INVACARE CORP
Form 10-Q
May 06, 2015

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 March 31, 2015

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 May 4, 2015, the registrant had 31,281,835 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 March 31,	
	2015	2014
Net sales	$289,024	$304,501
Cost of products sold	211,929	221,708
Gross Profit	77,095	82,793
Selling, general and administrative expenses	81,240	96,802
Charges related to restructuring activities	240	2,240
Interest expense	692	689
Interest income	(38)	(68)
Loss from Continuing Operations Before Income Taxes	(5,039)	(16,870)
Income tax provision	2,475	2,025
Net loss from Continuing Operations	(7,514)	(18,895)
Net Earnings from Discontinued Operations (net of tax of $0 and $200)	—	919
Gain on Sale of Discontinued Operations (net of tax of $140 and $0)	260	—
Total Net Earnings from Discontinued Operations	260	919
Net Loss	$(7,254)	$(17,976)
Dividends Declared per Common Share	$0.0125	$0.0125
Net Earnings (Loss) per Share—Basic		
Net Loss from Continuing Operations	$(0.23)	$(0.59)
Net Earnings from Discontinued Operations	$0.01	$0.03
Net Loss per Share—Basic	$(0.23)	$(0.56)
Weighted Average Shares Outstanding—Basic	32,125	32,013
Net Earnings (Loss) per Share—Assuming Dilution		
Net Loss from Continuing Operations	$(0.23)	$(0.59)
Net Earnings from Discontinued Operations	$0.01	$0.03
Net Loss per Share—Assuming Dilution	$(0.23)	$(0.56)
Weighted Average Shares Outstanding—Assuming Dilution	32,389	32,301
Net Loss	$(7,254)	$(17,976)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(53,378)	6,648
Defined Benefit Plans:		
Amortization of prior service costs and unrecognized gains	94	708
Deferred tax adjustment resulting from defined benefit plan activity	(33)	(180)
Valuation reserve associated with defined benefit plan activity	33	14
Current period unrealized gain (loss) on cash flow hedges	2,020	(584)
Deferred tax loss related to unrealized gain (loss) on cash flow hedges	(96)	84
Other Comprehensive Income (Loss)	(51,360)	6,690
Comprehensive Loss	$(58,614)	$(11,286)

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (unaudited)

	March 31, 2015	December 31, 2014
	(In thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$20,618	$38,931
Trade receivables, net	163,664	160,414
Installment receivables, net	1,088	1,054
Inventories, net	150,975	155,876
Deferred income taxes	1,982	2,048
Other current assets	39,567	37,019
Total Current Assets	377,894	395,342
Other Assets	6,435	19,053
Other Intangibles	34,119	38,070
Property and Equipment, net	80,427	85,555
Goodwill	386,627	425,711
Total Assets	$885,502	$963,731
Liabilities and Shareholders’ Equity		
Current Liabilities		
Accounts payable	$119,408	$120,151
Accrued expenses	140,656	156,475
Current taxes, payable and deferred	12,410	12,634
Short-term debt and current maturities of long-term obligations	843	967
Total Current Liabilities	273,317	290,227
Long-Term Debt	22,066	19,377
Other Long-Term Obligations	83,196	88,805
Shareholders’ Equity		
Preferred Shares (Authorized 300 shares; none outstanding)	—	—
Common Shares (Authorized 100,000 shares; 34,457 and 34,219 issued in 2015 and 2014, respectively)—no par	8,652	8,591
Class B Common Shares (Authorized 12,000 shares; 1,085 issued and outstanding in 2015 and 2014, respectively)—no par	272	272
Additional paid-in-capital	241,293	240,743
Retained earnings	330,712	338,362
Accumulated other comprehensive earnings	20,259	71,619
Treasury shares (3,187 shares in 2015 and 2014, respectively)	(94,265)	(94,265)
Total Shareholders’ Equity	506,923	565,322
Total Liabilities and Shareholders’ Equity	$885,502	$963,731

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
Operating Activities	(In thousands)	
Net loss	$(7,254)	$(17,976)
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of businesses	(260)	—
Depreciation and amortization	5,353	9,507
Provision for losses on trade and installment receivables	272	663
Provision for deferred income taxes	110	286
Provision for other deferred liabilities	82	141
Provision for stock-based compensation	411	699
Loss on disposals of property and equipment	(11)	83
Loss on debt extinguishment including debt finance charges and associated fees	668	—
Asset write-downs related to intangible assets	—	638
Amortization of convertible debt discount	191	170
Changes in operating assets and liabilities:		
Trade receivables	(9,756)	2,811
Installment sales contracts, net	(402)	(652)
Inventories	(2,066)	(8,493)
Other current assets	293	2,251
Accounts payable	3,408	6,745
Accrued expenses	(14,179)	(3,148)
Other long-term liabilities	349	(745)
Net Cash Used by Operating Activities	(22,791)	(7,020)
Investing Activities		
Purchases of property and equipment	(2,818)	(3,626)
Proceeds from sale of property and equipment	78	1
Change in other long-term assets	13,392	(197)
Other	(3)	(144)
Net Cash Provided (Used) by Investing Activities	10,649	(3,966)
Financing Activities		
Proceeds from revolving lines of credit and long-term borrowings	71,064	62,525
Payments on revolving lines of credit and long-term borrowings	(73,633)	(60,195)
Proceeds from exercise of stock options	200	85
Payment of financing costs	(1,391)	—
Payment of dividends	(397)	(396)
Net Cash Provided (Used) by Financing Activities	(4,157)	2,019
Effect of exchange rate changes on cash	(2,014)	442
Decrease in cash and cash equivalents	(18,313)	(8,525)
Cash and cash equivalents at beginning of year	38,931	29,785
Cash and cash equivalents at end of period	$20,618	$21,260

See notes to condensed consolidated financial statements.

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Accounting Policies

Nature of Operations: Invacare Corporation is a leading manufacturer and distributor of medical equipment 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 March 31, 2015, the results of its operations for the three months ended March 31, 2015 and changes in its cash flow for the three months ended March 31, 2015 and 2014, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using a February 28 quarter end in order to meet filing deadlines. No material subsequent events have occurred related to the European segment, which would require disclosure or adjustment to the Company's financial statements. All significant intercompany transactions are eliminated. The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the full year.

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

Recent Accounting Pronouncements: In April 2014, the FASB issued ASU 2014-08 changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results when the component meets the criteria to be classified as held for sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. This standard must be prospectively applied to all reporting periods presented in financial reports issued after the effective date. Early adoption was permitted for disposals that were not been reported in financial statements previously issued or available for issuance. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2014. If applicable, this standard will change the presentation of the Company's financial statements but will not affect the calculation of net income, comprehensive income or earnings per share. The Company adopted ASU 2014-08 effective January 1, 2015 with no impact on the Company’s Condensed Consolidated Statement of Comprehensive Income (Loss), Balance Sheets or Statement of Cash Flows.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 requires a company to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The guidance requires five steps to be applied: 1) identify the contract(s) with customers, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocated the transaction price to the performance obligation in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also requires both quantitative and qualitative disclosures, which are more comprehensive than existing revenue standards. The disclosures are intended to enable financial statement users to understand the nature, timing and uncertainty of revenue and the related cash flow. An entity can apply the new revenue standard retrospectively to each prior reporting period presented or retrospective with the cumulative effect of initially applying the standard

recognized at the date of initial application in retained earnings. The new accounting guidance is effective for annual periods beginning after December 15, 2016 and early adoption is not permitted. In April, the FASB proposed a one-year deferral of the effective date, which would change the effective date to December 15, 2017, if approved. The Company is currently reviewing the impact of the adoption of ASU 2014-09 on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability, which is similar presentation of debt discounts or premiums. Debt issuance costs are currently reported on the balance sheet as assets and amortized as interest expense. ASU 2015-03 does not change the recognition and measurement guidance for debt issuance costs and requires retrospective application to all periods presented upon adoption. The new accounting guidance is

effective for fiscal periods beginning after December 15, 2015 and early adoption is permitted. The Company is currently reviewing the impact of the adoption of ASU 2015-03 on the Company's financial statements.

Discontinued Operations

On August 29, 2014, the Company sold Altimate Medical, Inc. (Altimate), its manufacturer of stationary standing assistive devices for use in patient rehabilitation, to REP Acquisition Corporation for $23,000,000 in cash, which was subject to final post-closing adjustments. Altimate had been operated on a stand-alone basis and reported as part of the North America/HME segment of the Company. The Company recorded a gain of $17,069,000 pre-tax in the third quarter of 2014, which represented the excess of the net sales price over the book value of the assets and liabilities of Altimate. The sale of this business was dilutive to the Company's results. The Company utilized the proceeds from the sale to reduce debt outstanding under its revolving credit facility in the third quarter of 2014. The gain recorded by the Company reflects the Company's estimated final purchase adjustments.

The assets and liabilities of Altimate were the following as of the date of the sale, August 29, 2014, (in thousands):

	August 29, 2014
Trade receivables, net	$2,019
Inventories, net	1,954
Other current assets	246
Property and Equipment, net	176
Other Intangibles	1,047
Assets sold	$5,442
Accounts payable	$425
Accrued expenses	316
Liabilities sold	$741

The net sales and earnings before income taxes of the Altimate discontinued operations were $4,567,000 and $1,119,000 for the three months ended March 31, 2014, respectively. Results for Altimate include an interest expense allocation from continuing operations to discontinued operations of $79,000 for the three months ended March 31, 2014 as proceeds from the sale were required to be utilized to pay down debt. The interest allocation was based on the net proceeds assumed to pay down debt applying the Company's average interest rates for the periods presented. The Company recorded an incremental intra-period tax allocation expense to discontinued operations for the three months ended March 31, 2014 representing the cumulative intra-period allocation expense to discontinued operations based on the Company's March 31, 2014 estimates of the projected domestic taxable loss related to continuing operations for 2014.

The Company recorded cumulative expenses related to the sale of discontinued operations, including Altimate, totaling $8,401,000, of which $7,730,000 have been paid as of March 31, 2015. The gain shown on the Consolidated Statement of Comprehensive Income for the three months ended March 31, 2015 was the result of an adjustment to the originally recorded estimated expenses related to discontinued operations.

The Company has classified Altimate 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, China 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 ($12,301,000 at March 31, 2015 and $12,988,000 at December 31, 2014) is based primarily on management's evaluation of the financial condition of specific customers. In addition, as a result of the financing arrangement

with De Lage Landen, Inc. ("DLL"), a third party financing company which the Company has worked with since 2000, management monitors the collection status of these contracts in accordance with the Company's limited recourse obligations and provides amounts necessary for estimated losses in the allowance for doubtful accounts and establishing reserves for specific customers as needed. The Company charges off uncollectible trade accounts receivable after such receivables are moved to collection status and legal remedies are exhausted. See Concentration of Credit Risk in the Notes to the Consolidated Financial Statements for a description of the financing arrangement. Long-term installment receivables are included in "Other Assets" on the consolidated balance sheet.

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

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

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

Interest income is recognized on installment receivables based on the terms of the installment agreements. Installment accounts are monitored and if a customer defaults on payments and is moved to collection, interest income is no longer recognized. Subsequent payments received once an account is put on non-accrual status are generally first applied to the principal balance and then to the interest. Accruing of interest on collection accounts would only be restarted if the account became current again. All installment accounts are accounted for using the same methodology regardless of the duration of the installment agreements. When an account is placed in collection status, the Company initiates a legal process for pursuing collection of outstanding amounts, the length of which typically approximates eighteen months. Any write-offs are made after the legal process has been completed. The Company has not made any changes to either its accounting policies or methodology to estimation allowances for doubtful accounts in the last twelve months.

Installment receivables consist of the following (in thousands):

	March 31, 2015			December 31, 2014		
	Current	Long-Term	Total	Current	Long-Term	Total

Installment receivables	$2,504	$5,231	$7,735	$2,692	$5,117	$7,809
Less: Unearned interest	(47)	—	(47)	(46)	—	(46)
	2,457	5,231	7,688	2,646	5,117	7,763
Allowance for doubtful accounts	(1,369)	(4,202)	(5,571)	(1,592)	(4,260)	(5,852)
	$1,088	$1,029	$2,117	$1,054	$857	$1,911

Installment receivables purchased from DLL during the three months ended March 31, 2015 increased the gross installment receivables balance by $647,000. No sales of installment receivables were made by the Company during the quarter.

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Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2015

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

	Three Months Ended March 31, 2015	Year Ended December 31, 2014
Balance as of beginning of period	$5,852	$6,039
Current period provision	113	796
Direct write-offs charged against the allowance	(394)	(983)
Balance as of end of period	$5,571	$5,852

Installment receivables by class as of March 31, 2015 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	$6,668	$6,668	$5,492	$—
Canada				
Non-Impaired installment receivables with no related allowance recorded	988	941	—	10
Impaired installment receivables with a related allowance recorded	79	79	79	—
Total Canadian installment receivables	1,067	1,020	79	10
Total				
Non-Impaired installment receivables with no related allowance recorded	988	941	—	10
Impaired installment receivables with a related allowance recorded	6,747	6,747	5,571	—
Total installment receivables	$7,735	$7,688	$5,571	$10

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Installment receivables by class as of December 31, 2014 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
U.S.				
Impaired installment receivables with a related allowance recorded	$6,735	$6,735	$5,786	$—
Canada				
Non-Impaired installment receivables with no related allowance recorded	1,008	962	—	82
Impaired installment receivables with a related allowance recorded	66	66	66	—
Total Canadian installment receivables	1,074	1,028	66	82
Total				
Non-Impaired installment receivables with no related allowance recorded	1,008	962	—	82
Impaired installment receivables with a related allowance recorded	6,801	6,801	5,852	—
Total installment receivables	$7,809	$7,763	$5,852	$82

Installment receivables with a related allowance recorded as noted in the table above represent those installment receivables on a non-accrual basis in accordance with ASU 2010-20. As of March 31, 2015, 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. In Canada, the Company had an immaterial amount of Canadian installment receivables which were past due of 90 days or more as of March 31, 2015 and December 31, 2014 for which the Company is still accruing interest.

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

	March 31, 2015			December 31, 2014		
	Total	U.S.	Canada	Total	U.S.	Canada
Current	$995	$—	$995	$976	$—	$976
1-29 Days Past Due	2	—	2	15	—	15
30-59 Days Past Due	1	—	1	2	—	2
60-89 Days Past Due	2	—	2	—	—	—
90+ Days Past Due	6,735	6,668	67	6,816	6,735	81
	$7,735	$6,668	$1,067	$7,809	$6,735	$1,074

Inventories

Inventories consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Finished goods	$77,922	$86,143

Raw materials	60,472	57,509
Work in process	12,581	12,224
	$150,975	$155,876

INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited) - March 31, 2015

Other Current Assets

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

	March 31, 2015	December 31, 2014
Value added tax receivables	$18,175	$21,273
Recoverable income taxes	85	261
Derivatives (foreign currency forward contracts)	4,744	520
Prepaid insurance	2,101	2,713
Prepaid and other current assets	14,462	12,252
	$39,567	$37,019

Other Long-Term Assets

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

	March 31, 2015	December 31, 2014
Cash surrender value of life insurance policies	$3,054	$15,765
Deferred financing fees	1,052	408
Investments	196	249
Installment receivables	1,029	857
Deferred taxes	601	613
Other	503	1,161
	$6,435	$19,053

The change in cash surrender value of life insurance policies during the first quarter of 2015 was principally the result of the Company selling life insurance policies to fund retirement payments to certain executive officers of the Company.

Property and Equipment

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

	March 31, 2015	December 31, 2014
Machinery and equipment	$332,838	$338,857
Land, buildings and improvements	76,772	81,219
Furniture and fixtures	11,217	11,831
Leasehold improvements	14,204	14,671
	435,031	446,578
Less allowance for depreciation	(354,604)	(361,023)
	$80,427	$85,555

Goodwill
The goodwill change reflected on the balance sheet from December 31, 2014 to March 31, 2015 was due to foreign currency translation.

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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 $25,934,000 related to trademarks, which have indefinite lives. The changes in intangible balances reflected on the balance sheet from December 31, 2014 to March 31, 2015 were the result of foreign currency translation and amortization.

The Company evaluates the carrying value of definite-lived assets whenever events or circumstances indicate possible impairment. Definite-lived assets are determined to be impaired if the future un-discounted cash flows expected to be generated by the asset are less than the carrying value. Actual impairment amounts for definite-lived assets are then calculated using a discounted cash flow calculation. The Company reviews indefinite-lived assets for impairment annually in the fourth quarter of each year and whenever events or circumstances indicate possible impairment. Any impairment amounts for indefinite-lived assets are calculated as the difference between the future discounted cash flows expected to be generated by the asset less than the carrying value for the asset. The Company's intangibles consist of the following (in thousands):

	March 31, 2015		December 31, 2014	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer lists	$73,802	$67,631	$78,693	$71,343
Trademarks	25,934	—	28,371	—
License agreements	1,201	1,201	1,290	1,290
Developed technology	7,707	6,010	8,297	6,340
Patents	6,025	5,791	6,102	5,804
Other	2,548	2,465	2,548	2,454
	$117,217	$83,098	$125,301	$87,231

Amortization expense related to other intangibles was $608,000 in the first three months of 2015 and is estimated to be $1,995,000 in 2015, $1,736,000 in 2016, $1,635,000 in 2017, $1,622,000 in 2018, $977,000 in 2019 and $194,000 in 2020. Amortized intangibles are being amortized on a straight-line basis over remaining lives of 1 to 10 years with the majority of the intangibles being amortized over an average remaining life of approximately 6 years.

Current Liabilities

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

	March 31, 2015	December 31, 2014
Salaries and wages	$37,219	$41,193
Taxes other than income taxes, primarily Value Added Taxes	19,241	24,812
Warranty cost	29,661	30,738
Supplemental Executive Retirement Program	13,237	21,517
Freight	6,851	6,202
Professional	6,196	6,723
Product liability, current portion	3,695	4,334
Rebates	1,777	1,722
Insurance	1,252	1,266
Interest	970	1,068

Derivative liabilities	4,808	2,526
Severance	2,824	4,209
Other items, principally trade accruals	12,925	10,165
	$140,656	$156,475

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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.

As a result of the retirement of certain executives of the Company during 2015, SERP and deferred compensation payments of $8,280,000 and $805,000, respectively, were made during the three months ended March 31, 2015. Furthermore, based on the retirement agreements for the same executives, the Company estimates SERP and deferred compensation payments of $12,846,000 and $2,720,000, respectively, will be made by the end of the third quarter of 2015.

Generally, the Company's products are covered by warranties against defects in material and workmanship for various periods depending on the product from the date of sales to the customer. Certain components carry a lifetime warranty. A provision for estimated warranty cost is recorded at the time of sale based upon actual experience. The Company continuously assesses the adequacy of its product warranty accrual and makes adjustments as needed. Historical analysis is primarily used to determine the Company's warranty reserves. Claims history is reviewed and provisions are adjusted as needed. However, the Company does consider other events, such as a product field action and recalls, which could warrant additional warranty reserve provision.

In 2014, the Company recorded additional warranty expense for product recalls which related to a stationary oxygen concentrator, a sieve bed component used within stationary oxygen concentrators and power wheelchair joysticks. These warranty reserves are subject to adjustment in future periods as new developments change the Company's estimate of the total cost of these matters. However, no additional warranty expense was recorded related to these three recalls for the three months ended March 2015.
The following is a reconciliation of the changes in accrued warranty costs for the reporting period (in thousands):

Balance as of January 1, 2015	$30,738
Warranties provided during the period	3,710
Settlements made during the period	(5,053)
Changes in liability for pre-existing warranties during the period, including expirations	266
Balance as of March 31, 2015	$29,661

Long-Term Debt

Debt consists of the following (in thousands):

	March 31, 2015	December 31, 2014
Senior secured revolving credit facility, due in January 2018	$7,100	$—
Senior secured revolving credit facility, due in October 2015	—	4,000
Convertible senior subordinated debentures at 4.125%, due in February 2027	11,542	11,351
Other notes and lease obligations	4,267	4,993
	22,909	20,344
Less current maturities of long-term debt	(843)	(967)
	$22,066	$19,377

On January 16, 2015, the Company entered into a Revolving Credit and Security Agreement (the “New Credit Agreement”), which provides for an asset-based lending senior secured revolving credit facility that matures in January 2018. The New Credit Agreement was entered into by and among the Company, certain of the Company’s direct and

indirect domestic and Canadian subsidiaries (together with the Company, the “Borrowers”), certain other of the Company’s direct and indirect domestic and Canadian subsidiaries (the “Guarantors”), and PNC Bank, National Association (“PNC”), JPMorgan Chase Bank, N.A., KeyBank National Association, and Citizens Bank, National Association (the “Lenders”). PNC is the administrative agent under the New Credit Agreement (the “Administrative Agent”). The Credit Facility is secured by substantially all of the Company’s domestic and Canadian assets, other than real estate.

The New Credit Agreement contains customary representations, warranties and covenants; however it does not contain financial covenants that would require the Company to not exceed a maximum leverage ratio or to maintain a minimum interest coverage ratio similar to those under the Company’s Prior Credit Agreement.

The New Credit Agreement provides the Company and the other Borrowers with the ability to borrow up to an aggregate principal amount of $100,000,000, subject to availability based on a borrowing base formula, under a senior secured revolving credit, letter of credit and swing line loan facility (the “Credit Facility”). Up to $25,000,000 of the Credit Facility will be available for issuance of letters of credit, which amount is subject to an initial $10,000,000 sublimit under the terms of the New Credit Agreement. The aggregate principal amount of the Credit Facility may be increased by up to $25,000,000 to the extent requested by the Company and agreed to by any Lender or new financial institution approved by the Administrative Agent. The aggregate borrowing availability under the Credit Facility is determined based on a borrowing base formula set forth in the New Credit Agreement and summarized below.

Under the New Credit Agreement, the aggregate usage under the Credit Facility may not exceed an amount equal to the sum of (a) 85% of eligible U.S. accounts receivable plus (b) the lesser of (i) 70% of eligible U.S. inventory and eligible foreign in-transit inventory and (ii) 85% of the net orderly liquidation value of eligible domestic inventory and eligible foreign in-transit inventory (not to exceed $4,000,000), plus (c) the lesser of (i) 85% of the net orderly liquidation value of domestic eligible machinery and equipment and (ii) $2,924,000 (subject to reduction as provided in the New Credit Agreement), plus (d) 85% of eligible Canadian accounts receivable, plus (e) the lesser of (i) 70% of eligible Canadian inventory and (ii) 85% of the net orderly liquidation value of eligible Canadian inventory, less (f) swing loans outstanding under the Credit Facility, less (g) letters of credit issued and undrawn under the Credit Facility, less (h) a $10,000,000 minimum availability reserve, less (i) other reserves required by the Administrative Agent, and in each case subject to the definitions and limitations in the New Credit Agreement. As of March 31, 2015, the Company was in compliance with all covenant requirements. The Company had borrowing capacity of $38,500,000 as of March 31, 2015.

Interest will accrue on outstanding indebtedness under the New Credit Agreement at the LIBOR rate, plus a margin ranging from 2.25% to 2.75%, or at the alternate base rate, plus a margin ranging from 1.25% to 1.75%, as selected by the Company. The margin that will apply for the first six months of the Credit Facility is 2.75% for LIBOR rate loans and 1.75% for alternate base rate (Prime) loans, and after the first six months will be adjusted quarterly based on utilization. Borrowings under the Credit Facility are subject to commitment fees of 0.25% or 0.375% per year, depending on utilization. As of March 31, 2015, the weighted average floating interest rate on revolving credit borrowings was 3.16% compared to 2.25% as of December 31, 2014.

Exceptions to the operating covenants in the New Credit Agreement provide the Company with flexibility to, among other things, enter into or undertake certain sale/leaseback transactions, dispositions of assets, additional credit facilities, sales of receivables, additional indebtedness and intercompany indebtedness, all subject to limitations set forth in the New Credit Agreement. The New Credit Agreement also contains a covenant requiring the Company to maintain minimum availability under the Credit Facility of not less than (i) 11.25% of the maximum amount that may be drawn under the Credit Facility for five (5) consecutive business days, or (ii) $10,000,000 on any business day.

The New Credit Agreement contains customary default provisions, with certain grace periods and exceptions, which provide that events of default that include, among other things, failure to pay amounts due, breach of covenants, representations or warranties, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical reimbursement program, and an interruption of any material manufacturing facilities for more than 10 consecutive days.

The proceeds of the Credit Facility were used to repay and terminate the Company’s Prior Credit Agreement, which was scheduled to mature in October 2015.

As a result of the New Credit Agreement, the Company incurred $1,391,000 in fees which were capitalized and are being amortized through January 2018. In addition, as a result of terminating the prior credit agreement, which was

scheduled to mature in October 2015, the Company wrote-off $668,000 in previously capitalized fees in the first quarter of 2015, which is reflected in the expense of the North America / HME segment. In comparison, the Company wrote-off $1,070,000 in fees previously capitalized in the first quarter of 2014 as a result of a reduction in the borrowing capacity under the Company's prior credit agreement.

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

	March 31, 2015	December 31, 2014
Principal amount of liability component	$13,350	$13,350
Unamortized discount	(1,808)	(1,999)
Net carrying amount of liability component	$11,542	$11,351

Other Long-Term Obligations

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

	March 31, 2015	December 31, 2014
Supplemental Executive Retirement Plan (SERP) liability	$6,030	$6,067
Product liability	16,820	18,860
Deferred income taxes	27,960	30,423
Deferred compensation	5,590	5,667
Uncertain tax obligation including interest	14,234	15,160
Other	12,562	12,628
Total long-term obligations	$83,196	$88,805

Equity Compensation

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

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

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

nonqualified stock options, SARs, restricted stock, restricted stock units, unrestricted stock and performance shares. The Compensation Committee also may grant performance units that are payable in cash. The Committee has the authority to determine which participants will receive awards, the amount of the awards and the other terms and conditions of the awards.

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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.

The amounts of equity-based compensation expense recognized as part of selling, general and administrative expenses were as follows (in thousands):

	For the Three Months Ended March 31,	
	2015	2014
Non-Qualified stock options	$172	$530
Restricted stock and restricted stock units	213	115
Performance shares and performance share units	26	54
Total stock-based compensation expense	$411	$699

As of March 31, 2015, unrecognized compensation expense related to equity-based compensation arrangements granted under the Company's 2013 Plan and previous plans, which is related to non-vested options and shares, was as follows (in thousands):

	March 31, 2015
Non-Qualified stock options	$2,376
Restricted stock and restricted stock units	10,874
Performance shares and performance share units	1,161
Total stock-based compensation expense	$14,411

Total unrecognized compensation cost will be adjusted for future changes in actual and estimated forfeitures and for updated vesting assumptions for the performance share awards (see "Performance Shares and Performance Share Units" below). No tax benefit for share-based compensation was realized for the three months ended March 31, 2015 and 2014 as a result of a valuation allowance against deferred tax assets. In accordance with ASC 718, any tax benefits resulting from tax deductions in excess of the compensation expense recognized is classified as a component of financing cash flows.
Stock Options

Generally, non-qualified stock option awards typically have a term of ten years and are granted at the fair market value of the Company’s Common Shares on the date of grant. The Company expects the compensation expense to be recognized over a weighted-average period of approximately 2 years. The following table summarizes information about stock option activity for the three months ended March 31, 2015:

	March 31, 2015		Weighted Average Exercise Price
Options outstanding at January 1, 2015	3,600,132		$22.74
Granted	—		—
Exercised	(14,450	)	13.87
Canceled	(61,637	)	28.58
Options outstanding at March 31, 2015	3,524,045		$22.65
Options exercise price range at March 31, 2015	$ 13.37 to $47.80		
Options exercisable at March 31, 2015	2,896,375		
Shares available for grant at March 31, 2015*	2,816,470		

* Shares available for grant as of March 31, 2015 reduced by net restricted stock and restricted stock unit award and performance share and performance share unit award activity of 1,024,246 shares and 610,644 shares, respectively during the quarter.

The following table summarizes information about stock options outstanding at March 31, 2015:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding At 3/31/15	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable At 3/31/15	Weighted Average Exercise Price
$ 13.37 – $15.00	931,361	7.6	$13.91	400,719	$13.79
$ 15.01 – $25.00	1,449,663	4.1	22.42	1,353,947	22.33
$ 25.01 – $35.00	837,371	4.3	25.74	836,059	25.73
$ 35.01 – $47.80	305,650	0.4	41.89	305,650	41.89
Total	3,524,045	4.8	$22.65	2,896,375	$24.20

When stock options have been awarded, they generally have been 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.

Restricted Stock and Restricted Stock Units

The following table summarizes information about restricted shares and restricted share units (for non-U.S. recipients):

	March 31, 2015	Weighted Average Fair Value
Stock / Units unvested at January 1, 2015	312,423	$17.91
Granted	334,528	18.95
Vested	—	—
Canceled	(2,250)	20.05
Stock / Units unvested at March 31, 2015	644,701	$18.44

The restricted stock awards generally vest ratably over the three years after the award date, except for those awards granted in 2014, which vest after a three-year period. Unearned restricted stock compensation, determined as the market value of the shares at the date of grant, is being amortized on a straight-line basis over the vesting period.

Performance Shares and Performance Share Units

The following table summarizes information about performance shares and performance share units (for non-U.S. recipients):

	March 31, 2015	Weighted Average Fair Value
Shares / Units unvested at January 1, 2015	121,644	$20.05
Granted	62,800	18.91

Vested	—	—
Canceled	(5,000)	20.05
Shares / Units unvested at March 31, 2015	179,444	$20.05

During the three months ended March 31, 2015, performance shares and performance share units (for non-U.S. recipients) were granted as performance awards with a 3 year performance period with payouts based on achievement of certain performance goals. The awards are classified as equity awards as they will be settled in common shares upon vesting. The number of shares earned will be determined at the end of the performance period based on achievement of performance criteria for January 1, 2017 through December 31, 2017 established by the Compensation Committee at the time of grant. Recipients will be entitled to receive a number of common shares equal to the number of performance shares that vest based upon the levels of achievement which may range between 0% and 150% of the target number of shares with the target being 100% of the initial grant.

The fair value of the performance awards is based on the stock price on the date of grant discounted for the estimated value of dividends foregone as the awards are not eligible for dividends except to the extent vested. The Company assesses the probability that the performance targets will be met with expense recognized whenever it is probable that at least the minimum performance criteria will be achieved. Depending upon the Company's assessment of the probability of achievement of the goals, the Company may not recognize any expense associated with performance awards in a given period, may reverse prior expense recorded or record additional expense to make up for expense not recorded in a prior period. Performance award compensation expense is generally expected to be recognized over 3 years.

Accumulated Other Comprehensive Income (Loss) by Component

Changes in accumulated other comprehensive income ("OCI") for the three months ended March 31, 2015 and March 31, 2014, respectively, were as follows (in thousands):

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
December 31, 2014	$86,236	$(6,465)	$(7,601)	$(551)	$71,619
OCI before reclassifications	(68,154)	14,776	53	2,066	(51,259)
Amount reclassified from accumulated OCI	—	—	41	(142)	(101)
Net current-period OCI	(68,154)	14,776	94	1,924	(51,360)
March 31, 2015	$18,082	$8,311	$(7,507)	$1,373	$20,259

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

Reclassifications out of accumulated OCI for the three months ended March 31, 2015 and March 31, 2014 were as follows (in thousands):

	Amount reclassified from OCI For the Three Months Ended March 31,		Affected line item in the Statement of Comprehensive (Income) Loss
	2015	2014	
Defined Benefit Plans			
Service and interest costs	$41	$58	Selling, General and Administrative
Tax	—	—	Income Taxes
Total after tax	$41	$58	
Derivatives			
Foreign currency forward contracts hedging sales	$192	$10	Net Sales
Foreign currency forward contracts hedging purchases	(462)	133	Cost of Products Sold
Total before tax	(270)	143	
Tax	128	(17)	Income Taxes
Total after tax	$(142)	$126	

Charges Related to Restructuring Activities

The Company's restructuring charges recorded since 2011 were necessitated primarily by continued declines in Medicare and Medicaid reimbursement by the U.S. government, as well as similar healthcare reimbursement pressures abroad, which negatively affect the Company's customers (e.g. home health care providers) and continued pricing pressures faced by the Company as a result of outsourcing by competitors to lower cost locations. In addition, restructuring decisions were also the result of reduced profitability in the North America/HME and Asia/Pacific segments. While the Company's restructuring efforts have been executed on a timely basis resulting in operating cost savings, the savings have been more than offset by continued margin decline, principally as a result of product mix, reduced volumes and regulatory and compliance costs related to quality system improvements which are unrelated to the restructuring actions. The Company expects any near-term cost savings from restructuring will be offset by other costs as a result of pressures on the business.

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/HME and Asia/Pacific segments.

Charges for the year ended December 31, 2011 totaled $10,534,000 including charges for severance ($8,352,000), contract exit costs primarily related to the closure of the Hong, Denmark assembly facility ($1,788,000) and inventory write-offs ($277,000) recorded in cost of products sold and other miscellaneous costs ($117,000). The majority of the 2011 North America/HME charges were incurred for severance, primarily at the corporate headquarters as the result of the elimination of various positions principally in sales and administration in Elyria, Ohio. These eliminations were

permanent reductions in workforce that 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 been fully paid/utilized 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). 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, at the end of October 2012, the Company's management approved a plan to restructure the Company's operations in this segment. In Australia, the Company consolidated offices / warehouses, decreased staffing and exited various activities while returning to a focus on distribution. At the Company's subsidiary, which produces microprocessor controllers, the Company decided to cease the contract manufacturing business for companies outside of the healthcare industry. Payments for the year ended December 31, 2012 were $9,381,000 and were funded with operating cash flows. The 2012 charges have been fully paid.

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

Charges for the year ended December 31, 2014 totaled $11,112,000 including charges for severance ($9,841,000), other charges in IPG and Europe ($1,286,000) principally related to building write-downs and lease termination cost reversals ($15,000). Severance charges were incurred in the North America/HME segment ($4,404,000), Other ($2,978,000), IPG segment ($1,163,000), Asia/Pacific segment ($769,000) and Europe segment ($527,000). The North America/HME segment severance was principally related to additional positions eliminated due to lost sales volumes resulting from the continued impact of the FDA consent decree. The Other severance related to the elimination of two senior corporate executive positions. IPG segment severance related principally to the closure of the London, Canada facility. Europe and Asia/Pacific severance related to the elimination of certain positions as a result of general restructuring efforts. The savings from these charges will be reflected primarily in reduced selling, general and administrative expenses and manufacturing expenses for the Company. Payments for the year ended December 31, 2014 were $11,131,000 and were funded with operating cash flows and cash on hand. The majority of the 2014 charges are expected to be paid out within the next twelve months.

Restructuring charges continued in 2015 resulting in charges of $240,000 in the first three months of 2015 related principally to severance costs ($239,000) incurred primarily in the NA/HME segment ($199,000) and to a lesser

extent the Europe segment ($40,000). Restructuring payments/utilization for the three months ended March 31, 2015 were $1,882,000 and the cash payments were funded with the Company's credit facility. The majority of the outstanding charge accruals at March 31, 2015 are expected to be paid during 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 plans 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, in general, these savings have been more than offset by continued margin decline, principally as a result of customer and product mix, and higher regulatory and compliance costs related to quality system improvements as well as reduced net sales volumes. To date, the Company's liquidity has not been materially impacted.

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

	Severance	Product Line Discontinuance	Contract Terminations	Other	Total
December 31, 2010 Balance					
Total	$—	$—	$—	$—	$—
Charges					
NA/HME	4,755	—	—	4	4,759
IPG	123	—	—	—	123
Europe	3,288	277	1,788	113	5,466
Asia/Pacific	186	—	—	—	186
Total	8,352	277	1,788	117	10,534
Payments					
NA/HME	(1,663)	—	—	(4)	(1,667)
IPG	(52)	—	—	—	(52)
Europe	(1,546)	(277)	(1,714)	(113)	(3,650)
Asia/Pacific	(186)	—	—	—	(186)
Total	(3,447)	(277)	(1,714)	(117)	(5,555)
December 31, 2011 Balance					
NA/HME	3,092	—	—	—	3,092
IPG	71	—	—	—	71
Europe	1,742	—	74	—	1,816
Asia/Pacific	—	—	—	—	—
Total	4,905	—	74	—	$4,979
Charges					
NA/HME	4,242	—	5	—	4,247
IPG	35	—	—	—	35
Europe	817	—	53	1,223	2,093
Asia/Pacific	1,681	491	1,667	1,181	5,020
Total	6,775	491	1,725	2,404	11,395
Payments					
NA/HME	(3,587)	—	(5)	—	(3,592)
IPG	(106)	—	—	—	(106)
Europe	(1,964)	—	(127)	(1,223)	(3,314)
Asia/Pacific	(812)	(340)	(42)	(1,175)	(2,369)
Total	(6,469)	(340)	(174)	(2,398)	(9,381)
December 31, 2012 Balance					
NA/HME	3,747	—	—	—	3,747
IPG	—	—	—	—	—
Europe	595	—	—	—	595
Asia/Pacific	869	151	1,625	6	2,651
Total	$5,211	$151	$1,625	$6	$6,993

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	Severance	Product Line Discontinuance	Contract Terminations	Other	Total
Charges					
NA/HME	$5,405	$—	$164	$353	$5,922
IPG	267	—	—	—	267
Europe	1,640	—	—	—	1,640
Asia/Pacific	970	—	534	3	1,507
Total	8,282	—	698	356	9,336
Payments					
NA/HME	(6,347)	—	(164)	(353)	(6,864)
IPG	(175)	—	—	—	(175)
Europe	(1,146)	—	—	—	(1,146)
Asia/Pacific	(1,839)	(151)	(1,660)	(9)	(3,659)
Total	(9,507)	(151)	(1,824)	(362)	(11,844)
December 31, 2013 Balance					
NA/HME	2,805	—	—	—	2,805
IPG	92	—	—	—	92
Europe	1,089	—	—	—	1,089
Asia/Pacific	—	—	499	—	499
Total	3,986	—	499	—	4,485
Charges					
NA/HME	4,404	—	—	—	4,404
IPG	1,163	—	—	761	1,924
Europe	527	—	—	525	1,052
Asia/Pacific	769	—	(15)	—	754
Other	2,978	—	—	—	2,978
Total	9,841	—	(15)	1,286	11,112
Payments					
NA/HME	(6,547)	—	—	—	(6,547)
IPG	(1,107)	—	—	(761)	(1,868)
Europe	(1,195)	—	—	(525)	(1,720)
Asia/Pacific	(769)	—	(227)	—	(996)
Total	(9,618)	—	(227)	(1,286)	(11,131)
December 31, 2014 Balance					
NA/HME	662	—	—	—	662
IPG	148	—	—	—	148
Europe	421	—	—	—	421
Asia/Pacific	—	—	257	—	257
Other	2,978	—	—	—	2,978
Total	$4,209	$—	$257	$—	$4,466

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	Severance	Product Line Discontinuance	Contract Terminations	Other	Total
Charges					
NA/HME	$199	$—	$—	$—	$199
Europe	40	—	—	—	40
Asia/Pacific	—	—	1	—	1
Total	239	—	1	—	240
Payments					
NA/HME	(93)	—	—	—	(93)
IPG	(148)	—	—	—	(148)
Europe	(250)	—	—	—	(250)
Asia/Pacific	—	—	(258)	—	(258)
Other	(1,133)	—	—	—	(1,133)
Total	(1,624)	—	(258)	—	(1,882)
March 31, 2015 Balance					
NA/HME	768	—	—	—	768
IPG	—	—	—	—	—
Europe	211	—	—	—	211
Asia/Pacific	—	—	—	—	—
Other	1,845	—	—	—	1,845
Total	$2,824	$—	$—	$—	$2,824

Income Taxes

The Company had an effective tax rate of 49.1% and 12.0% for the three months ended March 31, 2015 and March 31, 2014, respectively, compared to an expected benefit at the U.S. statutory rate of 35% on the continuing operations pre-tax losses for each period. The Company's effective tax rate for the three months ended March 31, 2015 and March 31, 2014 was unfavorable to the U.S. federal statutory rate benefit, principally due to the negative impact of the Company not being able to record tax benefits related to the significant losses in countries which had tax valuation allowances. The rate benefited by taxes outside the United States, excluding countries with tax valuation allowances, at an effective rate lower than the U.S. statutory rate.

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Net Earnings (Loss) Per Common Share

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

(In thousands except per share data)	For the Three Months Ended March 31,	
	2015	2014
Basic		
Average common shares outstanding	32,125	32,013
Net loss from continuing operations	$(7,514)	$(18,895)
Net earnings from discontinued operations	$260	$919
Net loss	$(7,254)	$(17,976)
Net loss per common share from continuing operations	$(0.23)	$(0.59)
Net earnings per common share from discontinued operations	$0.01	$0.03
Net loss per common share	$(0.23)	$(0.56)
Diluted		
Average common shares outstanding	32,125	32,013
Stock options and awards	264	288
Average common shares assuming dilution	32,389	32,301
Net loss from continuing operations	$(7,514)	$(18,895)
Net earnings from discontinued operations	$260	$919
Net loss	$(7,254)	$(17,976)
Net loss per common share from continuing operations *	$(0.23)	$(0.59)
Net earnings per common share from discontinued operations	$0.01	$0.03
Net loss per common share *	$(0.23)	$(0.56)

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

At March 31, 2015, 2,771,375 shares associated with stock options were excluded from the average common shares assuming dilution for the three months ended March 31, 2015 as they were anti-dilutive. At March 31, 2015, 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 $17.32 for the three months ended March 31, 2015. At March 31, 2014, 2,525,703 shares associated with stock options were excluded from the average common shares assuming dilution for the three months ended March 31, 2014 as they were anti-dilutive. At March 31, 2014, the majority of the anti-dilutive shares were granted at an exercise price of $41.87, which was higher than the average fair market value prices of $20.57 for the three months ended March 31, 2014. For the three months ended March 31, 2015 and March 31, 2014, there were no shares necessary to settle a conversion spread on the convertible notes to be included in the common shares assuming dilution as the average market price of the Company stock for these periods did not exceed the conversion price.

Concentration of Credit Risk

The Company manufactures and distributes durable medical equipment to the home health care, retail and extended care markets. The Company performs credit evaluations of its customers' financial condition. The Company utilizes De Lage Landen, Inc. ("DLL"), a third party financing company, to provide the majority of future lease financing to the Company's North America customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The Company retains a recourse obligation of $5,154,000 at March 31, 2015 to DLL for events of default under the contracts, which total $39,860,000 at March 31, 2015. Guarantees, ASC 460, requires the Company to record a guarantee liability as it relates to the limited recourse

obligation. The Company's recourse is re-evaluated by DLL biannually, considers activity between the biannual dates and excludes any receivables repurchased by the Company from DLL. The Company monitors the collections status of these contracts and has provided amounts for estimated losses in its allowances for doubtful accounts in accordance with Receivables, ASC 310-10-05-4. Credit losses are provided for in the financial statements.

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

Derivatives

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

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

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

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

To protect against increases/decreases in forecasted foreign currency cash flows resulting from inventory purchases/sales over the next year, the Company utilizes foreign currency forward contracts to hedge portions of its forecasted purchases/sales denominated in foreign currencies. The gains and losses are included in cost of products sold and selling, general and administrative expenses on the consolidated statement of comprehensive income (loss). If it is later determined that a hedged forecasted transaction is unlikely to occur, any prospective gains or losses on the

forward contracts would be recognized in earnings. The Company does not expect any material amount of hedge ineffectiveness related to forward contract cash flow hedges during the next twelve months.

The Company has historically not recognized any material amount of ineffectiveness related to forward contract cash flow hedges because the Company generally limits its hedges to between 50% and 90% of total forecasted transactions for a given entity's exposure to currency rate changes and the transactions hedged are recurring in nature. Furthermore, the majority of the hedged transactions are related to intercompany sales and purchases for which settlement occurs on a specific day each month. Forward contracts with a total notional amount in USD of $31,233,000 and $33,623,000 matured for the three months ended March 31, 2015 and March 31, 2014, respectively.

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

	March 31, 2015		December 31, 2014	
	Notional Amount	Unrealized Net Gain (Loss)	Notional Amount	Unrealized Net Gain (Loss)
USD / AUD	$925	$92	$1,250	$65
USD / CAD	2,968	(282)	3,570	(63)
USD / CHF	72	—	111	—
USD / EUR	33,883	3,501	25,524	—
USD / GBP	929	23	1,199	3
USD / NZD	5,861	(58)	7,018	(55)
USD / SEK	359	38	594	1
USD / MXP	7,650	(696)	10,297	(657)
EUR / AUD	324	(15)	452	5
EUR / CAD	410	(16)	580	(1)
EUR / CHF	377	41	505	(2)
EUR / DKK	445	(3)	643	(3)
EUR / GBP	18,687	(1,466)	11,906	23
EUR / SEK	1,987	(21)	2,917	(9)
EUR / NOK	1,053	9	1,490	43
EUR / NZD	4,785	477	7,074	60
AUD / CAD	1,199	—	1,538	30
AUD / CHF	67	6	93	1
AUD / NZD	375	26	537	19
AUD / SEK	43	(2)	61	(1)
CAD / SEK	137	(5)	182	(1)
GBP / AUD	468	25	656	22
GBP / CHF	283	7	331	(1)
GBP / SEK	2,149	(164)	1,035	(2)
DKK / CHF	210	(25)	269	(2)
DKK / SEK	1,542	(24)	2,497	(44)
NOK / CHF	52	6	66	2
NOK / SEK	1,053	(3)	1,547	19
	$88,293	$1,471	$83,942	$(548)

Derivatives Not Qualifying or Designated for Hedge Accounting Treatment
The Company also utilizes foreign currency forward contracts that are not designated as hedges in accordance with ASC 815. These contracts are entered into to eliminate the risk associated with the settlement of short-term intercompany trading receivables and payables between Invacare Corporation and its foreign subsidiaries. The currency forward contracts are entered into at the same time as the intercompany receivables or payables are created so that upon settlement, the gain/loss on the settlement is offset by the gain/loss on the foreign currency forward contract. No material net gain or loss was realized by the Company in 2015 or 2014 related to these contracts and the associated short-term intercompany trading receivables and payables.

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Foreign currency forward exchange contracts not qualifying or designated for hedge accounting treatment entered into in 2015 and 2014, respectively, and outstanding were as follows (in thousands USD):

	March 31, 2015		December 31, 2014	
	Notional Amount	Gain (Loss)	Notional Amount	Gain (Loss)
AUD / USD	$6,700	$259	$7,300	$117
CAD / USD	7,738	(5)	6,016	$(6)
CNY / USD	3,205	9	3,200	(14)
EUR / USD	52,558	(1,851)	53,365	(1,585)
DKK / USD	1,419	19	—	—
GBP / USD	1,479	4	5,592	18
NOK / USD	1,343	22	—	—
NZD / USD	4,500	6	4,500	12
SEK / USD	580	2	—	—
	$79,522	$(1,535)	$79,973	$(1,458)

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

	March 31, 2015		December 31, 2014	
	Assets	Liabilities	Assets	Liabilities
Derivatives designated as hedging instruments under ASC 815				
Foreign currency forward exchange contracts	$4,354	$2,883	$373	$921
Derivatives not designated as hedging instruments under ASC 815				
Foreign currency forward exchange contracts	390	1,925	147	1,605
Total derivatives	$4,744	$4,808	$520	$2,526

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

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

Derivatives in ASC 815 cash flow hedge relationships	Amount of Gain (Loss) Recognized in Accumulated 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 March 31, 2015			
Foreign currency forward exchange contracts	$ 2,066	$ 142	$—
Three months ended March 31, 2014			
Foreign currency forward exchange contracts	$ (634)	$ (126)	$—
Interest rate swap contracts	8	—	—
	$ (626)	$ (126)	$—

Derivatives not designated as hedging instruments under ASC 815	Amount of Gain (Loss) Recognized in Income on Derivatives
Three months ended March 31, 2015	
Foreign currency forward exchange contracts	$ (1,535)
Three months ended March 31, 2014	
Foreign currency forward exchange contracts	$ (345)

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 and in cost of product sold for hedges of inventory purchases. For the three and three months ended March 31, 2015, net sales were decreased by $192,000 while cost of product sold was decreased by $462,000 for net pre-tax realized gain of $270,000. For the three and three months ended March 31, 2014, net sales were decreased by $10,000 while cost of product sold was increased by $133,000 for a net realized pre-tax loss of $143,000.

A loss of $1,535,000 was recognized in selling, general and administrative (SG&A) expenses for the three months ended March 31, 2015 compared to a loss of $345,000 for the three months ended March 31, 2014 on ineffective forward contracts and forward contracts not designated as hedging instruments that were entered into to offset gains/losses that were also recorded in SG&A expenses on intercompany trade receivables or payables. Any gains/losses on the non-designated hedging instruments were substantially offset by gains/losses also recorded in SG&A expenses on intercompany trade payables.

The Company has entered into foreign currency forward exchange contracts and, at times, interest rate swap contracts (the “agreements”) with various bank counterparties, each of which are subject to provisions which are similar to a master netting agreement. The agreements provide for a net settlement payment in a single currency upon a default by the Company. Furthermore, the agreements provide the counterparty with a right of set off in the event of a default that would enable the counterparty to offset any net payment due by the counterparty to the Company under the applicable agreement by any amount due by the Company to the counterparty under any other agreement. For

example, the terms of the agreement would permit a counterparty to a derivative contract that is also a lender under the Company's New Credit Agreement to reduce any derivative settlement amounts owed to the Company under the derivative contract by any amounts owed to the counterparty by the Company under the New Credit Agreement. In addition, the agreements contain cross-default provisions that could trigger a default by the Company under the agreement in the event of a default by the Company under another agreement with the same counterparty. The Company does not present any derivatives on a net basis in its financial statements and all derivative balances presented are subject to provisions that are similar to master netting agreements.

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Fair Values

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

		Basis for Fair Value Measurements at Reporting Date		
	Total	Quoted Prices in Active Markets for Identical Assets / (Liabilities) Level I	Significant Other Observable Inputs Level II	Significant Other Unobservable Inputs Level III
March 31, 2015				
Forward exchange contracts—net	$(64)	—	$(64)	—
December 31, 2014				
Forward exchange contracts—net	$(2,006)	—	$(2,006)	—

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

	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$20,618	$20,618	$38,931	$38,931
Other investments	196	196	249	249
Installment receivables, net of reserves	2,117	2,117	1,911	1,911
Long-term debt (including current maturities of long-term debt)	(22,909)	(23,679)	(20,344)	(20,261)
Forward contracts in Other Current Assets	4,744	4,744	520	520
Forward contracts in Accrued Expenses	(4,808)	(4,808)	(2,526)	(2,526)

The Company, in estimating its fair value disclosures for financial instruments, used the following methods and assumptions:
Cash, cash equivalents: The carrying value reported in the balance sheet for cash, cash equivalents equals its fair value.
Other investments: The Company has made other investments in limited partnerships and non-marketable equity securities, which are accounted for using the cost method, adjusted for any estimated declines in value. These investments were acquired in private placements and there are no quoted market prices or stated rates of return. The Company does not have the ability to easily sell these investments.
Installment receivables: The carrying value reported in the balance sheet for installment receivables approximates its fair value. The interest rates associated with these receivables have not varied significantly since inception. Management believes that after consideration of the credit risk, the net book value of the installment receivables

approximates market value.

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

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Forward contracts: Fair values for the Company’s foreign exchange forward contracts are based on quoted market prices for contracts with similar maturities.

Business Segments
The Company operates in four primary business segments: North America/Home Medical Equipment (North America/HME), Institutional Products Group (IPG), Europe and Asia/Pacific. The North America/HME segment sells each of three primary product lines, which includes: lifestyle, mobility and seating and respiratory therapy products. IPG sells or rents long-term care medical equipment, health care furnishings and accessory products. Europe and Asia/Pacific sell product lines similar to North America/HME and IPG.
The Company evaluates performance and allocates resources based on profit or loss from operations before income taxes for each reportable segment. The accounting policies of each segment are the same as those described in the summary of significant accounting policies for the Company’s consolidated financial statements. Intersegment sales and transfers are based on the costs to manufacture plus a reasonable profit element. Therefore, intercompany profit or loss on intersegment sales and transfers is not considered in evaluating segment performance except for Asia/Pacific due to its significant intercompany sales volume relative to the segment. The information by segment is as follows (in thousands):

	For the Three Months Ended March 31,	
	2015	2014
Revenues from external customers		
North America/HME	$125,164	$124,542
Institutional Products Group	23,914	25,136
Europe	129,001	142,768
Asia/Pacific	10,945	12,055
Consolidated	$289,024	$304,501
Intersegment revenues		
North America/HME	$23,862	$18,573
Institutional Products Group	146	1,573
Europe	2,515	1,682
Asia/Pacific	6,318	6,192
Consolidated	$32,841	$28,020
Restructuring charges before income taxes		
North America/HME	$199	$803
Institutional Products Group	—	1,059
Europe	40	378
Asia/Pacific	1	—
Consolidated	$240	$2,240
Earnings (loss) before income taxes		
North America/HME	$(8,830)	$(17,918)
Institutional Products Group	1,298	(251)
Europe	7,524	9,246
Asia/Pacific	(1,242)	(2,801)
All Other (1)	(3,789)	(5,146)
Consolidated	$(5,039)	$(16,870)

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

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Contingencies

General

In the ordinary course of its business, the Company is a defendant in a number of lawsuits, primarily product liability actions in which various plaintiffs seek damages for injuries allegedl