INVACARE CORP
Form 10-Q
May 09, 2007

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

(Mark One)

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

For the quarterly period ended March 31, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check One). Large accelerated filer X Accelerated filer Non-accelerated filer

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 7, 2007, the company had 30,864,771 Common Shares and 1,111,565 Class B Common Shares outstanding.

INVACARE CORPORATION

INDEX

Part I. FINANCIAL INFORMATION: Page No.

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Balance Sheets -

March 31, 2007 and December 31, 2006.....3

Condensed Consolidated Statement of Earnings -

Three Months Ended March 31, 2007 and 2006.....4

Condensed Consolidated Statement of Cash Flows -

Three Months Ended March 31, 2007 and 2006.....5

Notes to Condensed Consolidated Financial

Statements - March 31, 2007.....6

Item 2. Management's Discussion and Analysis of

Financial Condition and Results of Operations.....21

Item 3. Quantitative and Qualitative Disclosures About Market Risk.....32

Item 4. Controls and Procedures.....32

Part II. OTHER INFORMATION:

Item 1A. Risk Factors.....32

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.....32

Item 6. Exhibits.....33

SIGNATURES.....33

Part I. FINANCIAL INFORMATION

Item 1... Financial Statements.

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	March 31, 2007
	(unaudited)
ASSETS	(In thousands

CURRENT ASSETS	
.....Cash and cash equivalents	$ 56,904
.....Marketable securities	270
.....Trade receivables, net	248,000
.....Installment receivables, net	8,451
.....Inventories, net	206,555
.....Deferred income taxes	13,616
.....Other current assets	76,493
..... TOTAL CURRENT ASSETS	610,289
OTHER ASSETS	85,871
OTHER INTANGIBLES	100,476
PROPERTY AND EQUIPMENT, NET	168,835
GOODWILL	493,226
..... TOTAL ASSETS	$1,458,697
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
.....Accounts payable	$147,418
.....Accrued expenses	119,907
.....Accrued income taxes	3,312
.....Short-term debt and current maturities of long-term obligations	5,158
..... TOTAL CURRENT LIABILITIES	275,795
LONG-TERM DEBT	596,741
OTHER LONG-TERM OBLIGATIONS	114,461
SHAREHOLDERS' EQUITY	
.....Preferred shares	-
.....Common shares	8,013
.....Class B common shares	278
.....Additional paid-in-capital	144,324
.....Retained earnings	258,845
.....Accumulated other comprehensive earnings	102,819
.....Treasury shares	(42,579)
..... TOTAL SHAREHOLDERS' EQUITY	471,700
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,458,697

See notes to condensed consolidated financial statements.

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

(In thousands except per share data)	Three Months E March 31, 2007

Net sales	$374,905
Cost of products sold	275,849
Gross profit	99,056
Selling, general and administrative expense	87,766
Charge related to restructuring activities	3,152
Charges, interest and fees associated with debt refinancing	13,373
Interest expense	10,343
Interest income	(474)
Earnings (loss) before Income Taxes	(15,104)
Income taxes	2,400
NET EARNINGS (LOSS)	$ (17,504)
DIVIDENDS DECLARED PER COMMON SHARE	0.0125
Net Earnings (loss) per Share - Basic	$ (0.55)
Weighted Average Shares Outstanding - Basic	31,827
Net Earnings (loss) per Share - Assuming Dilution	$ (0.55)
Weighted Average Shares Outstanding - Assuming Dilution	31,827

See notes to condensed consolidated financial statements.

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

	Three Mon Marc
	2007
OPERATING ACTIVITIES	(In tho
Net earnings (loss)	$ (17,504)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:	
Debt finance charges, interest and fees associated with debt refinancing	13,373
Depreciation and amortization	11,074
Provision for losses on trade and installment receivables	1,799
Provision for other deferred liabilities	919
Provision for deferred income taxes	581
Gain on disposals of property and equipment	30
Changes in operating assets and liabilities:	
Trade receivables	12,511
Installment sales contracts, net	(3,916)
Inventories	(4,423)
Other current assets	15,074

Accounts payable	(15,493)
Accrued expenses	(29,894)
Other deferred liabilities	(2,474)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(18,343)
INVESTING ACTIVITIES	
Purchases of property and equipment	(3,750)
Proceeds from sale of property and equipment	423
Other long term assets	1,080
Other	(1,214)
NET CASH USED FOR INVESTING ACTIVITIES	(3,461)
FINANCING ACTIVITIES	
Proceeds from revolving lines of credit, securitization facility and long-term borrowings	510,316
Payments on revolving lines of credit, securitization facility and long-term debt and capital lease obligations	(494,419)
Proceeds from exercise of stock options	-
Payment of Financing Costs	(19,784)
Payment of dividends	(399)
NET CASH USED BY FINANCING ACTIVITIES	(4,286)
Effect of exchange rate changes on cash	791
Decrease in cash and cash equivalents	(25,299)
Cash and cash equivalents at beginning of period	82,203
Cash and cash equivalents at end of period	$ 56,904

See notes to condensed consolidated financial statements.

INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated
Financial Statements
(Unaudited)
March 31, 2007

Nature of Operations - Invacare Corporation is the world's leading manufacturer and distributor in the $8.0 billion worldwide market for medical equipment used in the home based upon our distribution channels, breadth of product line and net sales. The company designs, manufactures and distributes an extensive line of health care products for the non-acute care environment, including the home health care, retail and extended care markets.

Principles of Consolidation - The consolidated financial statements include the accounts of the company, its majority owned subsidiaries and a variable interest entity for which the company is the primary beneficiary. 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.

Reclassifications - Certain reclassifications have been made to the prior years'

consolidated financial statements to conform to the presentation used for the period ended March 31, 2007.

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

Business Segments - The company operates in five primary business segments: North America / Home Medical Equipment ("NA/HME"), Invacare Supply Group, Institutional Products Group, Europe and Asia/Pacific. The five reportable segments represent operating groups, which offer products to different geographic regions.

The NA/HME segment sells each of three primary product lines, which includes: standard, rehab and respiratory products. Invacare Supply Group sells branded medical supplies including ostomy, incontinence, diabetic, wound care, urology and miscellaneous home medical product as well as home medical equipment aids for daily living. The Institutional Products Group sells health care furnishings including beds, case goods and patient handling equipment for the long-term care market as well as accessory products. Europe and Asia/Pacific sell the same product lines with the exception of distributed products. Each business segment may sell to the home health care, retail and extended care markets.

The company evaluates performance and allocates resources based on profit or loss from operations before income taxes for each reportable segment. The accounting policies of each segment are the same as those described in the summary of significant accounting policies for the company's consolidated financial statements. Intersegment sales and transfers are based on the costs to manufacture plus a reasonable profit element. Therefore, intercompany profit or

loss on intersegment sales and transfers is not considered in evaluating segment performance.

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

	Three Mo Mar 2007
Revenues from external customers	
North America / HME	$161,532
Invacare Supply Group	61,676
Institutional Products Group	23,724
Europe	107,030
Asia/Pacific	20,943
Consolidated	$374,905
Intersegment Revenues	
North America	$11,291
Invacare Supply Group	86
Institutional Products Group	-
Europe	2,408
Asia/Pacific	6,089

Consolidated	$19,874
Restructuring charges before income taxes	
North America / HME	$2,430
Invacare Supply Group	43
Institutional Products Group	4
Europe	786
Asia/Pacific	6
Consolidated	$3,269
Charges, interest and fees associated with debt refinancing before income taxes	
All Other	$13,373
Earnings (loss) before income taxes	
North America / HME	$ (2,908)
Invacare Supply Group	1,055
Institutional Products Group	595
Europe	3,924
Asia/Pacific	(1,110)
All Other	(16,660)
Consolidated	$(15,104)

"All Other" consists of unallocated corporate selling, general and administrative costs and intercompany profits, which do not meet the quantitative criteria for determining reportable segments. In addition, the "All Other" earnings (loss) before income taxes for the first quarter 2007 includes debt finance charges, interest and fees associated with debt refinancing.

Net Earnings Per Common Share - The following table sets forth the computation of basic and diluted net earnings per common share for the periods indicated.

	Three Mo Mar 2007
Basic	
Average common shares outstanding	31,827
Net earnings (loss)	$(17,504)
Net earnings (loss) per common share	$ (.55)
Diluted	
Average common shares outstanding	31,827
Stock options and awards	-
Average common shares assuming dilution	31,827
Net earnings (loss)	$(17,504)

Net earnings (loss) per common share	$ (.55)

At March 31, 2007, all of the company's shares associated with stock options were anti-dilutive because of the company's net loss in the quarter. At March 31, 2006, 2,336,431 shares were excluded from the average common shares assuming dilution as they were anti-dilutive. For the three months ended March 31, 2006, the majority of the anti-dilutive shares were granted at exercise prices of $41.87 which was higher than the average fair market value prices of $32.13.

Concentration of Credit Risk - The company manufactures and distributes durable medical equipment and supplies to the home health care, retail and extended care markets. The company performs credit evaluations of its customers' financial condition. Prior to December 2000, the company financed equipment to certain customers for periods ranging from 6 to 39 months. In December 2000, Invacare entered into an agreement with De Lage Landen, Inc. ("DLL"), a third party financing company, to provide the majority of future lease financing to Invacare's customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The company retains a limited recourse obligation ($42,358,000 at March 31, 2007) to DLL for events of default under the contracts (total balance outstanding of $107,558,000 at March 31, 2007). FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, requires the company to record a guarantee liability as it relates to the limited recourse obligation. As such, the company has recorded a liability for this guarantee obligation within accrued expenses. The company monitors the collections status of these contracts and has provided amounts for estimated losses in its allowances for doubtful accounts in accordance with SFAS No. 5, Accounting for Contingencies. Credit losses are provided for in the financial statements.

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

Goodwill and Other Intangibles - The change in goodwill reflected on the balance sheet from December 31, 2006 to March 31, 2007 was entirely the result of currency translation.

All of the company's other intangible assets have definite lives and are amortized over their useful lives, except for $33,051,000 related to trademarks, which have indefinite lives.

As of March 31, 2007 and December 31, 2006, other intangibles consisted of the following (in thousands):

	March 31, 2007		December 31, 2006	
	Historical	Accumulated	Historical	Accum

	Cost	Amortization	Cost	Amorti
Customer lists	$71,137	$16,036	$71,106	$
Trademarks	33,051	-	33,034	
License agreements	4,533	4,202	4,489	
Developed technology	6,814	1,058	6,819	
Patents	6,652	3,982	6,631	
Other	8,013	4,446	8,005	
	$130,200	$29,724	$130,084	$

Amortization expense related to other intangibles was $2,178,000 in the first quarter of 2007 and is estimated to be $8,343,000 in 2008, $8,040,000 in 2009, $7,874,000 in 2010, $7,459,000 in 2011 and $7,087,000 in 2012.

Investment in Affiliated Company - FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), which was revised in December 2003, requires consolidation of an entity if the company is subject to a majority of the risk of loss from the variable interest entity's (VIE) activities or entitled to receive a majority of the entity's residual returns, or both. A company that consolidates a VIE is known as the primary beneficiary of that entity.

The company consolidates NeuroControl whose product is focused on the treatment of post-stroke shoulder pain in the United States. Certain of the company's officers and directors (or their affiliates) have small minority equity ownership positions in NeuroControl. Based on the provisions of FIN 46 and the company's analysis, the company determined that it was the primary beneficiary of this VIE as of January 1, 2005 due to the company's board of directors' approval of additional funding in 2005. Accordingly, the company has consolidated this investment on a prospective basis since January 1, 2005 and recorded an intangible asset for patented technology of $7,003,000. The other beneficial interest holders have no recourse against the company.

In the fourth quarter of 2006, the company's board of directors made a decision to no longer fund the cash needs of NeuroControl, to commence a liquidation process and cease operations as it was decided that the additional investment necessary to commercialize the business was not in the best interest of the company. Therefore, funding of this investment ceased on December 31, 2006. As a result of this decision, the company established a valuation reserve related to the NeuroControl intangible asset of $5,601,000 to fully reserve against the patented technology intangible as it was deemed to be impaired.

Accounting for Stock-Based Compensation - Effective January 1, 2006, the company adopted SFAS No. 123R using the modified prospective application method. Under the modified prospective method, compensation cost was recognized for the twelve months ended December 31, 2006 for: 1) all stock-based payments granted subsequent to January 1, 2006 based upon the grant-date fair value calculated in accordance with SFAS No. 123R, and 2) all stock-based payments granted prior to, but not vested as of, January 1, 2006 based upon grant-date fair value as calculated for previously presented pro forma footnote disclosures in accordance with the original provisions of SFAS No. 123, Accounting for Stock Based Compensation. The amounts of stock-based compensation expense recognized were as follows (in thousands):

Three Mon
Marc
2007

Stock-based compensation expense recognized as part of Selling, general and administrative expense	$ 610

The 2007 and 2006 amounts above reflect compensation expense related to restricted stock awards and nonqualified stock options awarded under the 2003 Performance Plan. Stock-based compensation is not allocated to the business segments, but is reported as part of All Other as shown in the company's Business Segment Note to the Consolidated Financial Statements.

Stock Incentive Plans - The 2003 Performance Plan (the "2003 Plan") allows the Compensation, Management Development and Corporate Governance Committee of the Board of Directors (the "Committee") to grant up to 3,800,000 Common Shares in connection with incentive stock options, non-qualified stock options, stock appreciation rights and stock awards (including the use of restricted stock). The Committee has the authority to determine which employees and directors will receive awards, the amount of the awards and the other terms and conditions of the awards. During the first three months of 2007, the Committee granted 5,500 non-qualified stock options for a term of ten years at the fair market value of the company's Common Shares on the date of grant under the 2003 Plan.

There were no restricted stock awards granted in the first three months of 2007 without cost to the recipients. Under the terms of the restricted stock awards, all of the shares granted vest ratably over the four years after the award date. Compensation expense of $353,000 was recognized in the first three months of 2007 and as of March 31, 2007, restricted stock awards totaling 147,085 were not yet vested.

Stock option activity during the three months ended March 31, 2007 was as follows:

	2007	Weighted Average Exercise Price
Options outstanding at January 1	4,724,651	$30.68
Granted	5,500	21.99
Exercised	-	-
Canceled	(329,382)	28.31
Options outstanding at March 31	4,400,769	$30.85
Options price range at March 31		$16.03 to $47.80
Options exercisable at March 31		3,910,742
Options available for grant at March 31*		1,837,008

* Options available for grant as of March 31, 2007 reduced by net restricted stock award activity of 241,649.

The following table summarizes information about stock options outstanding at March 31, 2007:

	Options Outstanding	O

Exercise Prices	Number Outstanding At 3/31/07	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Ex At 3/
$16.03 - $23.69	1,768,828	4.0 years	$22.20	1,340
$24.43 - $36.40	1,222,476	4.9	$30.99	1,161
$37.70 - $47.80	1,409,465	7.5	$41.59	1,409
Total	4,400,769	5.5	$30.85	3,910

The stock options awarded provided a four-year vesting period whereby options vest equally in 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 the following weighted-average assumptions:

	2007
Expected dividend yield	2.47%
Expected stock price volatility	28.7%
Risk-free interest rate	4.70%
Expected life (years)	3.9

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

The weighted-average fair value of options granted during the first three months of 2007 was $6.18. The 2003 Plan provides that shares granted come from the company's authorized but unissued Common Shares or treasury shares. In addition, the company's stock-based compensation plans allow participants to exchange shares for withholding taxes, which results in the company acquiring treasury shares.

As of March 31, 2007, there was $16,558,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the company's plans, which is related to non-vested shares, and includes $3,306,000 related to restricted stock awards. The company expects the compensation expense to be recognized over a weighted-average period of approximately 2 years.

Warranty Costs - Generally, the company's products are covered by warranties against defects in material and workmanship for periods up to six years from the date of sale to the customer. Certain components carry a lifetime warranty. A provision for estimated warranty cost is recorded at the time of sale based upon actual experience. The company continuously assesses the adequacy of its product warranty accrual and makes adjustments as needed. Historical analysis is primarily used to determine the company's warranty reserves. Claims history is reviewed and provisions are adjusted as needed. However, the company does consider other events, such as a product recall, which could warrant additional warranty reserve provision. No material adjustments to warranty reserves were necessary in the first quarter of 2007.

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

Balance as of January 1, 2007	$ 15,165
Warranties provided during the period	3,062
Settlements made during the period	(2,917)
Changes in liability for pre-existing warranties during the period, including expirations	220
Balance as of March 31, 2007	$ 15,530

Charge Related to Restructuring Activities - Previously, the company announced multi-year cost reductions and profit improvement actions, which included: reducing global headcount, outsourcing improvements utilizing the company's China manufacturing capability and third parties, shifting substantial resources from product development to manufacturing cost reduction activities and product rationalization, reducing freight exposure through freight auctions and changing the freight policy, general expense reductions, and exiting four facilities.

The restructuring was necessitated by the continued decline in reimbursement by the U.S. government as well as similar reimbursement pressures abroad and continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations.

To date, the company has made substantial progress on its restructuring activities, including exiting four facilities and eliminating approximately 650 positions through March 31, 2007, including 50 positions in the first quarter of 2007. Restructuring charges of $3,269,000 and $3,453,000 were incurred in the first quarters of 2007 and 2006, respectively, of which $117,000 and $296,000, respectively, were recorded in cost of products sold as it relates to inventory markdowns and the remaining charge amount is included on the Charge Related to Restructuring Activities in the Condensed Consolidated Statement of Earnings as part of operations. There have been no material changes in accrued balances

related to the charge, either as a result of revisions in the plan or changes in estimates, and the company expects to utilize the accruals recorded through March 31, 2007 during 2007.

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

	Balance at 12/31/06	Accruals	Payment
North America/HME			
Severance	$ 1,359	$ 2,430	$ (1,88
Contract terminations	557	(111)	(5
Product line discontinuance	2,037	111	(2,14
Total	$ 3,953	$ 2,430	$ (4,08
Invacare Supply Group			
Severance	$ 166	$ 43	$ (11
Institutional Products Group			
Severance	$ -	$ 4	$
Europe			
Severance	$ 3,734	$ 210	$ (1,29
Product line discontinuance	-	6	(

Other	-	570	(57
Total	$ 3,734	$ 786	$ (1,87
Asia/Pacific			
Contract terminations	$ 122	$ 6	$ (
Consolidated			
Severance	$ 5,259	$ 2,687	$ (3,29
Contract terminations	679	(105)	(5
Product line discontinuance	2,037	117	(2,15
Other	-	570	(57
Total	$ 7,975	$ 3,269	$ (6,08

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

	Three Months Ended March 31, 2007	
Net earnings (loss)	$ (17,504)	$
Foreign currency translation gain (loss)	3,858	
Unrealized gain on available for sale securities	51	
SERP/DBO amortization of prior service costs and unrecognized losses	943	
Current period unrealized gain (loss) on cash flow hedges	(1,221)	
Total comprehensive earnings (loss)	$ (13,873)	$

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

	March 31, 2007	December 31, 2006
Raw materials	$ 65,933	$66,718
Work in process	19,302	16,715
Finished goods	121,320	118,323
	$206,555	$201,756

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

	March 31, 2007	December 31, 2006
Machinery and equipment	$276,903	$276,062
Land, buildings and improvements	87,045	86,544
Furniture and fixtures	27,344	29,609
Leasehold improvements	15,848	15,943

	407,140	408,158
Less allowance for depreciation	(238,305)	(234,213)
	$168,835	$173,945

Financing Arrangements - As previously disclosed, the company completed certain refinancing transactions in February 2007. The company entered into a Credit Agreement which provides for a $400 million senior secured credit facility consisting of a 6-year $250 million term loan facility and a five-year $150 million revolving credit facility with interest at LIBOR plus 2.25%. The company's obligations under the Credit Agreement are secured by substantially all of the company's assets, subject to certain exceptions, and are guaranteed by our material domestic subsidiaries, with certain obligations also guaranteed by our material foreign subsidiaries. The Credit Agreement contains a number of customary restrictive covenants, affirmative covenants and events of default, and financial covenants that require the company to maintain a maximum leverage ratio, a minimum interest coverage ratio, and a minimum fixed charge coverage ratio.

The company also consummated the issuance and sale of $135 million aggregate principal amount of convertible subordinated debentures (the "debentures"). The net proceeds to the company from the offering, after deducting the initial gross spread payable by the company, were approximately $132.3 million. The debentures are unsecured senior subordinated obligations of the company, guaranteed by substantially all of the company's domestic subsidiaries and pay interest at 4.125% per annum on each February 1 and August 1. The debentures are convertible into common shares of the company under certain conditions.

In addition, the company also consummated the issuance and sale of $175 million aggregate principal amount of 9 3/4% Senior Notes due 2015 (the "senior notes"). The company's net proceeds from the offering of senior notes, after deducting the initial note purchasers' discount and the estimated offering expenses payable by the company, were approximately $167 million. The senior notes are unsecured senior obligations of the company, guaranteed by substantially all of our domestic subsidiaries.

The company used the net proceeds from the offerings of the senior notes and the debentures, together with initial borrowings under the Credit Agreement to repay outstanding indebtedness and related expenses and repayment costs aggregating $568 million. In addition, as a result of the refinancing, during the first quarter the company incurred $33.1 million in costs comprised of: debt issuance costs related to the new debt structure of $19.7 million, which the company has capitalized over the respective lives of the debt instruments; one-time make-whole payments to the holders of previously outstanding senior notes and incremental interest totaling $10.9 million; and write-off of costs previously capitalized related to the old debt structure of $2.5 million.

The company estimates that the weighted average interest rate of the new facilities and securities combined is approximately 7.3% versus the year-end 2006 weighted average interest rate of approximately 5.9%.

In connection with the issuance of the debentures and the senior notes, the company agreed to use commercially reasonable efforts to 1) file a resale registration statement with respect to the debentures and an exchange offer registration statement with respect to the senior notes within 90 days of the closing of each agreement, 2) to cause the resale registration statement to be declared effective within 210 days of the issuance of the debentures and cause the exchange offer registration statement to be declared effective within 180

days of the issuance of the senior notes and consummate the exchange offer within 210 days of the issuance of the notes, and 3) maintain the effectiveness of the resale registration statement until the debentures have been disposed of in accordance with the registration statement, are transferred in compliance with Rule 144 under the Securities Act or are transferable pursuant to Rule 144(k) under the Securities Act, cease to be outstanding or are otherwise disposed of or transferred and new securities not subject to transfer restrictions under the Securities Act have been delivered by the company.

If the company does not comply with its registration obligations with respect to the debentures, the company will be obligated to pay additional annual interest of .25% of the principal amount of the debentures to and including the 90th day following the default and, thereafter, additional annual interest of .50% until such time as the default is cured. Similarly, if the company does not comply with its registration obligations with respect to the senior notes, the company will be obligated to pay additional annual interest of .25% of the principal amount of the senior notes to and including the 90th day following the default and, thereafter, an additional .25% of annual interest for each subsequent 90-day period during which the registration default continues, up to a maximum of 1.0% annually.

On April 23, 2007, the company filed its S-3 and S-4 registration statements within the 90 days of the issue dates of the convertible debentures and senior notes and fully expects to meet the registration requirements.

Acquisitions - In the first three months of 2007, the company made no acquisitions. On September 9, 2004 the company acquired 100% of the shares of WP Domus GmbH (Domus), a European-based holding company that manufactures several complementary product lines to Invacare's product lines, including power add-on products, bath lifts and walking aids, from WP Domus LLC. Domus has three divisions: Alber, Aquatec and Dolomite.

In accordance with EITF Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination, the company previously recorded accruals for severance and exit costs for facility closures and contract terminations.

A progression of the accruals recorded in the purchase price allocation is as follows (in thousands):

	Severance	Exit of Product Lines	Sales Agency Terminations
Balance at 1/1/05	$ 561	$ -	$ -
Additional accruals	4,445	897	612
Payments	(1,957)	-	(612)
Balance at 12/31/05	3,049	897	-
Adjustments	(1,285)	(897)	-
Payments	(566)	-	-
Balance at 12/31/06	1,198	-	-
Adjustments	(1)	-	-
Payments	-	-	-
Balance at 3/31/07	$ 1,197	$ -	$ -

The adjustments for the quarter ended March 31, 2007 represent the impact of

currency translation. The company anticipates all of the remaining reserves to be utilized in 2007 with any amounts not utilized adjusted to goodwill.

Income Taxes - The company had an effective tax rate of (15.9%) for the three month period ended March 31, 2007 compared with 30.0% for the same period a year ago. The company's effective tax rate differs from the U.S. federal statutory rate primarily due to losses with no corresponding tax benefits and a valuation reserve recorded against domestic deferred tax assets reduced by tax credits and earnings abroad being taxed at rates lower than the U.S. federal statutory rate. The change in the effective rate for the three-month period ended March 31, 2007 compared to the three-month period ended March 31, 2006 is primarily due to domestic losses without benefit as a result of valuation reserves.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 prescribes recognition and measurement of a tax position taken or expected to be taken in a tax return as well as guidance regarding derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation the company did not recognize an adjustment in the liability for unrecognized income tax benefits. As of the adoption date the company had $8.8 million of unrecognized tax benefits, all of which would affect our effective tax rate if recognized.

The company continues to recognize interest and penalties related to uncertain tax positions in income tax expense. As of the adoption date the company had $2 million of accrued interest related to uncertain tax positions.

The company files tax returns in numerous jurisdictions around the world. Most tax returns for years after 2002 are open for examination, including the domestic return, and in certain circumstances selective returns in earlier years are also open for examination.

SUPPLEMENTAL GUARANTOR INFORMATION

Effective February 12, 2007, substantially all of the domestic subsidiaries (the "Guarantor Subsidiaries") of the company became guarantors of the indebtedness of Invacare Corporation under its 9 3/4% Senior Notes due 2015 (the "Senior Notes") with an aggregate principal amount of $175,000,000 and under its 4.125% Convertible Senior Subordinated Debentures due 2027 (the "Debentures") with an aggregate principal amount of $135,000,000. The majority of the company's subsidiaries are not guaranteeing the indebtedness of the Senior Notes or Debentures (the "Non-Guarantor Subsidiaries"). Each of the Guarantor Subsidiaries has fully and unconditionally guaranteed, on a joint and several basis, to pay principal, premium, and interest related to the Senior Notes and to the Debentures and each of the Guarantor Subsidiaries are directly or indirectly wholly-owned subsidiaries of the company.

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

CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS

Three month period ended March 31, 2007 (in thousands)	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries
Net sales	$ 75,452	$ 158,954	$ 154,380
Cost of products sold	60,063	127,509	102,240
Gross Profit	15,389	31,445	52,140
Selling, general and administrative expenses	25,221	27,724	34,821
Charge related to restructuring activities	2,295	43	814
Debt finance charges, interest and fees associated with debt refinancing	13,342	-	31
Income (loss) from equity investee	14,734	3,623	(3,155)
Interest expense - net	6,639	424	2,806
Earnings (loss) before Income Taxes	(17,374)	6,877	10,513
Income taxes	130	225	2,045
Net Earnings (loss)	$ (17,504)	$ 6,652	$ 8,468
Three month period ended March 31, 2006 (in thousands)			
Net sales	$ 85,521	$ 155,890	$ 138,910
Cost of products sold	63,798	121,402	93,865
Gross Profit	21,723	34,488	45,045
Selling, general and administrative expenses	26,163	23,185	34,259
Charge related to restructuring activities	1,742	18	1,397
Income (loss) from equity investee	13,247	3,870	257
Interest expense - net	3,144	2,540	1,411
Earnings (loss) before Income Taxes	3,921	12,615	8,235
Income taxes (benefit)	(1,286)	-	3,516
Net Earnings (loss)	$ 5,207	$ 12,615	$ 4,719

CONSOLIDATING CONDENSED BALANCE SHEETS

March 31, 2007 (in thousands)	Combined The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries
Assets			
Current Assets			
Cash and cash equivalents	$ 22,596	$ 3,259	$ 31,049
Marketable securities	270	-	-
Trade receivables, net	94,988	53,946	102,666
Installment receivables, net	-	6,461	1,990
Inventories, net	77,414	35,917	94,683
Deferred income taxes	4,313	394	8,909
Other current assets	26,434	11,598	38,461
Total Current Assets	226,015	111,575	277,758
Investment in subsidiaries	1,256,803	599,764	-

Intercompany advances, net	361,881	798,776	39,927
Other Assets	49,725	17,232	1,927
Other Intangibles	17,701	12,680	87,082
Property and Equipment, net	62,885	11,181	94,769
Goodwill	-	23,541	469,685
Total Assets	$1,975,010	$ 1,574,749	$971,148
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable	$ 78,195	$ 13,992	$ 55,231
Accrued expenses	28,880	17,020	77,607
Accrued income taxes	2,487	21	804
Short-term debt and current maturities of long-term obligations	4,273	-	885
Total Current Liabilities	113,835	31,033	134,527
Long-Term Debt	554,775	49	41,917
Other Long-Term Obligations	59,801	2,040	52,620
Intercompany advances, net	774,899	339,873	85,812
Total Shareholders' Equity	471,700	1,201,754	656,272
Total Liabilities and Shareholders' Equity	$1,975,010	$1,574,749	$971,148

December 31, 2006 (in thousands)	Combined The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries
Assets			
Current Assets			
Cash and cash equivalents	$ 35,918	$ 2,202	$44,083
Marketable securities	190	-	-
Trade receivables, net	651	15,888	248,667
Installment receivables, net	-	5,513	1,584
Inventories, net	77,201	37,511	88,585
Deferred income taxes	4,223	393	8,896
Other current assets	26,353	8,764	55,477
Total Current Assets	144,536	70,271	447,292
Investment in subsidiaries	1,293,046	607,559	-
Intercompany advances, net	354,660	850,121	110,935
Other Assets	49,346	15,566	1,434
Other Intangibles	2,113	13,150	88,710
Property and Equipment, net	65,016	11,550	97,379
Goodwill	-	23,541	466,888
Total Assets	1,908,717	$1,591,758	$1,212,638
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable	$89,818	$12,095	$61,128
Accrued expenses	34,611	17,405	100,560
Accrued income taxes	10,021	26	2,869
Short-term debt and current maturities of long-term			

obligations	51,773	-	72,470
Total Current Liabilities	186,223	29,526	237,027
Long-Term Debt	321,263	70	127,550
Other Long-Term Obligations	53,044	2,040	53,144
Intercompany advances, net	862,823	370,452	82,441
Total Shareholders' Equity	485,364	1,189,670	712,476
Total Liabilities and Shareholders' Equity	$1,908,717	$1,591,758	1,212,638

CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS

Three month period ended March 31, 2007 (in thousands)	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries
Net Cash Provided by Operating Activities	$(162,862)	$1,366	$143,153
Investing Activities			
Purchases of property and equipment	(653)	(287)	(2,810)
Proceeds from sale of property and equipment	-	-	423
Increase in other long-term assets	1,080	-	-
Other	(3,133)	(1)	1,920
Net Cash Used for Investing Activities	(2,706)	(288)	(467)
Financing Activities			
Proceeds from revolving lines of credit, securitization facility and long-term borrowings	580,569	-	(70,253)
Payments on revolving lines of credit, securitization facility and long-term borrowings	(408,140)	(21)	(86,258)
Payment of dividends	(399)	-	-
Payment of financing costs	(19,784)	-	-
Net Cash Provided by Financing Activities	152,246	(21)	(156,511)
Effect of exchange rate changes on cash	-	-	791
Increase (decrease) in cash and cash equivalents	(13,322)	1,057	(13,034)
Cash and cash equivalents at beginning of period	35,918	2,202	44,083
Cash and cash equivalents at end of period	$22,596	$3,259	$31,049
Three month period ended March 31, 2006 (in thousands)			
Net Cash Provided by Operating Activities	$3,738	$1,863	$2,928
Investing Activities			
Purchases of property and equipment	(2,590)	(193)	(2,226)
Proceeds from sale of property and equipment	-	-	33
Increase (decrease) in other investments	(7,871)	(3,000)	-
Increase in other long-term assets	(523)	-	-
Other	(180)	-	36
Net Cash Required for Investing Activities	(11,164)	(3,193)	(2,157)
Financing Activities			
Proceeds from revolving lines of credit, securitization facility and long-term borrowings	129,641	-	15,514

Payments on revolving lines of credit, securitization facility and long-term borrowings	(124,794)	(76)	(37,137)
Proceeds from exercise of stock options	1,343	-	-
Payment of dividends	(397)	-	-
Capital contributions	-	3,020	7,836
Net Cash Provided by Financing Activities	5,793	2,944	(13,787)
Effect of exchange rate changes on cash	-	-	(1,177)
Increase (decrease) in cash and cash equivalents	(1,633)	1,614	(14,193)
Cash and cash equivalents at beginning of period	7,270	1,046	17,308
Cash and cash equivalents at end of period	$5,637	$2,660	$3,115

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

The following discussion and analysis should be read in conjunction with our Condensed Consolidated Financial Statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and in our Current Report on Form 8-K as furnished to the Securities and Exchange Commission on May 1, 2007.

OUTLOOK

The company continues to execute the numerous cost reduction initiatives previously communicated and as described further below. The company believes that the implementation of these initiatives will improve the company's operating margin and result in approximately $38 million of realized savings in 2007, including the $7 million already realized in the first quarter. The company anticipates restructuring charges of approximately $20 million in 2007 relating to these actions. Annualized savings from these initiatives implemented by the end of 2007 should approximate $56 million thereafter. The core initiatives are as follows:

- Product line simplification. The company plans to simplify its product lines and pricing processes to reduce costs and improve service levels.

- Improvement of gross margins and reduction of fixed costs through further product and sub-assembly outsourcing. The company expects to accelerate its outsourcing of commodity products and sub-assemblies. Asian sourcing is planned to double over the next three years.

- Rationalization of facilities. Today, Invacare's primary manufacturing facilities consist of fourteen integrated fabrication plants and two assembly plants worldwide. Invacare will continue in its strategy to move from integrated fabrication plants to assembly plants worldwide. The company is finalizing plans to close and/or consolidate several locations worldwide beginning this year through 2009.

- Standardization of product platforms. To further simplify and reduce production costs, as well as to leverage development and tooling investment, the company has begun the process of standardizing some of its product platforms globally.

Cost reduction remains the company's top priority. The competitive pricing conditions driven by reimbursement changes in the U.S. remain and Invacare expects approximately $30 million in net sales reductions in 2007 from the lower

pricing. The company expects that the $38 million of cost reductions, which are heavily weighted to the second half of the year, will offset these impacts and result in improved profitability in the second half of the year. The company anticipates second quarter earnings to be sequentially improved from first quarter earnings excluding restructuring charges and debt finance costs associated with the company's debt refinancing which was completed during the quarter ended March 31, 2007. However, the company also anticipates second quarter earnings to be lower than second quarter earnings last year, excluding restructuring charges. For fiscal year 2007, the company expects growth in net sales of between 0% and 2%, excluding the impact of acquisitions and foreign currency; and anticipates operating cash flows of between $65 million and $75 million and net purchases of property, plant and equipment of approximately $25 million. The full year earnings are expected to be consistent with the

previously announced guidance by the company in a press release issued on May 1, 2007.

As previously communicated, Medicare officially announced earlier this month the 10 Metropolitan Statistical Area test sites for U.S. competitive bidding. Implementation has already begun with the scheduled effective date for competitive bid pricing in April 2008. Invacare has once again demonstrated its industry leadership by sponsorship of the Tanner Hobson bill introduced in the U.S. House of Representatives. This bill would ensure the continued participation of small providers in the supply chain of home medical products.

RESULTS OF OPERATIONS

NET SALES

Net sales for the three months ended March 31, 2007 were $374,905,000, compared to $361,704,000 for the same period a year ago, representing a 4% increase. Foreign currency translation increased net sales by two percentage points while acquisitions increased net sales by one percentage point.

The company continued to be impacted during the quarter by the previously disclosed Medicare reimbursement changes in the U.S. related to power mobility devices which were effective in the fourth quarter of 2006. These changes significantly impacted the net sales of the company's North America/HME Operation as further described below.

North American/HME Operations

North American/HME (NA/HME) net sales decreased 6% for the quarter to $161,532,000 as compared to $171,694,000 for the same period a year ago while foreign currency and acquisitions did not impact results for the quarter. These sales consist of Rehab (power wheelchairs, custom manual wheelchairs, personal mobility and seating and positioning), Standard (manual wheelchairs, personal care, home care beds, low air loss therapy and patient transport) and Respiratory (oxygen concentrators, HomeFillTM transfilling systems, sleep apnea products, aerosol therapy and associated respiratory products). The decrease for the quarter was principally due to net sales decreases in Rehab and Respiratory products.

Rehab product line net sales declined by 9% due to Medicare reimbursement changes which drove competitive price reductions and a continued shift away from high-end options that normally drive higher average selling prices and margins. Standard product line net sales increased less than 1% and were driven by increased volumes, particularly in manual wheelchairs and patient aids, partially offset by pricing reductions. Respiratory product line net sales declined 13% due to lower pricing and reduced volumes on oxygen concentrators

resulting from the loss of one customer and continued asset management programs by providers along with pricing declines in concentrators. However, HomeFillTM II oxygen system net sales increased for the quarter by 38% due to increased purchases from national and smaller providers. The company's HomeFill technology was granted increased reimbursement by Medicare late in 2006 with the change effective January 1, 2007. This improved reimbursement has further enhanced the cost advantage this technology offers our customers. As previously announced, a large national respiratory provider has launched a large-scale implementation in the first quarter of 2007.

Invacare Supply Group (ISG) Operations

ISG net sales for the quarter increased 12% to $61,676,000 compared to $55,085,000 last year driven by volume increases primarily in diabetic and incontinence products lines.

Institutional Products Group (IPG) Operations

IPG net sales for the quarter increased by 2% to $23,724,000 compared to $23,196,000 last year due to increased volumes in its core bed products, along with increases in other offerings such as seating products.

European Operations

European net sales increased 12% for the quarter to $107,030,000 as compared to $95,546,000 for the same period a year ago, with foreign currency accounting for eight percentage points of the net sales increase, while acquisitions did not impact results for the quarter. There was strong sales performance in most of the regions.

Asia/Pacific Operations

The company's Asia/Pacific operations consist of Invacare Australia, which imports and distributes the Invacare range of products and manufactures and distributes the Rollerchair range of custom power wheelchairs and Pro Med lifts, DecPac ramps and Australian Healthcare Equipment beds, furniture and pressure care products; Dynamic Controls, a New Zealand manufacturer of electronic operating components used in power wheelchairs and scooters; Invacare New Zealand, a distributor of a wide range of home medical equipment; and Invacare Asia Sales, which imports and distributes home medical equipment to the Asia markets.

Asia/Pacific net sales increased 29% in the quarter to $20,943,000 from $16,183,000 in the first quarter of 2006 with acquisitions accounting for twenty-five percentage points of the net sales increase and foreign currency accounting for five percentage points of the net sales increase. Performance in this region continues to be negatively impacted by U.S. reimbursement uncertainty in the consumer power wheelchair market, resulting in decreased sales of microprocessor controllers by Invacare's New Zealand subsidiary.

GROSS PROFIT

Gross margin as a percentage of net sales for the first quarter was lower by 1.6 percentage points compared to last year's first quarter primarily due to competitive pricing pressures in the U.S. and an unfavorable change in product mix away from high- end options in the U.S. Rehab business. Excluding restructuring charges, the margin percentage also declined by 1.6 percentage points. As compared to the fourth quarter of last year, gross margins as a percentage of sales improved by .7 of a percentage point driven by the cost reduction initiatives. Excluding restructuring charges, the margin percentage

improved by .2 of a percentage point.

Comparing gross margins as a percentage of net sales in the first quarter of 2007 to the first quarter of 2006, NA/HME margins declined to 28.1% compared with 31.5%, principally due to reduced volumes of higher margin product, largely as a result of government reimbursement uncertainties primarily in Rehab and

Respiratory products and to a lesser extent by pricing reductions in Standard products. ISG gross margins decreased by .6 of a percentage point due to sales increases in lower margin products (diabetic and incontinence). IPG gross margins declined by .8 of a percentage point primarily due to increased new product development investments, higher freight and reduced manufacturing absorption. The company has announced the closure of its case good manufacturing facility in St. Louis with consolidation of these activities into the company's other existing manufacturing locations. European gross margin as a percentage of net sales decreased by .8 of a percentage point due to pricing reductions and increased freight costs partially offset by continued cost reduction activities. Asia/Pacific gross margin increased by 9.7 percentage points, largely due to cost reductions initiatives in the region as well as higher than average margins achieved by the businesses acquired in the fourth quarter of last year.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative ("SG&A") expense as a percentage of net sales for the three months ended March 31, 2007 was 23.4% compared to 23.1% for the same period a year ago. The dollar increase was $4,159,000, or 5.0% for the first quarter of the year. Acquisitions increased the first three months expenses by $1,402,000, while foreign currency translation increased these expenses by $1,922,000 in the quarter compared to the same period a year ago. Excluding the impact of foreign currency translation and acquisitions, selling, general and administrative expense increased 1.0% for the quarter compared to the same period a year ago.

North American/HME SG&A cost increased $481,000, or .9%, for the quarter compared to the same period a year ago. Acquisitions did not impact spending while foreign currency translation decreased costs by approximately 0.1%. The increase in spending was primarily attributable to higher distribution and commission costs, the amortization of bank fees related to the company's debt refinancing, and higher stock option expense in the first quarter of 2007 compared to the first quarter of 2006, which had lower expense due to the acceleration of vesting for most stock options at the end of 2005.

Invacare Supply Group SG&A expense increased $511,000, or 9.2% for the quarter compared to the same period a year ago due to higher spending incurred to drive future growth.

Institutional Products Group SG&A expense increased $496,000, or 14.1%, for the quarter compared to the same period a year ago due to an increase in sales and marketing spending.

European SG&A expense increased $1,660,000, or 6.4%, for the quarter compared to the same period a year ago. While acquisitions did not impact the results, foreign currency translation increased SG&A by $1,769,000 or 6.8%.

Asia/Pacific SG&A expense increased $2,018,000, or 55.3%, for the quarter compared to the same period a year ago. For the quarter, foreign currency translation increased SG&A expense by $218,000, or 6.0%, while acquisitions contributed $1,403,000 or 38.5%. SG&A expense excluding acquisitions and foreign currency translation increased $398,000 or 10.9%.

CHARGE RELATED TO RESTRUCTURING ACTIVITIES

Previously, the company announced multi-year cost reductions and profit improvement actions, which included: reducing global headcount, outsourcing improvements utilizing the company's China manufacturing capability and third parties, shifting substantial resources from product development to

manufacturing cost reduction activities and product rationalization, reducing freight exposure through freight auctions and changing the freight policy, general expense reductions, and exiting four facilities.

The restructuring was necessitated by the continued decline in reimbursement by the U.S. government as well as similar reimbursement pressures abroad and continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations.

To date, the company has made substantial progress on its restructuring activities, including exiting four facilities and eliminating approximately 650 positions through March 31, 2007, including 50 positions in the first quarter of 2007. Restructuring charges of $3,269,000 were incurred in the first quarter of 2007, of which $117,000 is recorded in cost of products sold as it relates to inventory markdowns and the remaining charge amount is included on the Charge Related to Restructuring Activities in the Condensed Consolidated Statement of Earnings as part of operations.

The restructuring charges included charges of $2,430,000 in North America/HME, $43,000 in the Invacare Supply Group, $4,000 in the Institutional Products Group, $786,000 in Europe and $6,000 in Asia/Pacific. Of the total charge incurred to date, $5,164,000 remained unpaid as of March 31, 2007 with $2,295,000 unpaid related to NA/HME; $94,000 unpaid related to ISG; $4,000 unpaid related to IPG; $2,648,000 unpaid related to Europe; and $123,000 unpaid related to Asia Pacific. There have been no material changes in accrued balances related to the charge, either as a result of revisions in the plan or changes in estimates, and the company expects to utilize the accruals recorded through March 31, 2007 during 2007. With additional actions to be undertaken during the remainder of 2007, the company anticipates recognizing restructuring charges of approximately $20,000,000 for the year pre-tax.

CHARGES, INTEREST AND FEES ASSOCIATED WITH DEBT REFINANCING

As a result of the company's refinancing completed in the first quarter, the company incurred one-time make whole payments to the previous holders of senior notes and incremental interest totaling $10,900,00 and wrote-off costs previously capitalized related to the old debt structure of $2,500,000.

INTEREST

Interest expense increased $2,648,000 for the first quarter of 2007 compared to the same period last year, primarily due to increases in interest rates and higher debt levels. Interest income for the first quarter of 2007 decreased $126,000, compared to the same period last year, primarily due to extended financing terms provided to our customers.

INCOME TAXES

The company had an effective tax rate of (15.9%) for the three-month period compared with 30.0% for the same period a year ago. The effective tax rate declined due to a change in estimate in the mix of earnings and permanent deductions. The company's effective tax rate differs from the U.S. federal statutory rate primarily due to losses with no corresponding tax benefits and a

valuation reserve recorded against domestic deferred tax assets reduced by tax credits and earnings abroad being taxed at rates lower than the U.S. federal statutory rate. The change in the effective rate for the three-month period ended March 31, 2007 compared to the three-month period ended March 31, 2006 is primarily due to domestic losses without benefit as a result of valuation reserves.

LIQUIDITY AND CAPITAL RESOURCES

The company's reported level of debt increased by $28,773,000 from December 31, 2006 to $601,899,000 at March 31, 2007, as the company completed its debt refinancing transactions in February 2007.

The company's borrowing arrangements contain covenants with respect to maximum amount of debt, minimum loan commitments, interest coverage, net worth, dividend payments, working capital, and funded debt to capitalization, as defined in the company's bank agreements and agreements with its note holders. As of March 31, 2007, the company was in compliance with all covenant requirements. Under the most restrictive covenant of the company's borrowing arrangements, the company has the capacity to borrow up to an additional $90,900,000 as of March 31, 2007.

CAPITAL EXPENDITURES

The company had no individually material capital expenditure commitments outstanding as of March 31, 2007. The company estimates that capital investments for 2007 will approximate $25,000,000 as compared to $21,789,000 in 2006. The company believes that its balances of cash and cash equivalents, together with funds generated from operations and existing borrowing facilities will be sufficient to meet its operating cash requirements and to fund required capital expenditures for the foreseeable future.

CASH FLOWS

Cash flows used by operating activities were $18,343,000 for the first three months of 2007 compared to cash provided of $8,529,000 in the first three months of 2006. The decrease in operating cash flows for the first three months of 2007 compared to the same period a year ago was primarily the result of lower earnings along with declines in payables and accrued expenses as the balances at the end of 2006 were higher than normal due to the company's refinancing efforts which were then in process. In addition, accelerated interest payments were made in the first quarter of 2007 as a result of the debt refinancing which negatively impacted operating cash flows.

Cash used for investing activities was $3,461,000 for the first three months of 2007 compared to $5,658,000 in the first three months of 2006. The decrease in cash used for investing activities is primarily the result of a decrease in the purchases of property, plant and equipment in the first three months of 2007 compared to the first three months of 2006.

Cash required by financing activities was $4,286,000 for the first three months of 2007 compared to $15,906,000 in the first three months of 2006. Financing activities for the first three months of 2007 were impacted by the new debt recapitalization, which increased debt levels, but also resulted in the payment of associated financing costs.

During the first three months of 2007, the company used free cash flow of $17,299,000 compared to generating free cash flow of $6,330,000 in the first three months of 2006. The decrease was primarily attributable to the same items as noted above which impacted operating cash flows. Free cash flow is a non-GAAP financial measure that is comprised of net cash provided by operating

activities, excluding net cash impact related to restructuring activities, less net purchases of property and equipment, net of proceeds from sales of property and equipment. Management believes that this financial measure provides

meaningful information for evaluating the overall financial performance of the company and its ability to repay debt or make future investments (including, for example, acquisitions). However, it should be noted that the company's definition of free cash flow may not be comparable to similar measures disclosed by other companies because not all companies calculate free cash flow in the same manner.

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

	Three Months Ended March 31,	
	2007	2006
Net cash (used) provided by operating activities	$(18,343)	$ 8,529
Net cash impact related to restructuring activities	4,371	2,777
Less: Purchases of property and equipment - net	(3,327)	(4,976)
Free Cash Flow	$(17,299)	$ 6,330

DIVIDEND POLICY

On February 9, 2007, the company's Board of Directors declared a quarterly cash dividend of $0.0125 per Common Share to shareholders of record as of April 3, 2007, which was paid on April 11, 2007. At the current rate, the cash dividend will amount to $0.05 per Common Share on an annual basis.

CRITICAL ACCOUNTING POLICIES

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

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

Revenue Recognition
Invacare's revenues are recognized when products are shipped to unaffiliated customers. The SEC's Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition," as updated by SAB No. 104, provides guidance on the application of generally accepted accounting principles (GAAP) to selected revenue recognition issues. The company has concluded that its revenue recognition policy is appropriate and in accordance with GAAP and SAB No. 101.

Sales are only made to customers with whom the company believes collection is reasonably assured based upon a credit analysis, which may include obtaining a credit application, a signed security agreement, personal guarantee and/or a cross corporate guarantee depending on the credit history of the customer.

Credit lines are established for new customers after an evaluation of their credit report and/or other relevant financial information. Existing credit lines are regularly reviewed and adjusted with consideration given to any outstanding past due amounts.

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

Distributed products sold by the company are accounted for in accordance with Emerging Issues Task Force, or "EITF" No. 99-19 Reporting Revenue Gross as a Principal versus Net as an Agent. The company records distributed product sales gross as a principal since the company takes title to the products and has the risks of loss for collections, delivery and returns.

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

Allowance for Uncollectible Accounts Receivable
Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the company's receivables are due from health care, medical equipment dealers and long term care facilities located throughout the United States, Australia, Canada, New Zealand and Europe. A significant portion of products sold to dealers, both foreign and domestic, is ultimately funded through government reimbursement programs such as Medicare and Medicaid. As a consequence, changes in these programs can have an adverse impact on dealer liquidity and profitability. The estimated allowance for uncollectible amounts is based primarily on management's evaluation of the financial condition of the customer. In addition, as a result of the third party financing arrangement with DLL, 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.

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

In general, we review inventory turns as an indicator of obsolescence or slow moving product as well as the impact of new product introductions. Depending on the situation, the individual item may be partially or fully reserved for. No inventory that was reserved for has been sold at prices above their new cost

basis. The company continues to increase its overseas sourcing efforts, increase its emphasis on the development and introduction of new products, and decrease the cycle time to bring new product offerings to market. These initiatives are sources of inventory obsolescence for both raw material and finished goods.

Goodwill, Intangible and Other Long-Lived Assets

Property, equipment, intangibles and certain other long-lived assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. Under SFAS No. 142, Goodwill and Other Intangible Assets, goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. Furthermore, goodwill and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The company completes its annual impairment tests in the fourth quarter of each year. Interest rates have a significant impact upon the discounted cash flow methodology utilized in its annual impairment testing. Increasing interest rates decrease the fair value estimates used in our testing.

Product Liability

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

Product liability reserves are recorded for individual claims based upon historical experience, industry expertise and indications from the third-party actuary. Additional reserves, in excess of the specific individual case reserves, are provided for incurred but not reported claims based upon third-party actuarial valuations at the time such valuations are conducted. Historical claims experience and other assumptions are taken into consideration by the third-party actuary to estimate the ultimate reserves. For example, the actuarial analysis assumes that historical loss experience is an indicator of future experience, that the distribution of exposures by geographic area and nature of operations for ongoing operations is expected to be very similar to historical operations with no dramatic changes and that the government indices used to trend losses and exposures are appropriate. Estimates made are adjusted on a regular basis and can be impacted by actual loss award settlements on claims. While actuarial analysis is used to help determine adequate reserves, the company accepts responsibility for the determination and recording of adequate reserves in accordance with accepted loss reserving standards and practices.

Warranty

Generally, the company's products are covered from the date of sale to the customer by warranties against defects in material and workmanship for various periods depending on the product. Certain components carry a lifetime warranty. A provision for estimated warranty cost is recorded at the time of sale based upon actual experience. The company continuously assesses the adequacy of its

product warranty accrual and makes adjustments as needed. Historical analysis is primarily used to determine the company's warranty reserves. Claims history is reviewed and provisions are adjusted as needed. However, the company does consider other events, such as a product recall, which could warrant additional warranty reserve provision. No material adjustments to warranty reserves were

necessary in the current year. See Current Liabilities in the Notes to the Consolidated Financial Statements included in this report for a reconciliation of the changes in the warranty accrual.

Accounting for Stock-Based Compensation

Effective January 1, 2006, the company adopted Statement of Financial Accounting Standard No. 123 (Revised 2004), Share Based Payment ("SFAS 123R") using the modified prospective application method. Under the modified prospective method, compensation cost was recognized for: (1) all stock-based payments granted subsequent to January 1, 2006 based upon the grant-date fair value calculated in accordance with SFAS 123R, and (2) all stock-based payments granted prior to, but not vested as of, January 1, 2006 based upon grant-date fair value previously calculated for previously presented pro forma footnote disclosures in accordance with the original provisions of SFAS No. 123, Accounting for Stock Based Compensation.

Upon adoption of SFAS 123R, the company did not make any other modifications to the terms of any previously granted options. However, the terms of new awards granted have been modified so that the vesting periods are deemed to be substantive for those who may be retiree eligible. No changes were made regarding the valuation methodologies or assumptions used to determine the fair value of options granted and the company continues to use a Black-Scholes valuation model. As of March 31, 2007, there was $16,558,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the plans, which is related to non-vested shares, and includes $3,306,000 related to restricted stock awards. The company expects the compensation expense to be recognized over a weighted-average period of approximately two years.

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

Income Taxes

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

The company does not believe that there is a substantial likelihood that materially different amounts would be reported related to its critical accounting policies.

RECENTLY ADOPTED ACCOUNTING POLICIES

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an

interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 prescribes recognition and measurement of a tax position taken or expected to be taken in a tax return as well as guidance regarding derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation the company did not recognize an adjustment in the liability for unrecognized income tax benefits. As of the adoption date the company had $8.8 million of unrecognized tax benefits, all of which would affect our effective tax rate if recognized.

The company continues to recognize interest and penalties related to uncertain tax positions in income tax expense. As of the adoption date the company had $2 million of accrued interest related to uncertain tax positions.

The company files tax returns in numerous jurisdictions around the world. Most tax returns for years after 2002 are open for examination, including the domestic return, and in certain circumstances selective returns in earlier years are also open for examination.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The company is exposed to market risk through various financial instruments, including fixed rate and floating rate debt instruments. The company uses interest swap agreements to mitigate its exposure to interest rate fluctuations. Based on March 31, 2007 debt levels, a 1% change in interest rates would impact interest expense by approximately $2,801,000. Additionally, the company operates internationally and, as a result, is exposed to foreign currency fluctuations. Specifically, the exposure results from intercompany loans and third party sales or payments. In an attempt to reduce this exposure, foreign currency forward contracts are utilized. The company does not believe that any potential loss related to these financial instruments would have a material adverse effect on the company's financial condition or results of operations.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Terms such as "will," "should," "plan," "intend," "expect," "continue," "forecast", "believe," "anticipate" and "seek," as well as similar comments, are forward-looking in nature. Actual results and events may differ significantly from those expressed or anticipated as a result of risks and uncertainties which include, but are not limited to, the following: possible adverse effects of being substantially leveraged, which could impact our ability to raise capital, limit our ability to react to changes in the economy or our industry or expose us to interest rate risks; changes in government and other third-party payor reimbursement levels and practices; consolidation of health care customers and our competitors; ineffective cost reduction and restructuring efforts; inability to design, manufacture, distribute and achieve market acceptance of new products with higher functionality and lower costs; extensive government regulation of our products; lower cost imports; increased freight costs; failure to comply with regulatory requirements or receive regulatory clearance or approval for our products or operations in the United States or abroad; potential product recalls; uncollectible accounts receivable; difficulties in implementing a new Enterprise Resource Planning system; legal actions or regulatory proceedings and governmental investigations; product liability claims; inadequate patents or other intellectual property protection; incorrect assumptions concerning demographic trends that impact the market for our products; provisions in our bank credit agreements or other debt instruments that may prevent or delay a change in control; the loss of the services of our key management and personnel;

decreased availability or increased costs of raw materials could increase our costs of producing our products; inability to acquire strategic acquisition candidates because of limited financing alternatives; risks inherent in managing and operating businesses in many different foreign jurisdictions; exchange rate

fluctuations, as well as the risks described from time to time in Invacare's reports as filed with the Securities and Exchange Commission. Except to the extent required by law, we do not undertake and specifically decline any obligation to review or update any forward-looking statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments or otherwise.

Item 3. Quantitative and Qualitative Disclosure of Market Risk.

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

Item 4. Controls and Procedures.

As of March 31, 2007, an evaluation was performed, under the supervision and with the participation of the company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based on that evaluation, the company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the company's disclosure controls and procedures were effective as of March 31, 2007, in ensuring that information required to be disclosed by the company in the reports it files and submits under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and (2) accumulated and communicated to the company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure. There were no changes in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1A. Risk Factors.
In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A of the company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
(c) During the quarter ended March 31, 2007, there were no common shares surrendered to the company by employees for tax withholding purposes in conjunction with the vesting of restricted shares held by the employees under the company's 2003 Performance Plan.

On August 17, 2001, the Board of Directors authorized the company to purchase up to 2,000,000 Common Shares. To date, the company has purchased 637,100 shares with authorization remaining to purchase 1,362,900 more shares. The company purchased no shares pursuant to this Board authorized program during the first quarter of 2007.

Item 6. Exhibits.

Exhibit No.	
31.1	Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification (filed herewith).
31.2	Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification (filed herewith).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

SIGNATURES

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

INVACARE CORPORATION

By: /s/ Gregory C. Thompson
Gregory C. Thompson
Chief Financial Officer
(As Principal Financial and Accounting Officer and on behalf of the registrant)

Date: May 9, 2007