	2,592	2,006	5,114	2,567
Loss on debt extinguishment including debt finance charges and associated fees	—	312	—	312
Interest expense	1,024	2,299	2,351	4,650
Interest income	(74)	(143)	(181)	(444)
Earnings (loss) from Continuing Operations Before Income Taxes	(12,391)	6,849	(24,374)	14,122
Income tax (benefit) provision	10,650	11,155	3,200	12,823
Net Earnings (loss) from Continuing Operations	(23,041)	(4,306)	$(27,574)	$1,299
Net Earnings from Discontinued Operations (Net of tax amounts of $0; $1,370; $10 and $1,852)	—	2,329	392	4,957
Gain on Sale of Discontinued Operations (Net of tax amounts of ($10,580) and $9,500)	10,580	—	49,902	—
Total Net Earnings from Discontinued Operations	10,580	2,329	50,294	4,957
Net Earnings	$(12,461)	$(1,977)	22,720	6,256
Dividends Declared per Common Share	$0.0125	$0.0125	$0.0250	$0.0250
Net Earnings per Share—Basic				
Net Earnings (loss) from Continuing Operations	$(0.72)	$(0.14)	$(0.86)	$0.04
Net Earnings from Discontinued Operations	$0.33	$0.07	$1.58	$0.16
Net Earnings per Share—Basic	$(0.39)	$(0.07)	$0.72	$0.20
Weighted Average Shares Outstanding—Basic	31,902	31,818	31,902	31,819
Net Earnings per Share—Assuming Dilution				
Net Earnings (loss) from Continuing Operations	$(0.72)	$(0.14)	$(0.86)	$0.04
Net Earnings from Discontinued Operations	$0.33	$0.07	$1.57	$0.16
Net Earnings per Share—Assuming Dilution	$(0.39)	$(0.07)	$0.71	$0.20
Weighted Average Shares Outstanding—Assuming Dilution	32,024	31,822	31,980	31,822
Net Earnings	$(12,461)	$(1,977)	$22,720	$6,256
Other comprehensive income (loss):				
Foreign currency translation adjustments	(7,738)	(40,386)	(9,236)	(40,052)
Defined Benefit Plans:				
Amortization of prior service costs and unrecognized gains	236	(130)	536	98
Amounts arising during the year, primarily due to the addition of new participants	—	(133)	(166)	(168)
	(80)	37	(128)	26

Deferred tax adjustment resulting from defined benefit plan activity				
Valuation reserve associated with defined benefit plan activity	74	(41)	124	(30)
Current period unrealized gain on cash flow hedges	(694)	253	883	1,046
Deferred tax loss related to unrealized gain on cash flow hedges	39	23	(42)	(111)
Other Comprehensive Income	(8,163)	(40,377)	(8,029)	(39,191)
Comprehensive Income	$(20,624)	$(42,354)	$14,691	$(32,935)

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (unaudited)

	June 30, 2013	December 31, 2012
	(In thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$21,447	$38,791
Trade receivables, net	205,369	198,791
Installment receivables, net	1,814	2,188
Inventories, net	174,607	183,246
Deferred income taxes	1,140	—
Other current assets	36,645	41,776
Assets held for sale - current	—	103,157
Total Current Assets	441,022	567,949
Other Assets	42,467	42,262
Other Intangibles	66,599	71,652
Property and Equipment, net	112,442	118,231
Goodwill	459,867	462,200
Total Assets	$1,122,397	$1,262,294
Liabilities and Shareholders’ Equity		
Current Liabilities		
Accounts payable	$115,891	$133,048
Accrued expenses	131,835	135,189
Accrued income taxes	9,240	2,713
Short-term debt and current maturities of long-term obligations	1,778	5,427
Liabilities held for sale - current	—	23,358
Total Current Liabilities	258,744	299,735
Long-Term Debt	113,274	229,375
Other Long-Term Obligations	112,916	112,195
Shareholders’ Equity		
Preferred Shares (Authorized 300 shares; none outstanding)	—	—
Common Shares (Authorized 100,000 shares; 34,054 and 33,952 issued in 2013 and 2012, respectively)—no par	8,531	8,503
Class B Common Shares (Authorized 12,000 shares; 1,085 and 1,086 issued and outstanding in 2013 and 2012, respectively)—no par	272	272
Additional paid-in-capital	230,734	228,187
Retained earnings	386,475	364,546
Accumulated other comprehensive earnings	104,714	112,743
Treasury shares	(93,263)	(93,262)
Total Shareholders’ Equity	637,463	620,989
Total Liabilities and Shareholders’ Equity	$1,122,397	$1,262,294

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2013	2012
Operating Activities	(In thousands)	
Net earnings	$22,720	$6,256
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of business (pre-tax)	(59,402)	—
Depreciation and amortization	18,929	19,448
Provision for losses on trade and installment receivables	1,603	2,828
Provision (Benefit) for deferred income taxes	(163)	68
Provision for other deferred liabilities	126	557
Provision for stock-based compensation	2,574	2,990
Loss on disposals of property and equipment	135	72
Loss on debt extinguishment including debt finance charges and associated fees	—	312
Amortization of convertible debt discount	307	285
Changes in operating assets and liabilities:		
Trade receivables	(8,429)	(13,089)
Installment sales contracts, net	(134)	3,508
Inventories	3,405	(29,571)
Other current assets	4,009	304
Accounts payable	(18,852)	9,142
Accrued expenses	3,004	(4,831)
Other long-term liabilities	204	9,469
Net Cash Provided (Used) by Operating Activities	(29,964)	7,748
Investing Activities		
Purchases of property and equipment	(7,666)	(9,794)
Proceeds from sale of property and equipment	9	49
Proceeds from sale of business	144,681	—
Increase in other long-term assets	(422)	(150)
Other	(30)	(265)
Net Cash Provided (Used) by Investing Activities	136,572	(10,160)
Financing Activities		
Proceeds from revolving lines of credit and long-term borrowings	196,399	170,808
Payments on revolving lines of credit and long-term borrowings	(318,963)	(176,334)
Payment of financing costs	—	(1)
Payment of dividends	(791)	(787)
Net Cash Used by Financing Activities	(123,355)	(6,314)
Effect of exchange rate changes on cash	(597)	(703)
Decrease in cash and cash equivalents	(17,344)	(9,429)
Cash and cash equivalents at beginning of year	38,791	34,924
Cash and cash equivalents at end of period	$21,447	$25,495

See notes to condensed consolidated financial statements.

Accounting Policies

Nature of Operations: Invacare Corporation is a leading manufacturer and distributor of medical equipment and supplies used in the home based upon the company’s distribution channels, breadth of product line and net sales. The company designs, manufactures and distributes an extensive line of health care products for the non-acute care environment, including the home health care, retail and extended care markets.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries and include all adjustments, which were of a normal recurring nature, necessary to present fairly the financial position of the company as of June 30, 2013, the results of its operations for the three and six months ended June 30, 2013 and changes in its cash flow for the six months ended June 30, 2013 and 2012, 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. All significant intercompany transactions are eliminated. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates: The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

Stock-Based Compensation Plans: 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 significant changes have been made regarding the valuation methodologies used to determine the fair value of options granted. The company continues to use a Black-Scholes valuation model.
The substantial 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. The amounts of stock-based compensation expense recognized were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Stock-based compensation expense recognized as part of selling, general and administrative expense	$1,414	$1,456	$2,574	$2,990

The amounts above reflect compensation expense related to restricted stock awards and nonqualified stock options awarded under the 2003 Performance Plan (the “2003 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.

Recent Accounting Pronouncements: In February, 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income
(ASU 2013-02 or the ASU). ASU 2013-02 requires companies to report, in one place, changes in and reclassifications out of accumulated other comprehensive income (OCI). The ASU does not change what is required to be reported in OCI. The company adopted ASU 2013-02 in the first quarter of 2013 with no impact on the company's Condensed Consolidated Statement of Comprehensive Income (Loss), Balance Sheets or Statement of Cash Flows. See

Accumulated Other Comprehensive Income (Loss) in the Notes to these Consolidated Financial Statements.

In December, 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, and in January, 2013, issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities (ASU 2013-01). ASU 2013-01 is intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on an entity's financial position and requires companies to disclose both gross and net information about both instruments and transactions eligible for offset in the financial position; and to disclose instruments and transactions subject to an agreement similar to a master netting agreement. The company adopted ASU 2013-01 in the first quarter of 2013 with no impact on the company's Condensed Consolidated Statement of Comprehensive Income (Loss), Balance Sheets or Statement of Cash Flows. See Derivatives in the Notes to these Consolidated Financial Statements. See Accumulated Other Comprehensive Income (Loss) in the Notes to these Consolidated Financial Statements.

Discontinued Operations

On December 21, 2012, as part of the company's globalization strategy, and to allow it to focus on its core equipment product lines, the company's board of directors approved of the company entering into an agreement to sell Invacare Supply Group (ISG) and accordingly the company determined on that date that the "held for sale" criteria of ASC 360-10-45-9 were met. Accordingly, the assets and liabilities of ISG (long-lived asset disposal group) are shown at their carrying amounts, which are lower than the fair values less cost to sale as of December 31, 2012.

On January 18, 2013, the company completed the sale of the ISG medical supplies business for a purchase price of approximately $150,800,000 in cash, which is subject to final post-closing adjustments. ISG had been operated on a standalone basis and reported as a reportable segment of the company. The company recorded a gain of approximately $59,402,000 pre-tax in the first quarter of 2013 which represents the excess of the net sales price over the book value of the assets and liabilities of ISG. The sale of this business is dilutive to the Company's results. The Company utilized the proceeds from the sale to reduce debt outstanding under its revolving credit facility in the first quarter of 2013. The company recorded expenses related to the sale of approximately $5,350,000 of which $3,225,000 were paid out as of June 30, 2013. The gain recorded by the company reflects the company's estimated final purchase adjustments. The company recorded an intra-period tax allocation expense to discontinued operations in the first quarter based on the company's estimate of projected domestic loss related to continuing operations for 2013. A change in estimate of the continuing domestic loss for the year occurred in the second quarter principally related to the receipt of foreign dividends. Accordingly, an adjustment was required in the second quarter related to intra-period tax expense allocation to discontinued operations which reduced expense resulting in a benefit of $10,580,000 recorded in the quarter ended June 30, 2013.

The assets and liabilities of ISG that were sold are shown as held for sale in the company's Consolidated Balance Sheets and are comprised of the following (in thousands):

	December 31, 2012
Trade receivables, net	$44,196
Inventories, net	25,165
Other current assets	9,355
Property and Equipment, net	1,368
Goodwill	23,073
Assets held for sale - current	$103,157
Accounts payable	$17,692
Accrued expenses	4,602
Accrued income taxes	1,064
Liabilities held for sale - current	$23,358

The net sales of the discontinued operation were $0 and $18,498,000 for the three and six months ended June 30, 2013 and $82,205,000 and $160,670,000 for the three and six months ended June 30, 2012, respectively. Earnings before income taxes for the discontinued operation were $0 and $402,000 for the three and six months ended June 30, 2013 and $3,699,000 and $6,809,000 for the three and six months ended June 30, 2012, respectively.

The company will continue to sell product to the acquirer of ISG and expects to provide certain transitional services to the acquirer over a period of less than one year from the date of sale. The net cash flows expected to be paid and received related to such product sales and transitional services are not expected to be significant.

The company has classified ISG as a discontinued operation for all periods presented.

Receivables

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the company’s receivables are due from health care, medical equipment providers and long term care facilities located throughout the United States, Australia, Canada, New Zealand and Europe. A significant portion of products sold to providers, both foreign and domestic, is ultimately funded through government reimbursement programs such as Medicare and Medicaid in the U.S. As a consequence, changes in these programs can have an adverse impact on dealer liquidity and profitability. The estimated allowance for uncollectible amounts ($22,158,000 at June 30, 2013 and $22,213,000 at December 31, 2012) is based primarily on management’s evaluation of the financial condition of specific customers. In addition, as a result of the company's third party financing arrangement with De Lage Landen, Inc. ("DLL"), a third party financing company which the company has worked with since 2000, management monitors the collection status of these contracts in accordance with the company’s limited recourse obligations and provides amounts necessary for estimated losses in the allowance for doubtful accounts and establishing reserves for specific customers as needed. The company charges off uncollectible trade accounts receivable after such receivables are moved to collection status and legal remedies are exhausted. See Concentration of Credit Risk in the Notes to the Consolidated Financial Statements for a description of the financing arrangement. Long-term installment receivables are included in “Other Assets” on the consolidated balance sheet.

The company’s U.S. customers electing to finance their purchases can do so using DLL. In addition, the company often provides financing directly for its Canadian customers for which DLL is not an option. The installment receivables recorded on the books of the company represent a single portfolio segment of finance receivables to the independent provider channel. The portfolio segment is comprised of two classes of receivables distinguished by geography and credit quality. The U.S. installment receivables are the first class and represent installment receivables re-purchased from DLL because the customers were in default. Default with DLL is defined as a customer being delinquent by 3 payments. The Canadian installment receivables represent the second class of installment receivables which were originally financed by the company because third party financing was not available to the HME providers. The Canadian installment receivables are typically financed for 12 months and historically have had a very low risk of default.

The estimated allowance for uncollectible amounts and evaluation for impairment for both classes of installment receivables is based on the company’s quarterly review of the financial condition of each individual customer with the allowance for doubtful accounts adjusted accordingly. Installments are individually and not collectively reviewed for impairment. The company assesses the bad debt reserve levels based upon the status of the customer’s adherence to a legally negotiated payment schedule and the company’s ability to enforce judgments, liens, etc.

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

Interest income is recognized on installment receivables based on the terms of the installment agreements. Installment accounts are monitored and if a customer defaults on payments and is moved to collection, interest income is no longer recognized. Subsequent payments received once an account is put on non-accrual status are generally first applied to the principal balance and then to the interest. Accruing of interest on collection accounts would only be restarted if the account became current again. All installment accounts are accounted for using the same methodology

regardless of the duration of the installment agreements. When an account is placed in collection status, the company goes through a legal process of adjudication which typically approximates 18 months. Any write-offs are made after the legal process has been completed. The company has not made any changes to either its accounting policies or methodology to estimation allowances for doubtful accounts in the last twelve months. Installment receivables consist of the following (in thousands):

	June 30, 2013			December 31, 2012		
	Current	Long-Term	Total	Current	Long-Term	Total
Installment receivables	$4,093	$1,933	$6,026	$4,982	$1,506	$6,488
Less: Unearned interest	(65)	—	(65)	(71)	—	(71)
	4,028	1,933	5,961	4,911	1,506	6,417
Allowance for doubtful accounts	(2,214)	(1,399)	(3,613)	(2,723)	(1,100)	(3,823)
	$1,814	$534	$2,348	$2,188	$406	$2,594

Installment receivables purchased from DLL during the six months ended June 30, 2013 increased the gross installment receivables balance by $1,265,000. No sales of installment receivables were made by the company during the quarter.

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

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
Balance as of beginning of period	$3,823	$4,273
Current period provision	307	458
Direct write-offs charged against the allowance	(517)	(908)
Balance as of end of period	$3,613	$3,823

Installment receivables by class as of June 30, 2013 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
U.S.				
Impaired Installment receivables with a related allowance recorded	$4,422	$4,422	$3,352	$—
Canada				
Non-Impaired Installment receivables with no related allowance recorded	1,343	1,278	—	54
Impaired Installment receivables with a related allowance recorded	261	261	261	—
Total Canadian Installment Receivables	$1,604	$1,539	$261	$54
Total				
Non-Impaired Installment receivables with no related allowance recorded	1,343	1,278	—	54
Impaired Installment receivables with a related allowance recorded	4,683	4,683	3,613	—
Total Installment Receivables	$6,026	$5,961	$3,613	$54

Installment receivables by class as of December 31, 2012 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
U.S.				
Impaired Installment receivables with a related allowance recorded	$4,508	$4,508	$3,365	$—
Canada				
Non-Impaired Installment receivables with no related allowance recorded	1,522	1,451	—	120
Impaired Installment receivables with a related allowance recorded	458	458	458	—
Total Canadian Installment Receivables	$1,980	$1,909	$458	$120
Total				
Non-Impaired Installment receivables with no related allowance recorded	1,522	1,451	—	120
Impaired Installment receivables with a related allowance recorded	4,966	4,966	3,823	—
Total Installment Receivables	$6,488	$6,417	$3,823	$120

Installment receivables with a related allowance recorded as noted in the table above represent those installment receivables on a non-accrual basis in accordance with ASU 2010-20. As of June 30, 2013, the company had no U.S. installment receivables past due of 90 days or more for which the company is still accruing interest. Individually, all U.S. installment receivables are assigned a specific allowance for doubtful accounts based on management's review when the company does not expect to receive both the contractual principal and interest payments as specified in the loan agreement. However, while the full balance may be deemed to be impaired, the company has historically collected a large percentage of the principal of its U.S. installment receivables.

The company had an immaterial amount of Canadian installment receivables which were past due of 90 days or more as of June 30, 2013 and December 31, 2012 for which the company is still accruing interest. The aging of the company's installment receivables was as follows (in thousands):

	June 30, 2013			December 31, 2012		
	Total	U.S.	Canada	Total	U.S.	Canada
Current	$1,377	$—	$1,377	$1,467	$—	$1,467
0-30 Days Past Due	14	—	14	43	—	43
31-60 Days Past Due	2	—	2	2	—	2
61-90 Days Past Due	—	—	—	—	—	—
90+ Days Past Due	4,633	4,422	211	4,976	4,508	468
	$6,026	$4,422	$1,604	$6,488	$4,508	$1,980

Inventories

Inventories consist of the following (in thousands):

June 30, 2013

		December 31, 2012
Finished goods	$97,215	$94,675
Raw materials	62,271	71,596
Work in process	15,121	16,975
	$174,607	$183,246

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INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

Other Current Assets

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

	June 30, 2013	December 31, 2012
Value added tax receivables	$15,831	$18,002
Recoverable income taxes	3,519	6,192
Derivatives (foreign currency forward contracts)	1,496	1,062
Prepaid insurance	921	2,241
Prepaids and other current assets	14,878	14,279
	$36,645	$41,776

Property and Equipment

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

	June 30, 2013	December 31, 2012
Machinery and equipment	$357,126	$356,512
Land, buildings and improvements	95,103	95,047
Furniture and fixtures	13,151	13,397
Leasehold improvements	14,749	14,975
	480,129	479,931
Less allowance for depreciation	(367,687)	(361,700)
	$112,442	$118,231

Goodwill
The change in goodwill reflected on the balance sheet from December 31, 2012 to June 30, 2013 was the result of foreign currency translation.

Other Intangibles

All of the company’s other intangible assets have been assigned definite lives and continue to be amortized over their useful lives, except for $30,772,000 related to trademarks, which have indefinite lives. The changes in intangible balances reflected on the balance sheet from December 31, 2012 to June 30, 2013 were the result of foreign currency translation and amortization.

The company's intangibles consist of the following (in thousands):

	June 30, 2013		December 31, 2012	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer Lists	$90,357	$59,060	$93,572	$58,447
Trademarks	30,772	—	31,280	—
License Agreements	3,127	3,127	3,212	3,212
Developed Technology	9,603	5,871	9,650	5,588
Patents	5,959	5,348	6,060	5,234

Other	7,434	7,247	7,571	7,212
	$147,252	$80,653	$151,345	$79,693

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INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - June 30, 2013

Amortization expense related to other intangibles was $4,515,000 in the first six months of 2013 and is estimated to be $9,078,000 in 2013, $8,623,000 in 2014, $7,116,000 in 2015, $5,571,000 in 2016, $2,290,000 in 2017 and $2,290,000 in 2018. Amortized intangibles are being amortized on a straight-line basis for periods from 3 to 20 years with the majority of the intangibles being amortized over a life of between 10 and 13 years.

Current Liabilities

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

	June 30, 2013	December 31, 2012
Salaries and wages	$33,671	$41,813
Taxes other than income taxes, primarily Value Added Taxes	23,442	24,600
Warranty cost	25,060	21,451
Freight	9,333	7,853
Professional	6,668	7,595
Product liability, current portion	3,417	3,323
Rebates	2,607	3,635
Insurance	2,693	2,674
Interest	1,065	1,268
Derivative liability (foreign forward exchange contracts)	1,213	1,373
Severance	4,920	5,211
Other items, principally trade accruals	17,746	14,393
	$131,835	$135,189

Accrued rebates relate to several volume incentive programs the company offers its customers. The company accounts for these rebates as a reduction of revenue when the products are sold in accordance with the guidance in ASC 605-50, Customer Payments and Incentives.
Generally, the company's products are covered 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. The increase in the liability for pre-existing warranties in 2013 is primarily the result of product recalls. The warranty accrual for the quarter ended June 30, 2013 includes anticipated warranty expense related to a power wheelchair component performance issue of $3,800,000. The increase in the warranty accrual is primarily in the Asia/Pacific segment. The company expects to work closely with the FDA to finalize its action plan related to the power wheelchair performance issue. Warranty expense was also reversed in the North America/HME segment for the closure of prior field actions.
The following is a reconciliation of the changes in accrued warranty costs for the reporting period (in thousands):

Balance as of January 1, 2013	$21,451
Warranties provided during the period	5,569
Settlements made during the period	(6,263)
Changes in liability for pre-existing warranties during the period, including expirations	4,303

Balance as of June 30, 2013	$25,060

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Long-Term Debt

Debt consists of the following (in thousands):

	June 30, 2013	December 31, 2012
Senior secured revolving credit facility, due in October 2015	$97,959	$217,494
Convertible senior subordinated debentures at 4.125%, due in February 2027	10,316	10,009
Other notes and lease obligations	6,777	7,299
	115,052	234,802
Less current maturities of long-term debt	(1,778)	(5,427)
	$113,274	$229,375

The reduction in debt during the year was the result of utilizing the proceeds from the sale of the discontinued operation ISG to reduce borrowing under the company's revolving credit agreement. On May 30, 2013, the company entered into a Fourth Amendment ("the Amendment") to its Credit Agreement (the “Credit Agreement”). Pursuant to the Amendment, the Credit Agreement was amended to, for the following: (i) decrease the aggregate principal amount of the revolving credit facility to $250,000,000 from $400,000,000, and limit the Company's borrowings under the revolving credit facility to an amount not to exceed $200,000,000 aggregate principal amount through December 31, 2013; (ii) increase the maximum leverage ratio (consolidated funded indebtedness to consolidated EBITDA, each as defined in the Credit Agreement, as amended) to 4.00 to 1.00 from 3.50 to 1.00 until January 1, 2014, when the maximum leverage ratio will revert back to 3.50 to 1.00; (iii) decrease the minimum interest coverage ratio (consolidated EBITDA to consolidated interest charges, each as defined in the Credit Agreement, as amended) to 3.00 to 1.00 from 3.50 to 1.00 until January 1, 2014, when the minimum interest coverage ratio will revert back to 3.50 to 1.00; (iv) in calculating consolidated EBITDA for purposes of determining the ratios, provide for the add back to consolidated EBITDA of up to an additional $15,000,000 for future one-time cash restructuring charges and (v) provide for an increase of (A) 25 basis points in the margin applicable to determining the interest rate on borrowings under the revolving credit facility and letter of credit fees and (B) 10 basis points in the commitment fee, all during periods when the leverage ratio exceeds 3.50 to 1.00. As a result, the company incurred $436,000 in fees which were capitalized and are being amortized through October, 2015. In addition, as a result of reducing the capacity of the facility from $400,000,000 to $250,000,000, the company wrote-off $1,216,000 in fees previously capitalized, which is reflected in the expense of the North America / HME segment.

In 2007, the company issued $135,000,000 principal amount of Convertible Senior Subordinated Debentures due 2027. The debentures are unsecured senior subordinated obligations of the company guaranteed by substantially all of the company’s domestic subsidiaries, pay interest at 4.125% per annum on each February 1 and August 1, and are convertible upon satisfaction of certain conditions into cash, common shares of the company, or a combination of cash and common shares of the company, subject to certain conditions. The debentures allow the company to satisfy the conversion using any combination of cash or stock, and at the company’s discretion. The company intends to satisfy the accreted value of the debentures using cash. Assuming adequate cash on hand at the time of conversion, the company also intends to satisfy the conversion spread using cash, as opposed to stock.

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

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

	June 30, 2013	December 31, 2012
Principal amount of liability component	$13,350	$13,350
Unamortized discount	(3,034)	(3,341)
Net carrying amount of liability component	$10,316	$10,009

The company is a party to interest rate swap agreements to effectively convert a portion of floating rate revolving credit facility debt to fixed rate debt to avoid the risk of changes in market interest rates. Specifically, interest rate swap agreements for notional amounts of $22,000,000 through September 2013 and $12,000,000 through April 2014 were entered into that fix the LIBOR component of the interest rate on that portion of the revolving credit facility debt at rates of 0.46% and 0.54% respectively, for effective aggregate rates of 2.46% and 2.54%, respectively. As of June 30, 2013, the weighted average floating interest rate on borrowing was 2.14% compared to 2.21% as of December 31, 2012.

Shareholders' Equity Transactions

On May 16, 2013 shareholders approved the Invacare Corporation 2013 Equity Compensation Plan (the "2013 Plan"), which was adopted on March 27, 2013 by the company's Board of Directors (the "Board"). The Board adopted the 2013 Plan because the ten-year term of the company's prior equity plan, the Invacare Corporation Amended and Restated 2003 Performance Plan (the "2003 Plan"), expired on May 21, 2013. No new awards will be granted under the 2003 Plan following its expiration, but awards granted prior to its expiration will remain in effect under their original terms. The 2013 Plan uses a fungible share-counting method, under which each common share underlying an award of stock options or SARs will count against the number of total shares available under the 2013 Plan as one share; and each common share underlying any award other than a stock option or a stock appreciation rights ("SAR") will count against the number of total shares available under the 2013 Plan as two shares. Any common shares that are added back to the 2013 Plan as the result of the cancellation or forfeiture of an award granted under the 2013 Plan will be added back in the same manner such shares were originally counted against the total number of shares available under the 2013 Plan. Each common share that is added back to the 2013 Plan due to a cancellation or forfeiture of an award granted under the 2003 Plan will be added back as one common share.
The Compensation and Management Development Committee of the Board (the "Committee"), in its discretion, may grant an award under the 2013 Plan to any director or employee of the company or an affiliate. The 2013 Plan initially allows the Committee to grant up to 4,460,337 Common Shares in connection with the following types of awards with respect to shares of the company's common shares: incentive stock options, nonqualified stock options, SARs, restricted stock, restricted stock units, unrestricted stock, and performance shares. The Committee also may grant performance units that are payable in cash. The Committee has the authority to determine which participants will receive awards, the amount of the awards and the other terms and conditions of the awards.

During the six months ended June 30, 2013, the Committee granted 756,700 non-qualified stock options, each having a term of ten years and generally granted at the fair market value of the company's Common Shares on the date of grant. In addition, restricted stock awards for 114,700 shares were granted without cost to the recipients which vest ratably over the four years after the award date. Compensation expense of $1,014,000 was recognized during the six months ended June 30, 2013 related to restricted stock awards and there were outstanding restricted stock awards totaling 362,323 shares that were not vested.

As of June 30, 2013, there was $15,825,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the plan, which is related to non-vested options and shares, and includes $4,722,000 related to restricted stock awards. The company expects the compensation expense to be recognized over a weighted-average period of approximately two years.

The following table summarizes information about stock option activity for the six months ended June 30, 2013:

	June 30, 2013	Weighted Average Exercise Price
Options outstanding at January 1, 2013	4,664,634	$26.21
Granted	756,700	14.47
Exercised	—	—
Canceled	(351,541)	22.81
Options outstanding at June 30, 2013	5,069,793	$24.70
Options exercise price range at June 30, 2013	$ 12.42 to 47.80	
Options exercisable at June 30, 2013	2,902,760	
Options available for grant at June 30, 2013*	4,459,337	

* Options available for grant as of June 30, 2013 reduced by net restricted stock award activity of 793,351.

The following table summarizes information about stock options outstanding at June 30, 2013:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding At 6/30/13	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable At 6/30/13	Weighted Average Exercise Price
$ 12.42 – $15.00	1,404,086	9.4	$13.95	1,986	$13.37
$ 15.01 – $25.00	1,646,829	5.9	22.52	1,126,899	22.16
$ 25.01 – $35.00	964,437	6.0	25.78	719,435	25.91
$ 35.01 – $47.80	1,054,441	1.1	41.42	1,054,440	41.43
Total	5,069,793	5.9	$24.70	2,902,760	$30.08

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

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Accumulated Other Comprehensive Income (Loss) by Component

Changes in accumulated other comprehensive income (Loss) ("OCI") during the quarter ended June 30, 2013 were as follows (in thousands):

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
March 31, 2013	117,659	1,153	(6,649)	714	112,877
OCI before reclassifications	158	(7,896)	362	(396)	(7,772)
Amount reclassified from accumulated OCI	—	—	(132)	(259)	(391)
Net current-period OCI	158	(7,896)	230	(655)	(8,163)
June 30, 2013	117,817	(6,743)	(6,419)	59	104,714

Changes in OCI during the six months ended June 30, 2013 were as follows (in thousands):

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
December 31, 2012	117,465	2,845	(6,785)	(782)	112,743
OCI before reclassifications	352	(9,588)	485	847	(7,904)
Amount reclassified from accumulated OCI	—	—	(119)	(6)	(125)
Net current-period OCI	352	(9,588)	366	841	(8,029)
June 30, 2013	117,817	(6,743)	(6,419)	59	104,714

Reclassifications out of accumulated OCI for the three and six months ended June 30, 2013 were as follows (in thousands):

	Amount reclassified from OCI		Affected line item in the Statement of Comprehensive Income (Loss)
	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	
Defined Benefit Plans			
Service and interest costs	(138)	(123)	Selling, General and Administrative
Tax	6	4	Income Taxes
Total after tax	(132)	(119)	
Derivatives			
Foreign currency forward contracts hedging sales	(306)	(442)	Net Sales
Foreign currency forward contracts hedging purchases	(31)	325	Cost of Products Sold
Interest rate swaps	59	126	Interest Expense
Total before tax	(278)	9	
Tax	19	(15)	Income Taxes
Total after tax	(259)	(6)	

Charges Related to Restructuring Activities

Historically, the company's restructuring charges were necessitated primarily by continued declines in Medicare and Medicaid reimbursement by the U.S. government, as well as similar healthcare reimbursement pressures abroad, which negatively affect the company's customers (e.g. home health care providers) and continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations. In addition, restructuring actions principally in the North America/HME segment have been precipitated by the negative impact on the business related to the consent decree which has resulted in a sales decline in customer power wheelchairs, which is one of the company's higher margin product lines. While the company's restructuring efforts have been executed on a timely basis resulting in operating cost savings, the savings have been more than offset by continued margin decline, principally as a result of volume declines, unfavorable product mix, and higher regulatory and compliance costs related to quality system improvements. The company expects any near-term cost savings from restructuring will be offset by higher regulatory and compliance costs related to quality system improvements at least until the company has completed its quality systems remediation efforts.

The company's restructuring commenced in the second quarter of 2011 with the company's decision to close the Hong, Denmark assembly facility as part of the company's ongoing globalization initiative to reduce complexity in the company's supply chain which is intended to reduce expenses to help offset pricing pressures. In the third quarter of 2011, the company continued to execute on the closure of the Hong, Denmark assembly facility and initiated the closure of a smaller facility in the U.S. Charges for the quarter ended December 31, 2011 were primarily incurred at the company's corporate headquarters for severance, with additional costs incurred as a result of the closure of the Hong, Denmark facility. The facility closures were completed in 2012 in addition to the elimination of various positions principally in the North America/Home Medical Equipment (HME) and Asia/Pacific segments.

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

Charges for the year ended December 31, 2012 totaled $11,395,000 including charges for severance ($6,775,000), lease termination costs ($1,725,000), building and asset write-downs, primarily related to the closure of the Hong, Denmark assembly facility, and other miscellaneous charges in Europe and Asia/Pacific ($2,404,000) and inventory write-offs ($491,000) in Asia/Pacific recorded in cost of products sold. Severance charges were primarily incurred in the North America/HME segment ($4,242,000), Asia/Pacific segment ($1,681,000) and Europe segment ($817,000). The charges were incurred as a result of the elimination of various positions as part of the company's globalization initiatives. In addition, a portion of the North America/HME segment severance was related to positions eliminated, principally in sales and marketing as well as manufacturing, at the company's Taylor Street facility as a result of the FDA consent decree. The savings from these charges will be reflected primarily in reduced selling, general and administrative expenses and manufacturing expenses for the company. In Europe, positions were eliminated as a result

of finalizing the exit from the manufacturing facility in Denmark and an elimination of a senior management position in Switzerland. In Asia/Pacific, the company's management approved in the fourth quarter of 2012 a plan to restructure the company's operations in this segment. In Australia, the company consolidated offices / warehouses, decreased staffing and exited various activities while returning to a focus on distribution. At the company's subsidiary, which produces microprocessor controllers, the company decided to cease the contract manufacturing business for companies outside of the healthcare industry. Payments for the year ended December 31, 2012 were $9,381,000 and were funded with operating cash flows. The majority of the 2012 charges are expected to be paid out during 2013.

Restructuring continued during 2013 resulting in restructuring charges of $5,114,000 in the first six months of 2013 principally for severance in NA/HME and Asia/Pacific and to a lesser extent Europe and IPG as a result of the permanent elimination of certain positions. Payments for the six months ended June 30, 2013 were $6,205,000 and were funded with the company's credit facility. The majority of the outstanding charge accruals at June 30, 2013 are expected to be paid out within the next twelve months.

There have been no material changes in accrued balances related to the charges, either as a result of revisions in the plan or changes in estimates. In addition, the savings anticipated as a result of the company's restructuring plans have been or are expected to be achieved, primarily resulting in reduced salary and benefit costs principally impacting selling, general and administrative expenses, and to a lesser extent, costs of products sold. However, these savings have been more than offset by continued margin decline, principally as a result of volume declines, unfavorable product mix, and higher regulatory and compliance costs related to quality system improvements. To date, the company's liquidity has not been materially impacted by the company's restructuring charges.

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

	Severance	Product Line Discontinuance	Contract Terminations	Other	Total
December 31, 2010 Balance					
Total	$—	$—	$—	$—	$—
Charges					
NA/HME	4,755	—	—	4	4,759
IPG	123	—	—	—	123
Europe	3,288	277	1,788	113	5,466
Asia/Pacific	186	—	—	—	186
Total	8,352	277	1,788	117	10,534
Payments					
NA/HME	(1,663)	—	—	(4)	(1,667)
IPG	(52)	—	—	—	(52)
Europe	(1,546)	(277)	(1,714)	(113)	(3,650)
Asia/Pacific	(186)	—	—	—	(186)
Total	(3,447)	(277)	(1,714)	(117)	(5,555)
December 31, 2011 Balance					
NA/HME	3,092	—	—	—	3,092
IPG	71	—	—	—	71
Europe	1,742	—			