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**2011 Annual Report
And Form 10-K**

Fellow Shareholders,

Throughout its history, Invacare Corporation has developed innovative medical devices and services that have made life's experiences possible for millions of people. The Company has proven time and time again that it is able to adapt and grow while overcoming obstacles of all kinds, and 2011 was no exception. Invacare delivered on its financial guidance during a year of unexpected challenges, including the investment of significant resources to ensure its compliance with the U.S. Food and Drug Administration's (FDA) Quality System Regulation (QSR), natural disasters in Christchurch, New Zealand, and Japan, as well as fluctuations in commodity costs and foreign currencies. The Company also continued to make progress on two core initiatives that will be key to its future success: globalization and the ongoing remediation of its quality systems and regulatory compliance processes.

With the leadership of its experienced management team, which holds approximately 14% of the Company's outstanding stock, Invacare is well aligned to continue to evolve, make improvements and become even stronger as the industry leader.

Compliance is good business

Throughout 2011, the Company actively made systemic improvements in its quality systems and regulatory reporting processes in response to observations made by the FDA at its Sanford, Florida facility, as well as its corporate and wheelchair manufacturing sites in Elyria, Ohio. The Company has added internal resources and engaged outside experts with proven quality systems and regulatory experience in the medical device industry in order to accelerate these improvements. In December 2011, Doug Uelmen joined the Company as Senior Vice President, Quality Assurance and Regulatory Affairs. Mr. Uelmen has over 30 years of experience in quality and regulatory roles, nearly all of which have been in the medical device industry. In his two most recent assignments at Abbott and GE Healthcare, he provided leadership at corporate and divisional levels toward the successful remediation of consent decrees. His initial focus at Invacare will be on the remediation efforts at the facilities mentioned above, but he also is responsible for rolling out consistent quality assurance processes worldwide.

Despite its efforts to make improvements to its quality systems processes, the FDA has requested that the Company negotiate and agree to a consent decree of injunction relating to the Company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio. The Company is working expeditiously to finalize discussions with the FDA, and continues to add resources in order to make systemic improvements to ensure full compliance with the FDA's QSR.

Invacare has more than 30 years of innovation, quality and industry leadership in the manufacture and distribution of home and long-term care medical devices. There are millions of people safely using Invacare's products each day. The Company is making significant investments to improve its quality systems processes, and it will continue to do so to ensure it achieves sustainable corporate-wide compliance. While the consent decree will have an impact on the Company's results in the near-term, Invacare embraces the importance of compliance and knows that the long-term benefits will make Invacare an even stronger company.

Also in regards to regulatory matters, the Company is seeking additional clarity on the United States medical device excise tax that will be effective in 2013. In January 2012, the Department of the Treasury issued guidance on the definition of a taxable medical device related to the excise tax. While the Company believes a significant portion of its products will be exempt from the excise tax under the retail exemption, it is still in the process of fully analyzing the implications of the excise tax by the Department of the Treasury. The Company intends to respond to the IRS and the Treasury Department to seek further detail and clarity on the proposed regulations.

Globalization

Uncertainty related to healthcare reform and slowing healthcare spending related to difficult economic conditions around the globe caused an unanticipated slowness in Invacare's markets in 2011. The Company continued to make progress on its globalization initiative which it expects will drive sales and expand margins in

spite of government spending slowness. The Company is committed to its goal of delivering \$100 million in annualized savings by 2015, which in part will be invested in increased research and development spending and other initiatives. However, some of this progress may not be achieved as quickly as originally planned, as the Company is diverting some internal resources, such as engineering, to accelerate its regulatory compliance improvement programs.

In 2011, the Company introduced the first new product platforms that stem from its globalization program, including the new Invacare® Top End® Reveal™ Active wheelchair, the Invacare® MatrX® MX1 cushion, the Invacare® Glissando™ Mattress, the Invacare® Rio™ Bath Lift and the Invacare® Etude™ Plus bed. The Company also started to launch standardized major sub-components. For example, the Company expanded its use of the new Single Stage Drive (SSD) motor gearbox across the majority of its power wheelchair lines in the fourth quarter. This standardization of motor sub-components for the Company's power wheelchair platforms around the globe reduces complexity from 96 unique pairings of motors to less than 10. This will significantly reduce cost and complexity in the Company's supply chain.

Also in 2011, the Company announced the closure of two facilities in connection with its globalization program. With the closures completed, annualized savings are expected to be approximately \$3.5 million.

New opportunities

Invacare continues to look for new opportunities to expand its product and service offerings across the continuum of care. In the third quarter of 2011, the Company completed the acquisition of Dynamic Medical Systems (DMS), a solutions-based service organization. With an established presence in the western United States that complements Invacare's existing service organization in the eastern United States, this acquisition gives Invacare a national rental footprint, which strategically enhances its ability to service regional and national long-term care providers. DMS also significantly expands Invacare's clinical solutions selling approach for wound therapies, safe patient handling and other rental applications in institutional settings. These offerings will enhance the Company's ability to serve the needs of its long-term care providers whether they opt to purchase or rent capital equipment as market dynamics continue to change.

The Company also acquired the technology and assets of a negative pressure wound therapy system currently in development. This line of products fits well within Invacare's clinical solutions selling capabilities and will add to its current offering of wound therapy solutions available through Invacare's rental services to long-term care providers. The Company anticipates that this area will be a growth platform in the future.

The Company continues to expand its relationships with its customers beyond offering new medical device technology. In the United States, declining reimbursement, most notably related to National Competitive Bidding (NCB), is forcing providers to drive efficiencies throughout their businesses. To help its customers address the unique challenges posed by NCB, Invacare has united its broad range of resources and solutions in a comprehensive marketing program. The Company offers guidance to providers so they can position themselves for the future. The Company also continues to take a leadership position in Washington, DC, on behalf of its providers. Currently the Company is rallying the industry to work with Congress to replace the onerous NCB with a Market Pricing Program (MPP). MPP is a more sustainable pricing program for the HME industry where only credible bidders can participate. For more information, visit www.invacare.com/ncb.

Integral part of the continuum of care

Providing products and solutions to serve the full continuum of care will continue to grow in importance as the population ages and the role of healthcare changes. By 2030, the number of people in the United States over 65 is expected to exceed 70 million.¹ With the costs of healthcare continuing to increase in a currently unsustainable healthcare system, it will become essential that people are given the right care, in the right place, at

¹ Landers SH. Bringing home the "medical home" for older adults. *Cleveland Clinic Journal of Med* Oct 2010;77(10): 661-675

the right cost. Invacare believes that homecare is the trifecta of healthcare: patient preferred, better clinical outcomes due to lower infection rates¹ and more cost-effective than institutionalized care².

According to Floyd D. Loop, MD, the former Chief Executive Officer and Chairman, Board of Governors of the Cleveland Clinic from 1989-2004, "Science and medicine bring new and thoughtful applications that allow patients to remain at home for testing, monitoring and treatment. These advances continue to reduce unnecessary hospitalizations. Home healthcare is the next great medical frontier." Invacare is well positioned in the home and long-term care markets to be a key part of the solution in healthcare reform.

Updates on the Board of Directors

In May 2011, Baiju R. Shah, president and chief executive officer of BioEnterprise Inc., joined the Company's Board of Directors. Mr. Shah is a leading entrepreneur in Northeast Ohio. BioEnterprise, the partnership that he helped form with several of Northeast Ohio's premier healthcare organizations, has drawn significant attention and interest from regions around the United States looking to grow their bioscience clusters. *His entrepreneurial and healthcare business insights will provide a unique perspective to the Board.*

In February of this year, The Honorable Ellen O'Kane Tauscher joined the Company's Board of Directors. Ms. Tauscher brings a unique blend of experience to the Invacare Board of Directors, as her distinguished career includes experience in international and governmental affairs, as well as the financial industry. She recently retired as the United States Under Secretary of State for Arms Control and International Security. Her government service, including twelve years as a Congresswoman for the State of California, coupled with her experience in the financial industry, makes her a valuable addition to the Board.

With its strength of leadership and commitment to future success through the initiatives mentioned above, as well as a continued commitment to launch innovative new products and services, Invacare is well-positioned for long-term success. As always, the Company thanks its customers, shareholders and associates for their ongoing support.

Sincerely,



Gerald B. Blouch
President and Chief Executive Officer



A. Malachi Mixon, III
Chairman of the Board of Directors

¹ Leff B, Burton L, Mader SL, et al. Hospital at home: feasibility and outcomes of a program to provide hospital level-care at home for acutely ill older patients, *Ann Intern Med* 2005; 143: 789-808

² Doty, Pamela. "Cost-Effectiveness of Home and Community-Based Long-Term Care Services." USHHS/ASPE Office of Disability, Aging and Long-Term Care Policy. June 2000: 10.

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

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 1-15103

INVACARE CORPORATION

(Exact name of Registrant as specified in its charter)

Ohio

(State or other Jurisdiction of
Incorporation or Organization)

95-2680965

(I.R.S. Employer
Identification Number)

One Invacare Way, P.O. Box 4028, Elyria, Ohio 44036

(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of exchange on which registered

Common Shares, without par value

New York Stock Exchange

Rights to Purchase Preferred Shares, without par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 the filing requirements for the past 90 days. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405) is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of June 30, 2011, the aggregate market value of the 28,363,662 Common Shares of the Registrant held by non-affiliates was \$941,389,942 and the aggregate market value of the 4,573 Class B Common Shares of the Registrant held by non-affiliates was \$151,778. While the Class B Common Shares are not listed for public trading on any exchange or market system, shares of that class are convertible into Common Shares at any time on a share-for-share basis. The market values indicated were calculated based upon the last sale price of the Common Shares as reported by The New York Stock Exchange on June 30, 2011, which was \$33.19. For purposes of this information, the 2,507,167 Common Shares and 1,080,174 Class B Common Shares which were held by Executive Officers and Directors of the Registrant were deemed to be the Common Shares and Class B Common Shares held by affiliates.

As of February 23, 2012, 30,734,171 Common Shares and 1,084,747 Class B Common Shares were outstanding.

Documents Incorporated by Reference

Portions of the Registrant's definitive Proxy Statement to be filed in connection with its 2011 Annual Meeting of Shareholders are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14) of this report.

Except as otherwise stated, the information contained in this Annual Report on Form 10-K is as of December 31, 2011.

INVACARE CORPORATION
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PART I

Item 1. Business.

GENERAL

Invacare Corporation is the world's leading manufacturer and distributor in the estimated \$11.0 billion worldwide market for medical equipment and supplies used in the home based upon its 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 and extended care markets. The company continuously revises and expands its product lines to meet changing market demands and currently offers numerous product lines. The company sells its products principally to over 25,000 home health care and medical equipment providers, distributors and government locations in the United States, Australia, Canada, Europe, New Zealand and Asia. Invacare's products are sold through its worldwide distribution network by its sales force, telesales associates and various organizations of independent manufacturers' representatives and distributors. The company also distributes medical equipment and disposable medical supplies manufactured by others.

Invacare is committed to design and deliver the best value in medical products, which promote recovery and active lifestyles for people requiring home and other non-acute health care. Invacare pursues this vision by:

- designing and developing innovative and technologically superior products;
- ensuring continued focus on the company's primary market—the non-acute health care market;
- marketing the company's broad range of products;
- driving efficiency and innovation through the use of the company's global resources;
- providing a professional and cost-effective sales, customer service and distribution organization;
- supplying innovative provider support and aggressive product line extensions;
- building a strong referral base among health care professionals;
- continuously advancing and recruiting top management candidates;
- empowering all employees;
- providing a performance-based reward environment; and
- continually striving for total quality throughout the organization.

The company is a corporation duly organized under the laws of the State of Ohio in 1971. When the company was acquired in December 1979 by a group of investors, including some of its current officers and directors, it had \$19.5 million in net sales and a limited product line of lifestyle wheelchairs and patient aids. In 2011, Invacare reached approximately \$1.8 billion in net sales, representing a 16% compound average sales growth rate since 1979, and, based upon the company's distribution channels, breadth of product line and net sales, currently is the leading company in each of the following major, non-acute, medical equipment categories: power and manual wheelchairs, homecare bed systems and home respiratory therapy.

The company's executive offices are located at One Invacare Way, Elyria, Ohio, 44036 and its telephone number is (440) 329-6000. In this report, "Invacare" and the "company" refer to Invacare Corporation and, unless the context otherwise indicates, its consolidated subsidiaries.

THE HOME MEDICAL EQUIPMENT INDUSTRY

North America Market

The home medical equipment (HME) market includes home health care products, physical rehabilitation products and other non-disposable products used for the recovery and long-term care of patients. As healthcare spending continues to escalate around the world, particularly in the United States, the company believes that homecare is a significant part of the solution for healthcare reform. By 2030, the number of people in the United States over 65 is expected to exceed 70 million.¹ With the costs of healthcare continuing to increase in a currently unsustainable healthcare system, it will become essential that patients are given the right care, in the right place at the right cost. Homecare will be a key part of the solution in healthcare reform.

The Right Care: The institutional care model will always be an essential part of the health care system, but it is simply not the best and most cost-effective environment of care for many patients, particularly those with chronic medical conditions. The steady growth in Medicare-aged patients with chronic illnesses is placing unprecedented pressure on the financial stability and sustainability of the Medicare program.¹ The company believes that patients prefer care and treatment provided to them in their home. Initiatives such as patient-centered medical homes and Accountable Care Organizations (ACOs) can align incentives for providers to partner closely across all medical specialties and settings and have the potential to significantly alter the trajectory of rising health care costs.

The Right Place: The company believes that many medical professionals and patients prefer home health care over institutional care because home health care results in greater patient independence, increased patient responsibility and improved responsiveness to treatment. An article in the *New England Journal of Medicine*¹ notes that several engineering and electronics companies have developed products for monitoring health at home. Massachusetts General Hospital in Boston is experimenting with Internet video-conferencing to permit virtual visits from patients' homes.¹ Furthermore, health care professionals, public payors and private payors appear to favor homecare as a cost-effective, clinically appropriate alternative to facility-based care.

Technological advances have made medical equipment increasingly adaptable for use in the home. It has been estimated that over 70 percent of non-surgical and non-emergent treatment and care could be effectively administered in the patient's home. Current hospital procedures often allow for earlier patient discharge, thereby lengthening recuperation periods outside of the traditional institutional setting. In addition, continuing medical advances prolong the lives of adults and children, thus increasing the demand for home medical care equipment. Undoubtedly, as health care consumers the baby boomer population will have strong opinions and preferences about their treatment settings. Recent data from the *AARP Public Policy Institute* and a *Harris Interactive* poll suggest that 89 percent of people aged 50 and older want to receive medical services in their home as they age and 65 percent would prefer home care while recuperating from surgery.^{2, 3}

The Right Cost: The company believes that home health care and home medical equipment will play a significant role in reducing health care costs. The Agency of Healthcare Research & Quality, along with Johns Hopkins, examined extensively the benefits of Hospital at Home.⁴ Studies have shown that the Hospital at Home program results in lower length of stay, costs, readmission rates and complications than traditional inpatient care. In addition, surveys indicate higher levels of patient and family member satisfaction with homecare than with traditional care. Costs of care were 32 percent lower for Hospital at Home patients than for hospital inpatients, and ever critical readmission rates were 42 percent for Hospital at Home patients, compared with 87 percent of hospital inpatients.

¹ Landers SH. Why Health Care is Going Home. *N Engl J Med* 2010; 363 (18): 1690-1691

² Data obtained from AARP Public Policy Institute. www.aarp.org/research/ppi. Accessed 1-2012

³ Harris Interactive poll, November 2011. PR Newswire. www.prnewswire. Accessed 1-2012

⁴ AHRQ Innovations Exchange. Hospital at HomeSM Care Reduces Costs, Readmissions and Complications and Enhances Satisfaction for Elderly Patients. www.innovations.ahrq.gov Accessed 1-2012.

Invacare believes that homecare is the trifecta of healthcare: it is patient preferred, has better clinical outcomes and is more cost-effective than institutionalized care.¹ Homecare is going to be a significant driver of future growth for the medical care industry, as the unsustainable costs of institutional healthcare force governments to move to cost-effective venues of healthcare.

Europe/Asia/Pacific Market

The company believes that, while many of the market factors influencing demand in North America are also present in Europe and Asia/Pacific—aging of the population, technological trends and society’s acceptance of people with disabilities—each of the markets of Europe and in Asia/Pacific has distinctive characteristics. The health care industry tends to be more heavily socialized and, therefore, is more influenced by government regulation and fiscal policy. Variations in product specifications, regulatory approval processes, distribution requirements and reimbursement policies require the company to tailor its approach to the local market. Management believes that as the European markets develop more common product requirements and the company continues to refine its distribution channels, the company can more effectively penetrate these markets. Likewise, the company expects to increase its sales in the highly fragmented Australian, New Zealand and Asian markets as these markets, and the company’s distribution within them, develop.

Reimbursement

The company is directly affected by government regulation and reimbursement policies in virtually every country in which the company operates. In the United States, the growth of health care costs has increased at rates in excess of the rate of inflation and as a percentage of GDP for several decades. A number of efforts to control the federal deficit have impacted reimbursement levels for government sponsored health care programs, and private insurance companies and state Medicaid programs peg their reimbursement levels to Medicare.

Reimbursement guidelines in the home health care industry have a substantial impact on the nature and type of equipment an end-user can obtain and, thus, affect the product mix, pricing and payment patterns of the company’s customers who are medical equipment providers. The company believes its strong market position and technical expertise will allow it to respond to ongoing regulatory changes. However, the issues described above will likely continue to have significant impacts on the pricing of the company’s products.

GEOGRAPHICAL SEGMENTS AND PRODUCT CATEGORIES

North America

North America includes the following segments in the United States and Canada: North America/Home Medical Equipment (NA/HME), Invacare Supply Group (ISG) and Institutional Products Group (IPG).

NA/HME

This segment primarily includes: Mobility and Seating, Lifestyle and Respiratory Therapy product lines as discussed below.

¹ Doty, Pamela. “Cost-Effectiveness of Home and Community-Based Long-Term Care Services.” USHHS/ASPE Office of Disability, Aging and Long-Term Care Policy. June 2000: 10

MOBILITY AND SEATING PRODUCTS

Power Wheelchairs. Invacare manufactures a complete line of power wheelchairs for individuals who require independent powered mobility. The range includes products that can be significantly customized to meet an individual's specific needs, as well as products that are inherently versatile and meet a broad range of individual requirements. Center-wheel drive power wheelchair lines are marketed under the Invacare® TDX® brand name and include a full range of powered mobility products. The TDX line of power wheelchairs offers an unprecedented combination of power, stability and maneuverability. The Pronto® series power wheelchairs with SureStep® stability feature center-wheel drive performance for exceptional maneuverability and intuitive driving. Power tilt and recline systems are offered as well.

Custom Manual Wheelchairs. Invacare manufactures and markets a range of custom manual wheelchairs for everyday, sports and recreational uses. These lightweight chairs are marketed under the Invacare® and Invacare Top End® brand names. The chairs provide mobility for people with moderate to severe disabilities in their everyday activities as well as for use in various sports such as basketball, racing and tennis.

Personal Mobility. Invacare manufactures and distributes personal mobility products, including compact scooters available in three-wheel and four-wheel versions.

Seating and Positioning Products. Invacare markets seat cushions, back supports and accessories under three series: the Invacare® Absolute™ series provides simple seating solutions for comfort, fit and function; the Invacare® Matrx® Series includes versatile modular seating, providing optimal rehab solutions; and the Invacare® PinDot® series offers custom seating solutions personalized for the most challenged clients. The company also markets specialty seating products, pediatric seating and wheelchairs, as well as various standers that allow people to stand who otherwise would be unable.

LIFESTYLE PRODUCTS

Manual Wheelchairs. Invacare's manual wheelchairs are sold for use inside and outside the home, institutional settings or public places. Users include people who are chronically or temporarily disabled and require basic mobility performance with little or no frame modification. Examples of the company's manual wheelchair lines, which are marketed under the Invacare® brand name, include the 9000, the Tracer® and the Veranda™ wheelchairs. These wheelchairs are designed to accommodate the diverse capabilities and unique needs of the individual, from petite to bariatric sizes.

Personal Care. Invacare is principally a distributor of a full line of personal care products, including ambulatory aids such as crutches, canes, rollators, walkers, knee walkers and wheeled walkers. Also available are safety aids such as tub transfer benches, shower chairs and grab bars, and patient care products such as commodes and other toilet assist aids.

Homecare Beds. Invacare manufactures and distributes a wide variety of manual, semi-electric and fully-electric beds for home use under the Invacare® brand name. Homecare bed accessories include bedside rails, mattresses, overbed tables and trapeze bars. Also available are bariatric beds and accompanying accessories to serve the special needs of bariatric patients.

Pressure Relieving Mattresses. Invacare distributes a complete line of therapeutic pressure relieving overlays and mattress replacement systems for the prevention and treatment of pressure ulcers. The Invacare® Solace® and microAIR® brand names feature a broad range of pressure relieving foam mattresses or powered mattress replacements with alternating pressure, low-air-loss or rotational mattresses, which redistribute weight and assist with moisture management. These mattresses are designed to provide comfort, support and relief to those patients who are immobile or have limited mobility and spend a great deal of time in bed.

Patient Transport. Invacare manufactures and/or distributes products needed to assist in transferring individuals from surface to surface (bed to chair) or transporting from room to room. Designed for use in the home or institutional settings, these products include patient lifts and slings, and a series of mobile, multi-functional recliners.

RESPIRATORY THERAPY PRODUCTS

Non-Delivery Oxygen. Trends in the industry continue to be towards a non-delivery oxygen therapy model. The Invacare® HomeFill® Oxygen System is the standard in ambulatory oxygen technology. With more than 200,000 units in the field, it is the basis for a non-delivery model and allows patients to fill their own high-pressure cylinders from a concentrator in their home. Published industry data suggests a large portion of the costs associated with the provision of home oxygen therapy are directly associated with the delivery and delivery-related activities required to meet the ambulatory oxygen therapy needs of patients. The Invacare HomeFill® Oxygen System is the benchmark in non-delivery oxygen technologies,¹ allowing providers to virtually eliminate time-consuming and costly service calls associated with cylinder and/or liquid oxygen deliveries.

Rounding out Invacare's non-delivery respiratory offerings are the Invacare® SOLO₂® Transportable Concentrator and the Invacare® XPO₂™ portable concentrator, which are now both approved by the U.S. Federal Aviation Administration for use in flight. The SOLO₂® transportable concentrator offers continuous flow oxygen up to three liters per minute or pulse dose oxygen in settings 1-5. It is a flexible, reliable and clinically robust system that is easy to operate. The extremely portable XPO₂™ portable concentrator weighs just six pounds with pulse dose settings 1-5 to meet the needs of a broad range of patients.

Stationary Oxygen Concentrators. Invacare oxygen concentrators are manufactured under the Perfecto₂™ name and are available in five and 10 liter models. All Invacare stationary concentrators are designed to provide patients with durable equipment and reliable oxygen either at home or in a healthcare setting.

Aerosol Products and Oxygen Accessories. Invacare offers a family of aerosol compressors under the Stratos™ name. Invacare also has an expanded line of conservers and regulators to maximize the efficiency of oxygen cylinders.

OTHER PRODUCTS AND SERVICES

Invacare is the only company with a breadth of service offerings that includes the ability to assist providers in the collection of outstanding co-pays, rental capabilities, software and technology to streamline efficiencies, repair services and replacement parts.

Invacare Supply Group (ISG)

Invacare distributes numerous lines of branded medical supplies including ostomy, incontinence, diabetic, enteral, wound care and urology products as well as home medical equipment, including lifestyle products.

Institutional Products Group (IPG)

Invacare, operating as Invacare Continuing Care, Invacare Continuing Care Canada, Champion, Invacare Rentals and Dynamic Medical Systems, is a manufacturer and marketer of healthcare furnishings including beds, case goods and safe patient handling equipment for the long-term care markets, specialty clinical recliners for dialysis and oncology clinics and certain other home medical equipment and accessory products. In addition, this segment includes rental of certain home medical equipment through providers and institutions for the North American market.

Asia/Pacific

The company's Asia/Pacific operations consist of Invacare Australia and Invacare New Zealand, which distributes a wide range of home medical equipment including mobility and seating, lifestyle and respiratory therapy products to homecare and long-term care markets; and Dynamic Controls, a manufacturer of electronic operating components used in power wheelchairs, scooters, respiratory and other products; and Invacare New Zealand, a distributor of a wide range of home medical equipment.

¹ Morrison Informatics, Inc. A Comprehensive Cost Analysis of Medicare Home Oxygen Therapy. A Study for the American Association for Homecare. June 27, 2006

Europe

The company's European operations operate as a "common market" company with sales throughout Europe, the Middle East and Africa. The European operations currently sell a line of products providing room for growth as Invacare continues to broaden its product line offerings in line with the company's One Invacare strategy.

Most wheelchair products sold in Europe are designed to meet specific market requirements. The company manufactures and/or assembles both manual and power wheelchair products in the following countries: United Kingdom, France and Germany. Manual wheelchair products are also manufactured and/or assembled in Portugal, Switzerland and Sweden. Beds are assembled in Sweden and Portugal. Personal care products are manufactured in Germany and also purchased from China; and Dolomite products are principally purchased from China and Mexico. Respiratory therapy products such as concentrators and HomeFill® oxygen systems are imported from Invacare's U.S. or China operations.

For information relating to net sales by product group, see Business Segments in the Notes to the Consolidated Financial Statements included in this report.

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.

COMPETITION

North America and Asia/Pacific

The home medical equipment market is highly competitive and Invacare products face significant competition from other well-established manufacturers and distributors. The company believes that its success in increasing market share is dependent on providing value to the customer based on the quality, performance and price of the company's products, the range of products offered, the technical expertise of the sales force, the effectiveness of the company's distribution system, the strength of the dealer and distributor network and the availability of prompt and reliable service for its products. Various competitors, from time to time, have instituted price-cutting programs in an effort to gain market share and may do so again in the future.

Europe

As a result of the differences encountered in the European marketplace, competition generally varies from one country to another. The company typically encounters one or two strong competitors in each country, some of whom are becoming regional leaders in specific product lines.

MARKETING AND DISTRIBUTION

North America and Asia/Pacific

Invacare products are marketed in the United States and Asia/Pacific primarily to providers who in turn sell or rent these products directly to consumers within the non-acute care setting. Invacare's primary customers are home medical equipment (HME) providers. The company also employs a "pull-through" marketing strategy to medical professionals, including physical and occupational therapists, who refer their patients to HME providers to obtain specific types of home medical equipment.

Invacare's NA/HME sales and marketing organization consists primarily of a sales force which markets and sells Invacare® branded products to HME providers. Each member of Invacare's HME sales force functions as a

Territory Business Manager (TBM) and handles all product and service needs for an account, thus saving customers' valuable time. The TBM also provides training and servicing information to providers, as well as product literature, point-of-sale materials and other advertising and merchandising aids. In Canada, products are sold by a sales force and distributed through regional distribution centers to health care providers throughout Canada.

The Inside Sales Department provides increased sales coverage of smaller accounts and complements the efforts of the field sales force. Inside sales offers cost-effective sales coverage through a targeted telesales effort.

Invacare's Technical Education department offers educational programs that place emphasis on improving the productivity of repair technicians. The Service Referral Network includes numerous providers who honor the company's product warranties regardless of where the product was purchased. This network of servicing providers seeks to ensure that all consumers using Invacare products receive quality service and support that is consistent with the Invacare brand promise—*Making Life's Experiences Possible*TM.

Additionally, Invacare is the only manufacturer with a breadth of service offerings that includes the ability to assist providers in the collection of outstanding co-pays, rental capabilities, software and technology to streamline efficiencies, repair services and replacement parts. These tools and resources assist home and long-term care providers in optimizing resources and furthering their business success. With National Competitive Bidding (NCB) on the top of mind for durable medical equipment providers in the United States, Invacare began to package all of its product and service offerings into an action guide. The action guide is complemented with supporting materials and informational videos which can be downloaded at www.invacare.com/ncb. This approach positions Invacare as part of the solution for our customers in the declining reimbursement environment related to National Competitive Bidding.

The company markets products and services to the institutional care market through a specialized sales force, a national rentals and services organization and a team of clinical professionals who call on clinical decision makers. IPG products include beds and furnishings, patient handling, bathing, durable medical equipment and clinical therapies, such as therapeutic support surfaces and negative pressure wound therapy. IPG sales and marketing organizations consist of field sales representatives and independent representative agencies supported by a marketing group that generates awareness and demand at institutions for Invacare products and services. IPG also provides interior design services for nursing homes and assisted living facilities involved with renovation and new construction.

The company sells distributed products, primarily soft goods and disposable medical supplies, through ISG. ISG products include ostomy, incontinence, wound care and diabetic supplies, as well as 40 other categories of other soft goods and disposables. ISG markets its products through field account managers, inside telesales, a customer service department and the Internet. Additionally, ISG entered the long-term care market on a regional basis and markets to those nursing homes utilizing independent manufacturer representatives. ISG also markets a Home Delivery Program to home medical equipment providers through which ISG drop ships supplies in the provider's name to the customer's address. Thus, providers have no products to stock, no minimum order requirements and delivery is made within 24 to 48 hours nationwide. ISG also offers many customized marketing programs as well as business-to-consumer and business-to-business website development, designed to help its customers create awareness, grow companion and cash sales and assist in patient retention.

In 2011, the company continued its strategic advertising campaign in key business-to-business publications that reach Invacare's respective customers. The company contributed extensively to editorial coverage in trade publications concerning the products the company manufactures; and company representatives attended numerous trade shows and conferences on a national and regional basis in which Invacare products were displayed to providers, health care professionals, managed care professionals and consumers. "Yes, you can.®" continues to be Invacare's global tagline and is used in company ads and on the Invacare global website as it is

indicative of the company's "can do" attitude. In 2011, the company established its brand promise—*Making Life's Experiences Possible*[™]—and began to weave this into the marketing messages both internally and externally.

Invacare continues to improve performance and usability on *www.invacare.com*. Throughout 2011, the company also increased participation in online forums and engaged customers by utilizing social media tools, including a Facebook® page and YouTube® channel. These moves toward a more customer-centric approach allow the company to provide a customer interface that better addresses customer needs. During the year, the company launched a "Real Life" campaign dedicated to raising awareness of the everyday struggles and achievements of those living with disabilities, ailments or advancing age. People were invited to share their stories through the digital forums YouTube®, Facebook® and Flickr® in the hopes of educating people around the world about what is possible. The initiative was connected with a media campaign to demonstrate that life is made possible with Invacare products.

The company continues to generate greater consumer awareness of its products. This was evidenced by the company's sponsorship of a variety of wheelchair sporting events and support of various philanthropic causes benefiting the consumers of the company's products. The company continued its sponsorships of individual wheelchair athletes and teams, including several of the top-ranked male and female racers, hand cyclists, and wheelchair tennis players in the world. In 2011, the company began laying the groundwork to support these sponsored athletes and others in the 2012 Paralympic Games in London. The company also continued its support of disabled veterans through its sponsorship of the 31st National Veterans Wheelchair Games, the largest annual wheelchair sports event in the world. The games bring a competitive and recreational sports experience to military service veterans who use wheelchairs for their mobility needs due to spinal cord injury, neurological conditions or amputation.

Europe

The company's European operations consist primarily of manufacturing, marketing and distribution operations in Western Europe and export sales activities through local distributors elsewhere in the world. The company has a sales force and distribution centers in Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom, and sells through distributors elsewhere in Europe, the Middle East and in Africa. In markets where the company has its own sales force, product sales are typically made through dealers of medical equipment and, in certain markets, products are sold directly to government agencies. In 2011, the continued consolidation of big buying groups tending to develop their business on a European scale has continued. As a result, Invacare is generalizing the application of pan-European pricing policies.

Invacare continued its sponsorship of wheelchair tennis for a 17th consecutive year by becoming the title sponsor of the International Tennis Federation Doubles Masters event hosted in Amsterdam, Netherlands.

PRODUCT LIABILITY COSTS

The company's captive insurance company, Invatection Insurance Company, 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 aggregate losses per policy year 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 actuarial valuations at the time such valuations are conducted. Historical claims experience and other assumptions are taken into consideration 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 awards and settlements on claims. While actuarial analysis is used to help determine adequate reserves, the company is responsible for the determination and recording of adequate reserves in accordance with accepted loss reserving standards and practices.

PRODUCT DEVELOPMENT AND ENGINEERING

Invacare is committed to continuously improving upon and renewing its product offerings. Invacare's key globalization initiative is moving from a local product development approach to address local markets, to a primarily global product development approach, aimed at developing global product platforms. This strategy is designed to enable the company to leverage its new product development cycle and offer more innovative product solutions, while at the same time reducing complexity within the business and increasing cost-effectiveness. By streamlining its engineering and product development capabilities on a global basis, Invacare expects to further increase its industry leadership with the broadest range of product offerings in both homecare and continuing care medical device equipment. This will uniquely position the company in a changing healthcare environment.

The following are some of Invacare's notable new products and product updates for 2011:

Global Products

The patented design of the *Invacare® Glissando™ mattress* features two sections of high density foam and a layer that enables the top and bottom sections of the mattress to move independently as the bed is articulated. The innovative gliding feature takes comfort and safety to a new level, minimizing friction and shear that can contribute to costly pressure ulcers. This product, originally launched in Europe, is now being distributed globally.

The *Invacare® Top End® Reveal™ wheelchair* is an ultra light weight performance rigid wheelchair in the custom manual family of products. The Reveal wheelchair is a sleek, super lightweight chair that can easily be adjusted for a customized fit and optimal chair performance. It employs the latest material technology, 7005 series aluminum, for a smooth and energy-efficient ride. The wheelchair may be tailored to ensure the best wheel access and efficiency by easily adjusting the center of gravity, rear seat height, caster angle or back angle.

The new *Invacare® Matrix® MXI cushion* is a lightweight, carbon-fiber back with a very lightweight shell, exceptional durability and aesthetic appeal. It is contoured to provide stability to the hips and trunk, without restricting upper body mobility. It is available in three height options and has three hardware options to optimally fit the back to a wheelchair.

The *Invacare® Rio™ bath lift* features easy, tool-less installation, a modern, clean design with easy to clean surfaces with no slots or rips, self-release suction cups that can easily be removed, a stationary backrest and a compact, portable design.

The *Invacare® Etude® Plus* homecare bed, with its attractive aesthetics, flexible design and easy handling, is ideal for homecare use. All the hallmarks and proven features of the popular Etude bed concept, such as sturdiness, ease of handling and durability, are present in this new version. Etude™ Plus bed is easy to transport and install in the home.

The *Invacare® Leo™ 3-wheel scooter* offers a stable three-wheel base that provides a smooth, safe drive and handles varying surfaces with ease. Features include a full lighting package, built-in splash guards to protect the electronics and transaxle, comfortable seating that swivels and slides and flat free tires.

The *Invacare® Action® 1 low active wheelchair* is a modified version of the *Invacare® Tracer® SX5* low-active wheelchair that was adapted to suit the market requirements of Europe, Australia, New Zealand and China. It is one of the first low-active wheelchair platforms for Invacare.

The *Invacare® Myon™ Medium-Active wheelchair* is a comfortable, foldable, lightweight wheelchair that is suited for everyday use. Key features of this wheelchair are increased center of gravity positioning and increased seat depth and seat width. It is a shared platform with other models in the Myon™ family which means that therapists and dealers can maximize opportunities for modularity and personalized adjustments for the consumer. The Myon™ wheelchair is based off of a successful European platform and launched in Canada in 2011.

Local Products

In 2011 the *Invacare® Veranda™ low active manual wheelchair* product was expanded in the United States from the existing 18 inch seat width to include 16 inch and 20 inch widths. This further developed the market interest in the Veranda wheelchair as it was able to accommodate a larger group of consumers.

In the United States, the *Invacare® Top End® Crossfire™ T7A custom manual wheelchair* was introduced as 25% lighter compared to its predecessor, the *Invacare® Top End® Crossfire™ T6A*. This was accomplished by using a special 7005 aluminum to reduce the wall thickness and carving weight out of more than 20 components, while appreciating the need for durability and performance in the wheelchair. The ingenuity of the T7A wheelchair design is that it minimizes high-stress concentrations throughout the entire chair, making a lighter and stronger chair.

The European *Invacare® Kite® wheelchair* is an outdoor-indoor power wheelchair built to incorporate Invacare's new and patented wheelbase technology. This adaptable power chair comes equipped with Dual Swing Technology (D.S.T.)® feature; a suspension system engineered for driving comfort and traction. The Kite wheelchair is designed for active consumers who love outdoor activities yet who still require a compact chair in their everyday life.

The new *Invacare® Storm® 4 Max wheelchair* is the latest addition to the European Storm range of rear-wheel drive power wheelchair products, designed for heavier clients. It features a longer chassis to improve weight distribution yet still provide excellent maneuverability outdoors or inside. Extra long, sturdy armrests and leg rests will support the consumer, especially when re-positioning themselves within the seat.

The *Invacare® Spectra® XTR wheelchair* in Europe has been developed to combine powerful driving performance with comfort. High torque motors and a unique suspension design provide a smoother, easier ride. The interchangeable seating systems offer excellent flexibility and modularity, and coupled with a new easy to remove cable free battery system, the Spectra XTR wheelchair is extremely quick and simple to service.

The popular *Invacare® ScanBed® 755 bed* from Europe is now available in wider variants of 1050 mm and 1200 mm, proving even more comfort for taller or larger clients (weights of 200 kg). The ScanBed 755 Wide bed is attractive and modern, the streamlined design, it is intended to blend into any homecare or institutional environment.

MANUFACTURING AND SUPPLIERS

The company's objective is to continue to reduce costs and possibly consolidate facilities to maintain its high quality supply. The company seeks to achieve this objective through a strategic combination of Invacare manufacturing facilities, contract manufacturing facilities and key suppliers. The operational strategy further supports the marketing strategy with flexible providers of new and modified products that respond to the demands of the market.

The supply chain is focused on providing custom-configured, made-to-order manufactured products as well as high-quality, cost-effective solutions for standard stock products. As strategic choices are made globally, the company will continue to be focused on providing quick product delivery to the market as a specific competitive advantage to the marketing and sales teams in these regions.

The company continues to emphasize reducing the costs of its global manufacturing and distribution operations. Access to sourcing opportunities has been facilitated by the company's establishment of a test and design engineering facility in the company's Suzhou, China location. In Asia, Invacare manufactures products that serve regional market opportunities through the company's wholly-owned factory in Suzhou, Jiangsu Province, China. The Suzhou facility supplies products to the major geographic regions of the world served by Invacare: North America, Europe and Asia/Pacific.

Best practices in lean manufacturing are used throughout the company's operations to eliminate waste, shorten lead times, optimize inventory, improve productivity, drive quality and engage supply chain associates in the defining and implementation of needed change.

The company purchases raw materials, components, sub-assemblies and finished goods from a variety of suppliers around the world. The company's Asian sourcing and purchasing office has proven to be a significant asset to the company's supply chain through the identification, development and management of suppliers across Asia. Where appropriate, Invacare utilizes contracts with suppliers in all regions to increase the guarantees of delivery, cost, quality and responsiveness. In those situations where contracts are not advantageous, Invacare works to manage multiple sources of supply and relationships that provide increased flexibility to the supply chain.

North America

The company has focused its factories in North America on the production of powered mobility and custom manual wheelchairs and seating products, the fully integrated manufacture of homecare and institutional care beds, the final assembly of respiratory therapy products and the integrated component fabrication, painting and final assembly of a variety of standard manual wheelchairs and personal care products in North America. The company operates four major factories located in Elyria, Ohio; Sanford, Florida; London, Ontario and Reynosa, Mexico.

Asia/Pacific

The Asia/Pacific region is focused on improving its customer delivery effectiveness, expanding its reach into all customer channels in all major metropolitan centers and integrating its distribution operations across the region.

Europe

The company has eight manufacturing/assembly facilities spread throughout Europe with the capability to manufacture patient aid, wheelchair, powered mobility, bath safety, beds and patient transport products. The European manufacturing and logistics facilities are focused on accelerating opportunities for streamlining to gain productivity improvements in cost and quality over the next few years.

GOVERNMENT REGULATION

The company is directly affected by government regulation and reimbursement policies in virtually every country in which it operates. Government regulations and health care policy differ from country to country, and within some countries (most notably the U.S., European Union, Australia and Canada), from state to state or province to province. Changes in regulations and health care policy take place frequently and can impact the size, growth potential and profitability of products sold in each market.

In the U.S., the growth of health care costs has increased at rates in excess of the rate of inflation and as a percentage of GDP for several decades. A number of efforts to control the federal deficit have impacted reimbursement levels for government sponsored health care programs and private insurance companies often imitate changes made in federal programs. Reimbursement guidelines in the home health care industry have a substantial impact on the nature and type of equipment an end user can obtain and thus, affect the product mix, pricing and payment patterns of the company's customers who are the HME providers.

The company continues its pro-active efforts to shape public policy that impacts home and community-based, non-acute health care. The company is currently very active with federal legislation and regulatory policy makers. Invacare believes that these efforts give the company a competitive advantage in two ways. First, customers frequently express appreciation for the company's efforts on behalf of the entire industry. Second, sometimes the company has the ability to anticipate and plan for changes in public policy, unlike most other HME manufacturers who must react to change after it occurs.

The United States Food and Drug Administration (the "FDA") regulates the manufacture and sale of medical devices. Under such regulation, medical devices are classified as Class I, Class II or Class III devices. The company's principal products are designated as Class I or Class II devices. In general, Class I devices must comply with labeling and record keeping requirements and are subject to other general controls. In addition to general controls, certain Class II devices must comply with product design and manufacturing controls established by the FDA. Domestic and foreign manufacturers of medical devices distributed commercially in the U.S. are subject to periodic inspections by the FDA. Furthermore, state, local and foreign governments have adopted regulations relating to the design, manufacture and marketing of health care products.

In December 2011, the FDA requested that the company negotiate and agree to a consent decree of injunction at the company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio, the proposed terms of which would require the suspension of certain operations at those facilities until they are certified by the company and then determined by FDA to be in compliance with FDA quality system regulations. The company is in the process of negotiating with the FDA the terms of the consent decree. In addition, in December 2010, the company received a warning letter from the FDA related to quality system processes and procedures at the company's Sanford, Florida facility. The company has reorganized its quality assurance and regulatory affairs functions, including the addition of a senior vice president of quality assurance and regulatory affairs with experience in the medical device industry who will lead these functions. The company has developed and is executing a comprehensive quality systems remediation plan. See Item 1A. Risk Factors.

From time to time, the company may undertake voluntary recalls or field corrective actions of the company's products to correct product issues that may arise. These actions help to maintain ongoing customer relationships and enhance the company's reputation for adhering to high standards of quality and safety. None of the company's actions has been classified by the FDA as high risk. The company continues to strengthen its programs to better ensure compliance with applicable regulations and actively keeps abreast of proposed regulations, particularly those which could have a material adverse effect on the company.

The company occasionally sponsors clinical studies, usually involving its respiratory therapy products. These studies have historically been non-significant risk studies with human subjects. Such studies, their protocols, participant criteria and all results are registered in the Clinical Registry managed by the National Institutes of Health and available to the public via the Internet.

In regards to reimbursement in the United States, the Centers for Medicare and Medicaid Services (CMS) began implementation January 1, 2011 in the first nine metropolitan areas of the Medicare National Competitive Bidding (NCB) program. The company remains judicious in its extension of credit to customers and monitors whether other payors begin to model their payments on the NCB program. The company also closely watches state Medicaid budgets and how deficits may impact coverage and payments for home medical equipment and institutional care products.

The 2010 health care reform law in the U.S., the Patient Protection and Affordable Care Act, included a number of provisions affecting the HME industry. First, the health care law expanded Round 2 of the Medicare National Competitive Bidding program from 70 to 91 geographic bid areas. Round 2 is currently scheduled to go into effect July 2013. Second, Medicare now makes rental payments for 13 months before the beneficiary assumes ownership of the standard power wheelchair. Finally, the new health care law imposed a “productivity adjustment” to the annual fee schedules of all Medicare providers, including HME providers, that limits any annual cost of living increases applied to the fee schedules. The 2010 health care reform law also includes a new tax on U.S. sales of medical device manufacturers or importers, such as Invacare. The law will impose a yearly 2.3% sales-based excise tax on medical device manufacturers starting in 2013. The excise tax will be deductible by the manufacturer on its federal income tax return. The excise tax will not apply to medical devices that the Secretary of Treasury determines are generally purchased by the general public at retail for individual use. In January 2012, the Department of the Treasury issued guidance on the definition of a taxable medical device related to the excise tax. While the company believes a portion of its products will be exempt from the excise tax under the retail exemption, it is still in the process of fully analyzing the implications of the excise tax by the Department of the Treasury. The company intends to respond to the IRS and the Treasury Department to seek additional clarity on the proposed regulations.

Although reductions in Medicare payments are not beneficial to the homecare industry, the company believes it can still grow and thrive in this environment. No significant cost-of-living adjustments have been made over the last few years to the reimbursement and payment amounts permitted under Medicare with respect to the company’s products, but the company will continue to try to respond with improved productivity. In addition, the company’s respiratory therapy products (for example, the low-cost HomeFill® oxygen delivery system) can help offset the Medicare reimbursement cuts to the homecare provider. The company will continue to focus on developing products that help the provider improve profitability. Additionally, the company continues to focus on low-cost country sourcing and/or manufacturing to help ensure that the company is one of the lowest cost manufacturers and distributors to the homecare provider.

BACKLOG

The company generally manufactures most of its products to meet near-term demands by shipping from stock or by building to order based on the specialty nature of certain products. Therefore, the company does not have substantial backlog of orders of any particular product nor does it believe that backlog is a significant factor for its business.

EMPLOYEES

As of December 31, 2011, the company had approximately 6,200 employees.

FOREIGN OPERATIONS AND EXPORT SALES

The company also markets its products for export to other foreign countries. In 2011, the company had product sales in over 80 countries worldwide. For information relating to net sales, operating income and identifiable assets of the company’s foreign operations, see Business Segments in the Notes to the Consolidated Financial Statements.

AVAILABLE INFORMATION

The company files Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments thereto, as well as proxy statements and other documents with the Securities and Exchange Commission (SEC). The public may read and copy any material that the company files with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website, www.sec.gov, which contains all reports, proxy statements and other information filed by the company with the SEC.

Additionally, Invacare's filings with the SEC are available on or through the company's website, www.invacare.com, as soon as reasonably practicable after they are filed electronically with, or furnished to, the SEC. Copies of the company's filings also can be requested, free of charge, by writing to: Shareholder Relations Department, Invacare Corporation, One Invacare Way, P.O. Box 4028, Elyria, OH 44036-2125.

FORWARD-LOOKING INFORMATION

This Form 10-K contains forward-looking statements within the meaning of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Terms such as "will," "should," "could," "plan," "intend," "expect," "continue," "forecast," "believe," "anticipate" and "seek," as well as similar comments, are forward-looking in nature. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. 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: compliance costs, limitations on the production and/or marketing of the Company's products or other adverse effects of enforcement actions which could arise from the current, ongoing FDA investigations and negotiations on a proposed consent decree, and the risk that the Company and the FDA may not reach agreement on the terms of a consent decree; adverse changes in government and other third-party payor reimbursement levels and practices (such as, for example, the Medicare national competitive bidding program covering nine metropolitan areas beginning in 2011 and an additional 91 metropolitan areas beginning in July 2013), impacts of the 2010 U.S. health care reform legislation (such as, for example, the excise tax beginning in 2013 on certain medical devices, together with further regulations to be promulgated by the U.S. Secretary of Treasury, if adopted); extensive government regulation of the Company's products; legal actions, regulatory proceedings or governmental investigations; or the Company's failure to comply with regulatory requirements or receive regulatory clearance or approval for the Company's products or operations in the United States or abroad; product liability claims; the uncertain impact on the Company's providers, on the Company's suppliers and on the demand for the Company's products resulting from the current global economic conditions and general volatility in the credit and stock markets; loss of key health care providers; exchange rate and tax rate fluctuations; inability to design, manufacture, distribute and achieve market acceptance of new products with higher functionality and lower costs; consolidation of health care providers and the Company's competitors; lower cost imports; uncollectible accounts receivable; difficulties in implementing/upgrading Enterprise Resource Planning systems; risks inherent in managing and operating businesses in many different foreign jurisdictions; ineffective cost reduction and restructuring efforts; potential product recalls; natural disasters that lead to supply chain disruptions beyond the Company's control; possible adverse effects of being leveraged, which could impact the Company's ability to raise capital, limit its ability to react to changes in the economy or the health care industry or expose the Company to interest rate or event of default risks; increased freight costs; inadequate patents or other intellectual property protection; incorrect assumptions concerning demographic trends that impact the market for the Company's products; unanticipated changes in the Company's product sales mix; decreased availability or increased costs of materials which could increase the Company's costs of producing or acquiring the Company's products, including possible increases in commodity costs; the loss of the services of or inability to attract and maintain the Company's key management and personnel; inability to acquire strategic acquisition candidates because of limited financing alternatives;

increased security concerns and potential business interruption risks associated with political and/or social unrest in foreign countries where the Company's facilities or assets are located; provisions of Ohio law or in the Company's debt agreements, shareholder rights plan or charter documents that may prevent or delay a change in control, 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 1A. Risk Factors.

The company's business, operations and financial condition are subject to various risks and uncertainties. One should carefully consider the risks and uncertainties described below, together with all of the other information in this annual report on Form 10-K and in the company's other filings with the SEC, before making any investment decision with respect to the company's securities. The risks and uncertainties described below may not be the only ones the company faces. Additional risks and uncertainties not presently known by the company or that the company currently deems immaterial may also affect the company's business. If any of these known or unknown risks or uncertainties actually occur, develop or worsen, the company's business, financial condition, results of operations and future growth prospects could change substantially.

The company has received a proposed consent decree of injunction from the U.S. Food and Drug Administration ("FDA"), the effects of which could be costly to the company and could result in adverse consequences to the company's business.

The company received inspectional observations (known as FDA Form-483s) in connection with inspections in 2010 and 2011 of its corporate facility and its wheelchair manufacturing facility in Elyria, Ohio. In December 2011, the FDA requested that the company agree to a consent decree of injunction at the company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio, the proposed terms of which would require the suspension of certain operations at those facilities until they are certified by the company and then determined by the FDA to be in compliance with FDA quality system regulations. The company is in the process of negotiating with the FDA on the terms of the consent decree. While the final terms of the consent decree have not been determined, they will result in the suspension of a portion, which could be substantial, of the company's operations at its wheelchair manufacturing facility in Elyria, Ohio. The duration of any such suspension would be dependent upon the company's ability to certify its compliance with FDA regulations and then the FDA's determination of such compliance. A suspension of operations likely would have adverse effects on the company's business, including loss of revenues, harm to the company's reputation and customer dissatisfaction. The company also is devoting additional substantial financial, management and engineering resources to making the systemic improvements necessary to comply with the terms of the consent decree and maintain compliance in the future. The company's diversion of resources could impact other areas of the company's business, such as, for example, delays in new product development and cost reduction and globalization activities. All of these factors could result in material adverse consequences to the company's business, performance, prospects, value, financial condition, and results of operations.

The company is cooperating with the FDA in attempting to negotiate the final terms of the consent decree. However, there can be no assurance that negotiations will conclude with mutually agreeable terms of the consent decree which could lead the FDA to pursue judicial, legal or other enforcement action against the company. Such enforcement could include requiring restrictions on the manufacturing, sale or distribution of the company's products, product recalls, or the payment of fines or penalties, which enforcement could result in material adverse consequences to the company's business, performance, prospects, value, financial condition, and results of operations.

The company's failure to comply with medical device regulatory requirements or receive regulatory clearance or approval for the company's products or operations in the United States or abroad could adversely affect the company's business.

The company's medical devices are subject to extensive regulation in the United States by the FDA, and by similar governmental authorities in the foreign countries where the company does business. The FDA regulates virtually all aspects of a medical device's development, testing, manufacturing, labeling, promotion, distribution and marketing. In addition, the company is required to file reports with the FDA if the company's products cause, or contribute to, death or serious injury, or if they malfunction and would be likely to cause, or contribute to, death or serious injury if the malfunction were to recur. In general, unless an exemption applies, the company's mobility and respiratory therapy medical devices must receive a pre-marketing clearance from the FDA before they can be marketed in the United States. The FDA also regulates the export of medical devices to foreign countries. The company cannot be assured that any of the company's devices, to the extent required, will be cleared by the FDA through the pre-market clearance process or that the FDA will provide export certificates that are necessary to export certain of the company's products. In connection with the FDA warning letter received by the company in December 2010, the FDA has refused to provide new export certificates for company products until the matters covered in the warning letter are resolved.

Additionally, the company may be required to obtain pre-marketing clearances to market modifications to the company's existing products or market its existing products for new indications. The FDA requires device manufacturers themselves to make and document a determination as to whether or not a modification requires a new clearance; however, the FDA can review and disagree with a manufacturer's decision. The company has applied for, and received, a number of such clearances in the past. The company may not be successful in receiving clearances in the future or the FDA may not agree with the company's decisions not to seek clearances for any particular device modification. The FDA may require a clearance for any past or future modification or a new indication for the company's existing products. Such submissions may require the submission of additional data and may be time consuming and costly, and ultimately may not be cleared by the FDA.

If the FDA requires the company to obtain pre-marketing clearances for any modification to a previously cleared device, the company may be required to cease manufacturing and marketing the modified device or to recall the modified device until the company obtains FDA clearance and the company may be subject to significant regulatory fines or penalties. In addition, the FDA may not clear these submissions in a timely manner, if at all. The FDA also may change its policies, adopt additional regulations or revise existing regulations, each of which could prevent or delay pre-market clearance of the company's devices, or could impact the company's ability to market a device that was previously cleared. Any of the foregoing could adversely affect the company's business.

The company's failure to comply with the regulatory requirements of the FDA and other applicable U.S. regulatory requirements may subject the company to administrative or judicially imposed sanctions. These sanctions include warning letters, civil penalties, criminal penalties, injunctions, consent decrees, product seizure or detention, product recalls and total or partial suspension of production.

As part of its regulatory function, the FDA routinely inspects the sites of medical device companies, and in 2010 and 2011, the FDA inspected certain of the company's facilities. In December 2011, the FDA requested that the company agree to a consent decree of injunction at the company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio. See the previous Risk Factor regarding the FDA consent decree. In addition, in December 2010, the company received a warning letter from the FDA related to quality system processes and procedures at the company's Sanford, Florida facility. The company is taking these issues very seriously and has added resources to ensure it is addressing all of the FDA's concerns in a timely manner. However, the results of regulatory claims, proceedings, investigations, or litigation are difficult to predict. An unfavorable resolution or outcome of the FDA warning letter or consent decree of injunction could materially and adversely affect the company's business, financial condition, and results of operations.

In many of the foreign countries in which the company markets its products, the company is subject to extensive medical device regulations that are similar to those of the FDA, including those in Europe. The regulation of the company's products in Europe falls primarily within the European Economic Area, which consists of the 27 member states of the European Union, as well as Iceland, Liechtenstein and Norway. Only medical devices that comply with certain conformity requirements of the Medical Device Directive are allowed to be marketed within the European Economic Area. In addition, the national health or social security organizations of certain foreign countries, including those outside Europe, require the company's products to be qualified before they can be marketed in those countries. Failure to receive or delays in the receipt of, relevant foreign qualifications in the European Economic Area or other foreign countries could have a material adverse effect on the company's business.

Being in the health care industry, the company is subject to extensive government regulation, and if the company fails to comply with applicable health care laws or regulations, the company could suffer severe civil or criminal sanctions or be required to make significant changes to the company's operations that could have a material adverse effect on the company's results of operations.

The company sells its products principally to medical equipment and home health care providers who resell or rent those products to consumers. Many of those providers (the company's customers) are reimbursed for the Invacare products sold to their customers and patients by third-party payors, including Medicare and Medicaid. The U.S. federal government and the governments in the states and other countries in which the company operates regulate many aspects of the company's business. As a part of the health care industry, the company is subject to extensive government regulation, including numerous laws directed at preventing fraud and abuse and laws regulating reimbursement under various government programs. The marketing, invoicing, documenting and other practices of health care suppliers and manufacturers are all subject to government scrutiny. Government agencies periodically open investigations and obtain information from health care suppliers and manufacturers pursuant to the legal process. Violations of law or regulations can result in severe administrative, civil and criminal penalties and sanctions, including disqualification from Medicare and other reimbursement programs, which could have a material adverse effect on the company's business. While the company has established numerous policies and procedures to address compliance with these laws and regulations, there can be no assurance that the company's efforts will be effective to prevent a material adverse effect on the company's business from noncompliance issues.

The company received a subpoena in 2006 from the U.S. Department of Justice seeking documents relating to three long-standing and well-known promotional and rebate programs maintained by the company. The company believes that the programs described in the subpoena are in compliance with all applicable laws and the company has cooperated fully with the government investigation. As of February 2012, the subpoena remains pending. See also the previous two Risk Factors regarding the FDA's regulatory enforcement actions.

Health care is an area of rapid regulatory change. Changes in the law and new interpretations of existing laws may affect permissible activities, the costs associated with doing business, and reimbursement amounts paid by federal, state and other third-party payors. The company cannot predict the future of federal, state and local regulation or legislation, including Medicare and Medicaid statutes and regulations, or possible changes in health care policies in any country in which the company conducts business. Future legislation and regulatory changes could have a material adverse effect on the company's business.

Changes in government and other third-party payor reimbursement levels and practices have negatively impacted and could continue to negatively impact the company's revenues and profitability.

The company's products are sold primarily through a network of medical equipment and home health care providers, extended care facilities, hospital and HMO-based stores and other providers. In addition, the company sells directly to various government providers throughout the world. Many of these providers (the company's customers) are reimbursed for the products and services provided to their customers and patients by third-party

payors, such as government programs, including Medicare and Medicaid, private insurance plans and managed care programs. Most of these programs set maximum reimbursement levels for some of the products sold by the company in the United States and abroad. If third-party payors deny coverage, make the reimbursement process or documentation requirements more uncertain or further reduce their current levels of reimbursement (i.e., beyond the reductions described below), or if the company's costs of production do not decrease to keep pace with decreases in reimbursement levels, the company may be unable to sell the affected product(s) through its distribution channels on a profitable basis.

Reduced government reimbursement levels and changes in reimbursement policies have in the past added, and could continue to add, significant pressure to the company's revenues and profitability. For example, CMS introduced national competitive bidding for nine metropolitan areas in the U.S., which went into effect in January 2011. The reimbursement rates for nine product categories were reduced by an average of 32 percent in these nine metropolitan areas. CMS is currently scheduled to expand the NCB program to an additional 91 metropolitan areas in July 2013.

Similar trends and concerns are occurring in state Medicaid programs. These recent changes to reimbursement policies, and any additional unfavorable reimbursement policies or budgetary cuts that may be adopted in the future, could adversely affect the demand for the company's products by customers who depend on reimbursement from the government-funded programs. The percentage of the company's overall sales that are dependent on Medicare or other insurance programs may increase as the portion of the U.S. population over age 65 continues to grow, making the company more vulnerable to reimbursement level reductions by these organizations. Reduced government reimbursement levels also could result in reduced private payor reimbursement levels because some third-party payors index their reimbursement schedules to Medicare fee schedules. Reductions in reimbursement levels also may affect the profitability of the company's customers and ultimately force some customers without strong financial resources to go out of business. The reimbursement reductions may prove to be so dramatic that some of the company's customers may not be able to adapt quickly enough to survive. The company is the industry's largest creditor and an increase in bankruptcies in the company's customer base could have an adverse effect on the company's financial results.

Outside the United States, reimbursement systems vary significantly by country. Many foreign markets have government-managed health care systems that govern reimbursement for new home health care products. The ability of hospitals and other providers supported by such systems to purchase the company's products is dependent, in part, upon public budgetary constraints. Various countries have tightened reimbursement rates and other countries may follow. If adequate levels of reimbursement from third-party payors outside of the United States are not obtained, international sales of the company's products may decline, which could adversely affect the company's net sales.

The impact of all the changes discussed above is uncertain and could have a material adverse effect on the company's business, financial condition and results of operations.

The adoption of healthcare reform and other legislative developments in the United States may adversely affect the company's business, results of operations and/or financial condition.

In March 2010, significant reforms to the healthcare system were adopted as law in the United States under the Patient Protection and Affordable Care Act. The law includes provisions that, among other things, reduce and/or limit Medicare reimbursement, require all individuals to have health insurance (with limited exceptions) and impose new and/or increased taxes. Specifically, the law imposes a 2.3% sales-based excise tax on U.S. sales by manufacturers of most medical devices beginning in 2013. The excise tax will be deductible by the manufacturer on its federal income tax return. The excise tax will not apply to medical devices that the Secretary of Treasury determines are generally purchased by the general public at retail for individual use. In January 2012, the Department of the Treasury issued guidance on the definition of a taxable medical device related to the excise tax. While the company believes a portion of its products will be exempt from the excise tax under the retail

exemption, it is still in the process of fully analyzing the implications of the excise tax by the Department of the Treasury. The company intends to respond to the IRS and the Treasury Department to seek additional clarity on the proposed regulations. Various healthcare reform proposals have also emerged at the state level. The new law and these proposals could impact the demand for the company's products or the prices at which the company sells its products. In addition, the excise tax may increase the company's cost of doing business. The impact of this law and these proposals could have a material adverse effect on the company's business, results of operations and/or financial condition.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") enacted in 2010 institutes a wide range of reforms, some of which may impact the company. Among other things, the Act contains significant corporate governance and executive compensation-related provisions that authorize or require the SEC to adopt additional rules and regulations in these areas, such as shareholder "say on pay" voting and proxy access. The impact of these provisions on the company's business is uncertain. The Act also provides for new statutory and regulatory requirements for derivative transactions, including foreign exchange and interest rate hedging transactions. Certain transactions will be required to be cleared on exchanges, and cash collateral will be required for those transactions. While the Act provides for a potential exception from these clearing and cash collateral requirements for commercial end-users such as the company, the exception is subject to future rule making and interpretation by regulatory authorities. The company enters into foreign exchange contracts, interest rate swaps and foreign currency forward contracts from time to time to manage its exposure to commodity price risk, foreign currency exchange risk and interest rate risk. If, in the future, the company is required to provide cash collateral for its hedging transactions, it could reduce the company's ability to execute strategic hedges. In addition, the contractual counterparties in hedging arrangements will be required to comply with the Act's new requirements, which could ultimately result in increased costs of these arrangements to customers such as the company.

If the company's cost reduction efforts are ineffective, the company's revenues and profitability could be negatively impacted.

In response to reimbursement reductions and competitive pricing pressures, the company continues to initiate numerous cost reduction and organizational efficiency efforts, including globalization of its product lines. The company may not be successful in achieving the operating efficiencies and operating cost reductions expected from these efforts, and the company may experience business disruptions associated with the restructuring and cost reduction activities. These efforts may not produce the full efficiency and cost reduction benefits that the company expects. Further, these benefits may be realized later than expected, and the costs of implementing these measures may be greater than anticipated. If these measures are not successful, the company may undertake additional cost reduction efforts, which could result in future charges. Moreover, the company's ability to achieve other strategic goals and business plans and the company's financial performance may be adversely affected and the company could experience business disruptions with customers and elsewhere if the company's cost reduction and restructuring efforts prove ineffective.

The company is subject to risks arising out of the continuing global economic uncertainty.

As is the case for many companies operating in the current economic environment, the company is exposed to a number of risks. These risks include the possibility that: one or more of the lenders participating in the company's revolving credit facility may be unable or unwilling to extend credit to the company; the third party company that provides lease financing to the company's customers may refuse or be unable to fulfill its financing obligations or extend credit to the company's customers; one or more customers of the company may be unable to pay for purchases of the company's products on a timely basis; one or more key suppliers may be unable or unwilling to provide critical goods or services to the company; and one or more of the counterparties to the company's hedging arrangements may be unable to fulfill its obligations to the company. Although the company has taken actions in an effort to mitigate these risks, during periods of economic downturn, the company's exposure to these risks increases. Events of this nature may adversely affect the company's liquidity or sales and revenues, and therefore have an adverse effect on the company's business and results of operations.

If the company's information technology systems fail, or if the company experiences an interruption in the operation of its information technology systems, then the company's business, financial condition and results of operations could be materially adversely affected.

The company relies upon the capacity, reliability and security of its information technology, or IT, systems across all of its major business functions, including research and development, manufacturing, sales, financial and administrative functions. Since the company is geographically diverse, has various business segments and has grown over the years through various acquisitions, it also has many disparate versions of IT systems across its organization. As a result of these disparate IT systems, the company faces the challenge of supporting older systems and implementing upgrades when necessary. The failure of the company's information technology systems, whether resulting from the disparate versions of IT systems across its various segments, business functions or otherwise, its inability to successfully maintain, enhance and/or replace its information technology systems, or any compromise of the integrity or security of the data that is generated from information technology systems, or any shortcomings in the company's disaster recovery platforms, could adversely affect the company's results of operations, disrupt business and make the company unable, or severely limit the company's ability to respond to customer demands. In addition, the company's information technology systems are vulnerable to damage or interruption from:

- earthquake, fire, flood and other natural disasters;
- employee or other theft;
- attacks by computer viruses or hackers;
- power outages; and
- computer systems, internet, telecommunications or data network failure.

Any interruption of the company's information technology systems could result in decreased revenue, increased expenses, increased capital expenditures, customer dissatisfaction and potential lawsuits, any of which could have a material adverse effect on the company's results of operations or financial condition.

The industry in which the company operates is highly competitive and some of the company's competitors may have greater financial resources than the company does.

The home medical equipment market is highly competitive and the company's products face significant competition from other well-established manufacturers. Reduced government reimbursement levels and changes in reimbursement policies, such as the National Competitive Bidding program implemented by CMS, may drive competitors, particularly those that have greater financial resources than the company's to offer drastically reduced pricing terms in an effort to secure government acceptance of their products and pricing. Any increase in competition may cause the company to lose market share or compel the company to reduce prices to remain competitive, which could have a material adverse effect on the company's results of operations.

The consolidation of health care customers and the company's competitors could result in a loss of customers or in additional competitive pricing pressures.

Numerous initiatives and reforms instituted by legislators, regulators and third-party payors to reduce home medical equipment costs have resulted in a consolidation trend in the home medical equipment industry as well as among the company's customers, including home health care providers. In the past, some of the company's competitors have been lowering the purchase prices of their products in an effort to attract customers. This in turn has resulted in greater pricing pressures, including pressure to offer customers more competitive pricing terms, and the exclusion of certain suppliers from important market segments as group purchasing organizations, independent delivery networks and large single accounts continue to consolidate purchasing decisions for some of the company's customers. Further consolidation could result in a loss of customers, increased collectability risks, or increased competitive pricing pressures.

The company's products are subject to recalls, which could harm the company's reputation and business.

The company is subject to ongoing medical device reporting regulations that require the company to report to the FDA or similar governmental authorities in other countries if the company's products cause, or contribute to, death or serious injury, or if they malfunction and would be likely to cause, or contribute to, death or serious injury if the malfunction were to recur. The FDA and similar governmental authorities in other countries could force the company to do a field correction or recall the company's products in the event of material deficiencies or defects in design or manufacturing. In addition, in light of a deficiency, defect in design or manufacturing or defect in labeling, the company may voluntarily elect to recall or correct the company's products. A government mandated or voluntary recall/field correction by the company could occur as a result of component failures, manufacturing errors or design defects, including defects in labeling. Any recall/field correction would divert managerial and financial resources and could harm the company's reputation with its customers, product users and the health care professionals that use, prescribe and recommend the company's products. The company could have product recalls or field actions that result in significant costs to the company in the future, and these actions could have a material adverse effect on the company's business.

The company's revenues and profits are subject to exchange rate and interest rate fluctuations that could adversely affect its results of operations or financial position.

Currency exchange rates are subject to fluctuation due to, among other things, changes in local, regional or global economic conditions, the imposition of currency exchange restrictions and unexpected changes in regulatory or taxation environments. The functional currency of the company's subsidiaries outside the United States is the predominant currency used by the subsidiaries to transact business. Through the company's international operations, the company is exposed to foreign currency fluctuations, and changes in exchange rates can have a significant impact on net sales and elements of cost. The company conducts a significant number of transactions in currencies other than the U.S. dollar. In addition, because certain of the company's costs and revenues are denominated in other currencies, the company's results of operations are exposed to foreign exchange rate fluctuations as the financial results of those operations are translated from local currency into U.S. dollars upon consolidation.

The company uses forward contracts primarily to help reduce its exposure to transactional exchange rate risk. Despite the company's efforts to mitigate these risks, however, the company's revenues and profitability may be materially adversely affected by exchange rate fluctuations. The company does not have a meaningful way to hedge translation.

The company also is exposed to market risk through various financial instruments, including fixed rate and floating rate debt instruments. The company does at times use interest swap agreements to mitigate its exposure to interest rate fluctuations, but those efforts may not adequately protect the company from significant interest rate risks. Interest on much of the company's debt is based on the London Interbank Offered Rate (LIBOR), which is currently historically low. Increases in LIBOR could have a significant impact on the company's reported interest expense.

The company is subject to certain risks inherent in managing and operating businesses in many different foreign jurisdictions.

The company has significant international operations, including operations in Australia, Canada, New Zealand, Mexico, Asia (primarily China) and Europe. There are risks inherent in operating and selling products internationally, including:

- different regulatory environments and reimbursement systems;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- foreign customers who may have longer payment cycles than customers in the United States;

- tax rates in certain foreign countries that may exceed those in the United States and foreign earnings that may be subject to withholding requirements;
- the imposition of tariffs, exchange controls or other trade restrictions including transfer pricing restrictions when products produced in one country are sold to an affiliated entity in another country;
- general economic and political conditions in countries where the company operates or where end users of the company's products reside;
- security concerns and potential business interruption risks associated with political and/or social unrest in foreign countries where the company's facilities or assets are located;
- difficulties associated with managing a large organization spread throughout various countries;
- difficulties in enforcing intellectual property rights and weaker intellectual property rights protection in some countries;
- required compliance with a variety of foreign laws and regulations; and
- differing consumer product preferences.

The factors described above also could disrupt the company's product manufacturing/assembling and key suppliers located outside of the United States. For example, the company increasingly relies on its manufacturing and sourcing operations in China for the production of its products. Disruptions in the company's foreign operations, particularly those in China or Mexico, may impact the company's revenues and profitability.

The company may be adversely affected by legal actions or regulatory proceedings.

The company may be subject to claims, litigation or other liabilities as a result of injuries caused by allegedly defective products, acquisitions the company has completed or in the intellectual property area. Any such claims or litigation against the company, regardless of the merits, could result in substantial costs and could harm the company's business or its reputation. Intellectual property litigation or claims also could require the company to:

- cease manufacturing and selling any of the company's products that incorporate the challenged intellectual property;
- obtain a license from the holder of the infringed intellectual property right alleged to have been infringed, which license may not be available on commercially reasonable terms, if at all; or
- redesign or rename the company's products, which may not be possible, and could be costly and time consuming and could result in lost revenues and market share.

The results of legal proceedings are difficult to predict and the company cannot provide any assurance that an action or proceeding will not be commenced against the company, or that the company will prevail in any such action or proceeding, such as, for example, the two shareholder derivative lawsuits described under "Legal Proceedings." An unfavorable resolution of any legal action or proceeding could materially and adversely affect the company's business, results of operations, liquidity or financial condition or its reputation.

Product liability claims may harm the company's business, particularly if the number of claims increases significantly or the company's product liability insurance proves inadequate.

The manufacture and sale of home health care devices and related products exposes the company to a significant risk of product liability claims. From time to time, the company has been, and is currently, subject to a number of product liability claims alleging that the use of the company's products has resulted in serious injury or even death.

Even if the company is successful in defending against any liability claims, these claims could nevertheless distract the company's management, result in substantial costs, harm the company's reputation, adversely affect the sales of all the company's products and otherwise harm the company's business. If there is a significant increase in the number of product liability claims, the company's business could be adversely affected.

The company's captive insurance company, Invatection Insurance Company, 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 aggregate losses per policy year 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 the company'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 actuarial valuations at the time such valuations are conducted. Historical claims experience and other assumptions are taken into consideration 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 awards and settlements on claims. While actuarial analysis is used to help determine adequate reserves, the company is responsible for the determination and recording of adequate reserves in accordance with accepted loss reserving standards and practices.

In addition, as a result of a product liability claim or if the company's products are alleged to be defective, the company may have to recall some of its products, may have to incur significant costs or may suffer harm to its business reputation.

Decreased availability or increased costs of raw materials could increase the company's costs of producing its products.

The company purchases raw materials, fabricated components, some finished goods and services from a variety of suppliers. Raw materials such as plastics, steel, and aluminum are considered key raw materials. Where appropriate, the company employs contracts with its suppliers, both domestic and international. In those situations in which contracts are not advantageous, the company believes that its relationships with its suppliers are satisfactory and that alternative sources of supply are readily available. From time to time, however, the prices and availability of these raw materials fluctuate due to global market demands, which could impair the company's ability to procure necessary materials, or increase the cost of these materials. Inflationary and other increases in costs of these raw materials have occurred in the past and may recur from time to time. In addition, freight costs associated with shipping and receiving product and sales are impacted by fluctuations in the cost of oil and gas. A reduction in the supply or increase in the cost of those raw materials could impact the company's ability to manufacture its products and could increase the cost of production. As an example, inflation in China has in the past and will probably in the future increase costs and an appreciation of the Yuan or an increase in labor rates could have an unfavorable impact on the cost of key components and some finished goods. Demand in China and other developing countries for raw materials may result in increases in the cost of key commodities and could have a negative impact on the profits of the company if these increases cannot be passed onto the company's customers.

Lower cost imports could negatively impact the company's profitability.

Competition from lower cost imports sourced from Asia may negatively impact the company's sales volumes. In the past, competition from certain of these products has caused the company to lower its prices, cutting into the company's profit margins and reducing the company's overall profitability.

The company's success depends on the company's ability to design, manufacture, distribute and achieve market acceptance of new products with higher functionality and lower costs.

The company sells products to customers primarily in markets that are characterized by technological change, product innovation and evolving industry standards, yet in which product price is increasingly a primary consideration in customers' purchasing decisions. The company is continually engaged in product development and improvement programs. The company must continue to design and improve innovative products, effectively distribute and achieve market acceptance of those products, and reduce the costs of producing the company's products, in order to compete successfully with the company's competitors. If competitors' product development capabilities become more effective than the company's product development capabilities, if competitors' new or improved products are accepted by the market before the company's products or if competitors are able to produce products at a lower cost and thus offer products for sale at a lower price, the company's business, financial condition and results of operation could be adversely affected.

Failure to properly manage the distribution of the company's products may result in reduced revenue and profitability.

The company uses a variety of distribution methods to sell its products and services. The company's distribution network includes various customers such as specialized home health care providers and extended care facilities, hospital and HMO-based stores, home health agencies, mass merchandisers and the Internet. As the company reaches more customers worldwide through an increasing number of new distribution channels, inventory management becomes more challenging. If the company is unable to properly manage and balance inventory levels and potential conflicts among these various distribution methods, its operating results could be harmed.

The company's business strategy relies on certain assumptions concerning demographic trends that impact the market for its products. If these assumptions prove to be incorrect, demand for the company's products may be lower than expected.

The company's ability to achieve its business objectives is subject to a variety of factors, including the relative increase in the aging of the general population. The company believes that these trends will increase the need for its products. The projected demand for the company's products could materially differ from actual demand if the company's assumptions regarding these trends and acceptance of its products by health care professionals and patients prove to be incorrect or do not materialize. If the company's assumptions regarding these factors prove to be incorrect, the company may not be able to successfully implement the company's business strategy, which could adversely affect the company's results of operations. In addition, the perceived benefits of these trends may be offset by competitive or business factors, such as the introduction of new products by the company's competitors or the emergence of other countervailing trends, including lower reimbursement and pricing.

The company's debt may limit the company's flexibility in operating its business.

The company has substantial outstanding indebtedness. This indebtedness requires a significant portion of cash flow from operations to be dedicated to the payment of principal and/or interest, thus reducing the company's ability to use its cash flow to fund its operations, capital expenditures and future business opportunities. The company's indebtedness also may limit the company's ability to react to changes in the economy or its industry.

The company's revolving credit facility contains various covenants that limit the company's ability to engage in specified types of transactions. In addition, under the company's revolving credit facility, it is required to satisfy and maintain specified financial ratios and other financial condition tests. These covenants could materially and adversely affect the company's ability to finance its future operations or capital needs. Furthermore, they may restrict the company's ability to conduct and expand its business and pursue its business strategies. The company's ability to meet these financial ratios and financial condition tests can be affected by events beyond its control, including changes in general economic and business conditions, or they can be affected by government enforcement actions, such as, for example, adverse impacts from the consent decree of injunction required by the FDA.

Armed hostilities, terrorism, natural disasters, political unrest or public health issues could harm the company's business.

Armed hostilities, terrorism, natural disasters, political unrest or public health issues, whether in the U.S. or abroad, could cause damage or disruption to the company, its suppliers or customers, or could create political or economic instability, any of which could harm the company's business. These events could cause a decrease in demand for the company's products, could make it difficult or impossible for the company to deliver products or for the company's suppliers to deliver materials, and could create delays and inefficiencies in the company's manufacturing operations.

The company's Chairman of the Board of Directors and certain members of management own shares representing a substantial percentage of the company's voting power and their interests may differ from other shareholders.

The company has two classes of common stock. The Common Shares have one vote per share and the Class B Common Shares have 10 votes per share. As of January 1, 2012, the company's chairman, Mr. A. Malachi Mixon, III, and certain members of management beneficially owned (including the right to acquire) approximately 31% of the combined voting power of the company's Common Shares and Class B Common Shares and could influence the outcome of a corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of the company's assets. They also will have the power to influence or make more difficult a change in control. The interests of Mr. Mixon and his relatives may differ from the interests of the other shareholders and they may take actions with which some shareholders may disagree.

The company's operating results and financial condition could be adversely affected if the company becomes involved in litigation regarding its patents or other intellectual property rights.

Litigation involving patents and other intellectual property rights is common in the company's industry, and other companies within the company's industry have used intellectual property litigation in an attempt to gain a competitive advantage. The company in the past has been, and in the future may become, a party to lawsuits involving patents or other intellectual property. If the company loses any of these proceedings, a court or a similar foreign governing body could invalidate or render unenforceable the company's owned or licensed patents, require the company to pay significant damages, seek licenses and/or pay ongoing royalties to third parties, require the company to redesign its products, or prevent the company from manufacturing, using or selling its products, any of which would have an adverse effect on the company's results of operations and financial condition. The company in the past has brought, and may in the future also bring, actions against third parties for infringement of the company's intellectual property rights. The company may not succeed in these actions. The defense and prosecution of intellectual property suits, proceedings before the U.S. Patent and Trademark Office or its foreign equivalents and related legal and administrative proceedings are both costly and time consuming. Protracted litigation to defend or prosecute the company's intellectual property rights could seriously detract from the time the company's management would otherwise devote to running its business. Intellectual property litigation relating to the company's products could cause its customers or potential customers to defer or limit their purchase or use of the affected products until resolution of the litigation.

If the company is unable to protect its intellectual property rights or resolve successfully claims of infringement brought against it, the company's product sales and business could be affected adversely.

The company's business depends in part on its ability to establish, protect, safeguard and enforce its intellectual property and contractual rights and to defend against any claims of infringement, both of which involve complex legal, factual and marketplace uncertainties. The company relies on a combination of patent, trade secret, copyright and trademark law and security measures to protect its intellectual property, but effective intellectual property protection may not be available in all places that the company sells its products or services, particularly in certain foreign jurisdictions. In addition, the company uses nondisclosure, confidentiality agreements and invention assignment agreements with many of its employees, and nondisclosure and confidentiality agreements with certain third parties, in an effort to help protect its proprietary technology and know-how. If these agreements are breached or the company's intellectual property is otherwise misappropriated, the company may have to rely on litigation to enforce its intellectual property rights. If any of these measures are unsuccessful in protecting the company's intellectual property, the company's business may be affected adversely.

In addition, the company may face claims of infringement that could interfere with its ability to use technology or other intellectual property rights that are material to the company's business operations. In the event that a claim of infringement against the company is successful, the company may be required to pay royalties or license fees to continue to use technology or other intellectual property rights that the company was using, or the company may be unable to obtain necessary licenses from third parties at a reasonable cost or within a reasonable time. If the company is unable to obtain licenses on reasonable terms, it may be forced to cease selling or using the products that incorporate the challenged intellectual property, or to redesign or, in the case of trademark claims, rename its products to avoid infringing the intellectual property rights of third parties, which may not be possible, or if possible, may be time-consuming. Any litigation of this type, whether successful or unsuccessful, could result in substantial costs to the company and adversely affect the company's business and financial condition.

The company also holds patent and other intellectual property licenses from third parties for some of its products and on technologies that are necessary in the design and manufacture of some of the company's products. The loss of these licenses could prevent the company from, or could cause additional disruption or expense in, manufacturing, marketing and selling these products, which could harm the company's business.

The company's research and development and manufacturing processes are subject to federal, state, local and foreign environmental requirements.

The company's research and development and manufacturing processes are subject to federal, state, local and foreign environmental requirements, including requirements governing the discharge of pollutants into the air or water, the use, handling, storage and disposal of hazardous substances and the responsibility to investigate and clean up contaminated sites. Under some of these laws, the company also could be held responsible for costs relating to any contamination at the company's past or present facilities and at third-party waste disposal sites. These could include costs relating to contamination that did not result from any violation of law and, in some circumstances, contamination that the company did not cause. The company may incur significant expenses relating to the failure to comply with environmental laws. The enactment of stricter laws or regulations, the stricter interpretation of existing laws and regulations or the requirement to undertake the investigation or remediation of currently unknown environmental contamination at the company's own or third party sites may require the company to make additional expenditures, which could be material.

Since the company's ability to obtain further financing may be limited, the company may be unable to acquire strategic acquisition candidates.

The company's plans typically include identifying, acquiring, and integrating other strategic businesses. There are various reasons for the company to acquire businesses or product lines, including providing new

products or new manufacturing and service capabilities, to add new customers, to increase penetration with existing customers, and to expand into new geographic markets. The company's ability to successfully grow through acquisitions depends upon its ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. The costs of acquiring other businesses could increase if competition for acquisition candidates increases. Further, the provisions of the company's existing credit facility impose limitations regarding acquisitions, which could prevent significant acquisitions, without entering into amendments with regard to those provisions. If the company is unable to obtain the necessary financing, it may miss opportunities to grow its business through strategic acquisitions.

Additionally, the success of the company's acquisition strategy is subject to other risks and costs, including the following:

- the company's ability to realize operating efficiencies, synergies, or other benefits expected from an acquisition, and possible delays in realizing the benefits of the acquired company or products;
- diversion of management's time and attention from other business concerns;
- difficulties in retaining key employees of the acquired businesses who are necessary to manage these businesses;
- difficulties in maintaining uniform standards, controls, procedures and policies throughout acquired companies;
- adverse effects on existing business relationships with suppliers or customers;
- the risks associated with the assumption of contingent or undisclosed liabilities of acquisition targets; and
- ability to generate future cash flows or the availability of financing.

In addition, an acquisition could materially impair the company's operating results by causing the company to incur debt or requiring the amortization of acquisition expenses and acquired assets.

The company's reported results may be adversely affected by increases in reserves for uncollectible accounts receivable.

The company has a large balance of accounts receivable and has established a reserve for the portion of such accounts receivable that the company estimates will not be collected because of the company's customers' non-payment. The specific reserve is based on historical trends and current relationships with the company's customers and providers. Changes in the company's collection rates can result from a number of factors, including turnover in personnel, changes in the payment policies or practices of payors, changes in industry rates or pace of reimbursement or changes in the financial health of the company's customers. As a result of past changes in Medicare reimbursement regulations, specifically changes to the qualification processes and reimbursement levels of consumer power wheelchairs and custom power wheelchairs, the business viability of several of the company's customers had become questionable and several have failed. Further, as National Competitive Bidding is implemented in additional areas, the number of start-up or new providers who have three-year contracted pricing will increase. The company's reserve for uncollectible receivables has fluctuated in the past and will continue to fluctuate in the future. Changes in rates of collection, even if they are small in absolute terms, could require the company to increase its reserve for uncollectible receivables beyond its current level. The company has reviewed the accounts receivables, including those receivables financed through DLL, associated with many of its customers that are most exposed to these issues. If the business viability of certain of the company's customers deteriorates or if the company's credit policies are ineffective in reducing the company's exposures to credit risk, additional increases in reserves for uncollectible accounts may be necessary, which could adversely affect the company's financial results.

The loss of the services of the company's key management and personnel could adversely affect its ability to operate the company's business.

The company's future success will depend, in part, upon the continued service of key managerial, research and development staff and sales and technical personnel. In addition, the company's future success will depend on its ability to continue to attract and retain other highly qualified personnel, including personnel experienced in quality systems and regulatory affairs. If the company is not successful in retaining its current personnel or in hiring or retaining qualified personnel in the future, the company's business may be adversely affected. The company's future success depends, to a significant extent, on the abilities and efforts of its executive officers and other members of its management team. If the company loses the services of any of its management team, the company's business may be adversely affected.

Certain provisions of the company's debt agreements, its charter documents, its shareholder rights plan and Ohio law could delay or prevent the sale of the company.

Provisions of the company's debt agreements, its charter documents, its shareholder rights plan and Ohio law may make it more difficult for a third party to acquire, or attempt to acquire, control of the company even if a change in control would result in the purchase of shares of the company at a premium to market price. In addition, these provisions may limit the ability of shareholders of the company to approve transactions that they may deem to be in their best interest.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The company owns or leases its warehouses, offices and manufacturing facilities and believes that these facilities are well maintained, adequately insured and suitable for their present and intended uses. Information concerning certain leased facilities of the company as of December 31, 2011 is set forth in Leases and Commitments in the Notes to the Consolidated Financial Statements of the company included in this report and in the table below:

<u>North American/HME Operations</u>	<u>Square Feet</u>	<u>Ownership Or Expiration Date of Lease</u>	<u>Renewal Options</u>	<u>Use</u>
Akron, Ohio	17,477	December 2013	One (1 yr.)	Offices
Alexandria, Virginia	230	September 2012	None	Offices
Alpharetta, Georgia	11,665	March 2014	None	Warehouse and Offices
Arlington, Texas	63,626	May 2015	None	Warehouse
Atlanta, Georgia	91,418	April 2016	None	Warehouse and Offices
Beijing, China	1,399	January 2013	None	Offices
Cranbury, New Jersey	111,987	April 2018	Two (3 yr.)	Warehouse and Offices
Elyria, Ohio				
—1200 Taylor Street	251,656	Own	—	Manufacturing and Offices
—899 Cleveland Street	111,738	November 2013	None	Warehouse
—One Invacare Way	50,000	Own	—	Headquarters
—1320 Taylor Street	30,000	January 2015	One (5 yr.)	Offices
—1166 Taylor Street	4,800	Own	—	Warehouse and Offices
—56 Ternes Avenue	12,001	December 2012	One (1 yr.)	Warehouse
Kirkland, Quebec	26,196	November 2015	None	Manufacturing, Warehouse and Offices
Marlboro, New Jersey	2,800	June 2012	None	Offices
Mississauga, Ontario	61,375	February 2016	None	Warehouse and Offices
Morton, Minnesota	28,400	May 2012	Two (3 yr.)	Manufacturing, Warehouse and Offices

<u>North American/HME Operations</u>	<u>Square Feet</u>	<u>Ownership Or Expiration Date of Lease</u>	<u>Renewal Options</u>	<u>Use</u>
North Ridgeville, Ohio	152,861	Own	—	Manufacturing, Warehouse and Offices
Pharr, Texas	4,375	November 2012	None	Warehouse and Offices
Pinellas Park, Florida	11,400	July 2012	None	Manufacturing and Offices
Pinellas Park, Florida	3,200	June 2012	Two (1 yr.)	Manufacturing
Reynosa, Mexico	152,256	Own	—	Manufacturing and Offices
Sanford, Florida	116,272	Own	—	Manufacturing and Offices
Scarborough, Ontario	5,428	February 2014	None	Manufacturing and Offices
Shenzhen, China	2,901	September 2012	None	Offices
Simi Valley, California	38,501	February 2014	One (5 yr.)	Manufacturing, Warehouse and Offices
Spicewood, Texas	6,500	Month to Month	None	Manufacturing and Offices
Suzhou, China	11,840	December 2012	None	Manufacturing and Offices
Suzhou, China	88,861	October 2012	None	Manufacturing and Offices
Tonawanda, New York	7,515	March 2013	None	Warehouse and Offices
Vaughan, Ontario	26,637	December 2015	None	Manufacturing and Offices
<u>Invacare Supply Group</u>				
Cranbury, New Jersey	127,963	April 2018	Two (3 yr.)	Warehouse and Offices
Grand Prairie, Texas	87,508	August 2015	One (5 yr.)	Warehouse and Offices
Jacksonville, Florida	79,652	September 2014	Two (3 yr.)	Warehouse and Offices
Milford, Massachusetts	29,582	December 2015	None	Offices
Rancho Cucamonga, California	55,890	April 2012	None	Warehouse and Offices
South Bend, Indiana	80,000	April 2019	One (3 yr.)	Warehouse and Offices
<u>Institutional Products Group</u>				
Albuquerque, New Mexico	1,928	June 2012	None	Warehouse and Offices
Boise, Idaho	1,670	Month to Month	None	Warehouse and Offices
Brookfield, Wisconsin	5,600	January 2013	Two (3 yr.)	Warehouse and Offices
Chicopee, Massachusetts	4,800	November 2015	Two (3 yr.)	Warehouse and Offices
Eden Prairie, Minnesota				
—7564 Market Place Drive	3,764	September 2013	Two (3 yr.)	Warehouse and Offices
—6837 Washington Avenue S	1,950	Month to Month	None	Warehouse and Offices
Edwardsville, Kansas	1,250	Month to Month	None	Warehouse and Offices
Elkhart, Indiana	44,718	March 2014	One (3 yr.)	Manufacturing, Warehouse and Offices
Eureka, California	1,302	January 2015	One (3 yr.)	Warehouse and Offices
Fresno, California	1,600	April 2012	None	Warehouse and Offices
Hampden, Maine	4,800	September 2012	Two (1 yr.)	Warehouse and Offices
Hayward, California	4,800	July 2012	One (1 yr.)	Warehouse and Offices
Kansas City, Missouri	4,964	February 2013	One (3 yr.)	Warehouse and Offices
Knoxville, Tennessee	2,400	May 2012	One (1 yr.)	Warehouse and Offices
Lakewood, Washington				
—10111 S. Tacoma Way, Ste D2	3,210	April 2012	None	Warehouse and Offices
—10111 S. Tacoma Way, Ste A3	7,167	Month to Month	None	Warehouse and Offices
Las Vegas, Nevada	1,609	December 2012	None	Warehouse and Offices
Lithia Springs, Georgia	4,000	December 2012	None	Warehouse and Offices
London, Ontario	103,200	Own	—	Manufacturing and Offices
Midvale, Utah	2,050	Month to Month	None	Warehouse and Offices
Modesto, California	3,675	January 2013	Two (3 yr.)	Warehouse and Offices

<u>Institutional Products Group</u>	<u>Square Feet</u>	<u>Ownership Or Expiration Date of Lease</u>	<u>Renewal Options</u>	<u>Use</u>
Norristown, Pennsylvania	3,790	February 2013	None	Warehouse and Offices
North Highlands, California	3,923	February 2015	One (3 yr.)	Warehouse and Offices
Norwood, Massachusetts	15,000	February 2014	One (3 yr.)	Warehouse and Offices
Phoenix, Arizona	2,289	Month to Month	None	Warehouse and Offices
Pittsburgh, Pennsylvania	2,912	August 2014	None	Manufacturing and Offices
Portland, Oregon	2,500	November 2014	None	Warehouse and Offices
Rancho Dominguez, California	15,000	August 2014	None	Warehouse and Offices
San Bernardino, California	2,124	July 2012	None	Manufacturing and Offices
San Diego, California	2,025	August 2012	None	Manufacturing, Warehouse and Offices
Springfield, Oregon	3,264	November 2012	None	Warehouse and Offices
Spokane Valley, Washington	2,400	July 2012	None	Warehouse and Offices
St. Louis, Missouri	8,196	July 2013	Two (3 yr.)	Offices
Tampa, Florida	3,750	November 2014	One (3 yr.)	Warehouse and Offices
Wallingford, Connecticut	4,000	December 2013	One (3 yr.)	Warehouse and Offices
Warwick, Rhode Island	3,100	Month to Month	One (1 yr.)	Warehouse and Offices
Woburn, Massachusetts	5,200	February 2014	None	Warehouse and Offices
<u>Asia/Pacific Operations</u>				
Auckland, New Zealand	30,518	September 2014	None	Manufacturing, Warehouse and Offices
Banyo, QLD, Australia	26,791	September 2013	One (5 yr.)	Warehouse and Offices
Carrum Downs, VIC, Australia	16,006	November 2012	One (5 yr.)	Warehouse and Offices
Christchurch, New Zealand	13,691	December 2014	Two (6 yr.)	Offices
Christchurch, New Zealand	22,027	December 2014	One (3 yr.)	Manufacturing, Warehouse and Offices
Kidderminster, United Kingdom	6,200	January 2018	None	Warehouse and Offices
Malaga, WA, Australia	8,396	April 2014	One (3 yr.)	Warehouse and Offices
Netley, SA, Australia	3,428	June 2016	One (5 yr.)	Warehouse and Offices
North Olmsted, Ohio	2,280	October 2012	One (3 yr.)	Warehouse and Offices
North Rocks, NSW, Australia	45,712	August 2012	Two (3 yr.)	Warehouse and Offices
Shanghai, China	802	December 2012	None	Offices
<u>European Operations</u>				
Albstadt, Germany	73,894	February 2018	Two (5 yr.)	Manufacturing, Warehouse and Offices
Albstadt, Germany	12,917	November 2012	One (1 yr.)	Warehouse
Anderstorp, Sweden	47,576	Own	—	Manufacturing, Warehouse and Offices
Bergen, Norway	1,076	November 2012	One (6 mos.)	Warehouse and Offices
Brondby, Denmark	17,922	Month to Month	One (1 yr.)	Warehouse and Offices
Dio, Sweden	110,524	Own	—	Manufacturing, Warehouse and Offices
Dublin, Ireland	5,000	December 2024	Three (5 yr.)	Warehouse and Offices
Ede, The Netherlands	12,917	November 2016	One (5 yr.)	Warehouse
Ede, The Netherlands	9,257	November 2016	One (5 yr.)	Offices
Fondettes, France	191,856	Own	—	Manufacturing and Warehouse

<u>European Operations</u>	<u>Square Feet</u>	<u>Ownership Or Expiration Date of Lease</u>	<u>Renewal Options</u>	<u>Use</u>
Girona, Spain	14,639	January 2017	—	Warehouse and Offices
Gland, Switzerland	5,586	September 2012	One (1 yr.)	Offices
Gland, Switzerland	1,184	September 2012	One (1 yr.)	Offices
Goteborg, Sweden	10,118	September 2012	One (3 yr.)	Warehouse
Hong, Denmark	155,541	Own	—	Warehouse and Offices
Isny, Germany	47,232	Own	—	Manufacturing, Warehouse and Offices
Isny, Germany	1,615	Own	—	Warehouse
Kinross, United Kingdom	4,800	Month to Month	—	Warehouse and Offices
Kristiansand, Norway	646	January 2016	One (6 mos.)	Services and Offices
Lillehammer, Norway	807	November 2013	One (6 mos.)	Services and Offices
Loppem, Belgium	4,036	March 2015	—	Warehouse and Offices
Mondsee, Austria	1,508	March 2014	One (3 yr.)	Warehouse and Offices
Mondsee, Austria	767	March 2013	One (3 yr.)	Offices
Oporto, Portugal	88,270	November 2015	One (1 yr.)	Manufacturing, Warehouse and Offices
Oporto, Portugal	88,270	November 2015	One (1 yr.)	Manufacturing, Warehouse and Offices
Oskarshamn, Sweden	1,076	December 2012	One (1 yr.)	Warehouse
Oslo, Norway	24,262	April 2016	One (6 mos.)	Manufacturing, Warehouse and Offices
Pencoed, United Kingdom	150,000	December 2019	None	Manufacturing and Offices
Porta Westfalica, Germany	134,563	November 2021	Two (5yr.)	Manufacturing, Warehouse and Offices
Porta Westfalica, Germany	8,930	February 2013	One (1 yr.)	Warehouse
Spanga, Sweden	16,146	Own	—	Warehouse and Offices
Thiene, Italy	21,528	Own	—	Warehouse and Offices
Thiene, Italy	10,764	October 2012	None	Warehouse
Tromso, Norway	678	June 2016	One (6 mos.)	Services and Offices
Trondheim, Norway	5,027	December 2013	One (6 mos.)	Services and Offices
Witterswil, Switzerland	40,343	March 2015	One (5 yr.)	Manufacturing, Warehouse and Offices
Witterswil, Switzerland	2,241	Month to Month	None	Warehouse
Witterswil, Switzerland	2,241	Month to Month	None	Warehouse

Item 3. Legal Proceedings.

In the ordinary course of its business, Invacare is a defendant in a number of lawsuits, primarily product liability actions in which various plaintiffs seek damages for injuries allegedly caused by defective products. All of the product liability lawsuits have been referred to the company's captive insurance company and/or excess insurance carriers and generally are contested vigorously. The coverage territory of the company's insurance is worldwide with the exception of those countries with respect to which, at the time the product is sold for use or at the time a claim is made, the U.S. government has suspended or prohibited diplomatic or trade relations. Management does not believe that the outcome of any of these actions will have a material adverse effect upon the company's business or financial condition.

In December 2010, the FDA requested that the company agree to a consent decree of injunction at the company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio, the proposed terms of

which would require the suspension of certain operations at those facilities until they are certified by the company and then determined by FDA to be in compliance with FDA quality system regulations. The company is in the process of negotiating with the FDA on the terms of the consent decree. There can be no assurance that the company will be able to successfully conclude its negotiations with the FDA. In addition, in December 2010, the company received a warning letter from the FDA related to quality system processes and procedures at the company's Sanford, Florida facility. See Item 1A. Risk Factors. At the time of this filing, these matters remain pending.

As previously disclosed, on August 23, 2011, the City of Lansing Police and Fire Retirement System (the "Lansing Retirement System"), a holder of approximately 3,400 common shares of the company, filed a shareholder derivative action in the Court of Common Pleas in Lorain County, Ohio against the company's board of directors and the company nominally. In March 2011, a lawyer for the Lansing Retirement System sent the company's board of directors a letter demanding that the company initiate a lawsuit against members of its board and any other culpable parties for damages allegedly suffered by the company primarily in connection with certain matters relating to the warning letter from the FDA following inspections in 2010. The company's board appointed a special committee of independent directors that worked with independent counsel to review and recommend a response to these allegations. After a thorough review of the shareholder's allegations by the special committee, the board determined that it was not in the company's best interests to pursue any of the actions requested in the letter. The Lansing Retirement System then filed this litigation, which the company has removed to the U.S. District Court, Northern District of Ohio, Eastern Division.

On February 2, 2012, another shareholder derivative lawsuit asserting similar claims to those asserted by the Lansing Retirement System was filed by a purported shareholder of the company, Mary Witmer ("Witmer"), who has not issued a demand letter, against substantially all of the directors and the company nominally in the U.S. District Court, Northern District of Ohio, Eastern Division. The Witmer complaint also alleges claims of unjust enrichment and waste of corporate assets, as well as requesting specific corporate governance reforms.

In accordance with the company's organizational documents and indemnification agreements entered into between the company and its executive officers and directors, the costs of the shareholder derivative lawsuits brought by both the Lansing Retirement System and Witmer will be borne by the company. The company has notified its directors' and officers' insurance carrier of the Witmer and the Lansing Retirement System matters.

The company received a subpoena in 2006 from the U.S. Department of Justice seeking documents relating to three long-standing and well-known promotional and rebate programs maintained by the company. The company believes that the programs described in the subpoena are in compliance with all applicable laws and the company has cooperated fully with the government investigation. As of February 2012, the subpoena remains pending.

Item 4. Mine Safety Disclosures.

None.

Executive Officers of the Registrant.*

The following table sets forth the names of the executive officers of Invacare, each of whom serves at the pleasure of the Board of Directors, as well as certain other information.

<u>Name</u>	<u>Age</u>	<u>Position</u>
A. Malachi Mixon, III	71	Chairman of the Board of Directors
Gerald B. Blouch	65	President and Chief Executive Officer and Director
Robert K. Gudbranson	48	Senior Vice President, Chief Financial Officer and Treasurer
Anthony C. LaPlaca	53	Senior Vice President—General Counsel and Secretary
Joseph B. Richey, II	75	President—Invacare Technologies, Senior Vice President—Electronics and Design Engineering and Director
Louis F.J. Slangen	64	Senior Vice President—Corporate Marketing and Chief Product Officer
Patricia A. Stumpp	50	Senior Vice President—Human Resources
Carl E. Will	41	Senior Vice President—Global Commercial Operations

* The description of executive officers is included pursuant to Instruction 3 to Section (b) of Item 401 of Regulation S-K.

A. Malachi Mixon, III has been a director since 1979. Mr. Mixon served as Chief Executive Officer from 1979 through 2010 and as President until 1996. He has served as Chairman of the Board since 1983. Mr. Mixon serves on the Board of Directors of The Sherwin-Williams Company (NYSE), Cleveland, Ohio, a manufacturer and distributor of coatings and related products and Park-Ohio Holdings Corp. (NASDAQ), Cleveland, Ohio, a diversified manufacturing services and products holding company. Mr. Mixon serves as Chairman Emeritus of the Board of Trustees of The Cleveland Clinic Foundation, Cleveland, Ohio, one of the world's leading academic medical centers. Mr. Mixon previously served on the Board of Directors of Lamson & Sessions from 1990 until it was sold in November 2007.

Gerald B. Blouch has been President and a director of Invacare since November 1996. Effective January 1, 2011, Mr. Blouch became Chief Executive Officer of Invacare, after serving as interim Chief Executive Officer from April 2010 through December 2010. Mr. Blouch served as Chief Operating Officer from December 1994 through December 2010 and has served as Chairman—Invacare International since December 1993. Previously, Mr. Blouch was President—Homecare Division from March 1994 to December 1994 and Senior Vice President—Homecare Division from September 1992 to March 1994. Mr. Blouch served as Chief Financial Officer of Invacare from May 1990 to May 1993 and Treasurer of Invacare from March 1991 to May 1993.

Robert K. Gudbranson was appointed Senior Vice President and Chief Financial Officer in April 2008. From October 2005 until his appointment at Invacare, Mr. Gudbranson served as Vice President of Strategic Planning and Acquisitions at Lincoln Electric Holdings, Inc. (NASDAQ: LECO), a \$2.0 billion global manufacturer of welding, brazing and soldering products located in Cleveland, Ohio. Prior to joining Lincoln Electric, Mr. Gudbranson served as Director of Business Development and Investor Relations at Invacare from June 2002 to October 2005. Mr. Gudbranson has also served as Invacare's Assistant Treasurer and as the European Finance Director.

Anthony C. LaPlaca was appointed Senior Vice President, General Counsel and Secretary effective January 2009. Previously, Mr. LaPlaca served as Vice President and General Counsel for six and a half years with Bendix Commercial Vehicle Systems LLC, a member of the Knorr-Bremse group, a supplier of commercial vehicle safety systems. Prior to that, he served as Vice President and General Counsel to Honeywell Transportation & Power Systems and General Counsel to Honeywell Commercial Vehicle Systems LLC.

Joseph B. Richey, II has been a director since 1980 and in September 1992 was named President—Invacare Technologies Division and Senior Vice President—Electronic and Design Engineering. Previously, Mr. Richey

was Senior Vice President of Product Development from July 1984 to September 1992 and Senior Vice President and General Manager of North American Operations from September 1989 to September 1992. Mr. Richey is also a member of the Board of Trustees for Case Western Reserve University and The Cleveland Clinic Foundation. Mr. Richey previously served on the Board of Directors of Steris Corporation from 1987 to July 2009.

Louis F. J. Slangen was named Senior Vice President—Corporate Marketing and Chief Product Officer in September 2010. Previously, Mr. Slangen served as Senior Vice President—Global Market Development from June 2004 to September 2010; Senior Vice President—Sales & Marketing from December 1994 to June 2004 and from September 1989 to December 1994 was Vice President—Sales and Marketing. Mr. Slangen was also President—Rehab Division from March 1994 to December 1994 and Vice President and General Manager—Rehab Division from September 1992 to March 1994.

Patricia A. Stumpp has been the Senior Vice President—Human Resources since September 2009. Mrs. Stumpp joined Invacare in 1991 and was promoted to her current position in 2009. Previously, Mrs. Stumpp served as Director of Compensation & Benefits from January 2001 to August 2009 and as Director of the Human Resources Group from August 2006 until August 2009. She also has prior experience in healthcare, small business and the services industry. She holds a B.A. in Psychology and M.B.A. from The University of Toledo.

Carl E. Will has been Senior Vice President—Global Commercial Operations since September 2010. Mr. Will served as Senior Vice President—North American Homecare from January 2007 through September 2010 previously serving as Group Vice President of Standard Products and IPG. Mr. Will is responsible for revenue and earnings across all lines of business, channels and geographies, as well as expanding Invacare's global market share. Prior to joining Invacare, Mr. Will was responsible for commercial operations at General Electric in the Light Emitting Diode (LED) division and served as a strategic consultant at McKinsey and Company. He received a B.S. degree in Accounting from The Ohio State University and an M.B.A. from the Fuqua School of Business at Duke University.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Invacare’s Common Shares, without par value, trade on the New York Stock Exchange (NYSE) under the symbol “IVC.” Ownership of the company’s Class B Common Shares (which are not listed on NYSE) cannot be transferred, except, in general, to family members without first being converted into Common Shares. Class B Common Shares may be converted into Common Shares at any time on a share-for-share basis. The number of record holders of the company Common Shares and Class B Common Shares at February 23, 2012 was 2,931 and 23, respectively. The closing sale price for the Common Shares on February 23, 2012 as reported by NYSE was \$17.29. The prices set forth below do not include retail markups, markdowns or commissions.

The range of high and low quarterly prices of the Common Shares and dividends in each of the two most recent fiscal years were as follows:

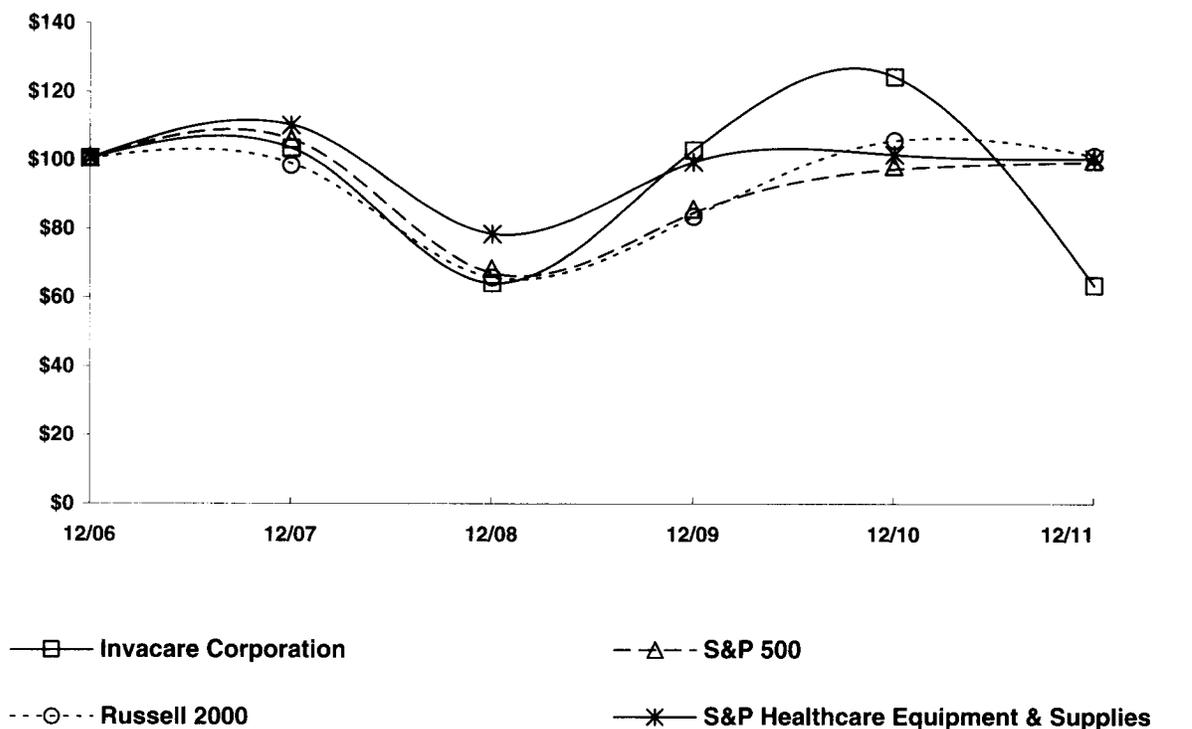
	2011			2010		
	High	Low	Cash Dividends Declared	High	Low	Cash Dividends Declared
Quarter Ended:						
December 31	\$24.80	\$14.70	\$0.0125	\$30.71	\$26.52	\$0.0125
September 30	34.29	22.85	0.0125	26.51	20.00	0.0125
June 30	33.58	30.99	0.0125	27.50	21.02	0.0125
March 31	31.12	27.64	0.0125	30.16	24.52	0.0125

During 2011 and 2010, the Board of Directors also declared annualized dividends of \$0.045 per Class B Common Share. For information regarding limitations on the payment of dividends in the company loan and note agreements, see Long Term Debt in the Notes to the Consolidated Financial Statements included in this report. The Common Shares are entitled to receive cash dividends at a rate of at least 110% of cash dividends paid on the Class B Common Shares.

SHAREHOLDER RETURN PERFORMANCE GRAPH

The following graph compares the yearly cumulative total return on Invacare's common shares against the yearly cumulative total return of the companies listed on the Standard & Poor's 500 Stock Index, the Russell 2000 Stock Index and the S&P Healthcare Equipment & Supplies Index*.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Invacare Corporation, The S&P 500 Index,
The Russell 2000 Index and S&P Healthcare Equipment & Supplies



	12/06	12/07	12/08	12/09	12/10	12/11
Invacare Corporation	\$100.00	\$102.90	\$63.53	\$102.35	\$123.97	\$ 63.01
S&P 500	100.00	105.49	66.46	84.05	96.71	98.75
Russell 2000	100.00	98.43	65.18	82.89	105.14	100.75
S&P Healthcare Equipment & Supplies	100.00	109.61	77.87	98.82	101.01	100.02

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* The S&P Healthcare Equipment & Supplies Index is a capitalization-weighted average index comprised of health care companies in the S&P 500 Index.

The graph assumes \$100 invested on December 31, 2006 in the common shares of Invacare Corporation, S&P 500 Index, Russell 2000 Index and the S&P Healthcare Equipment & Supplies Index, including reinvestment of dividends, through December 31, 2011.

The following table presents information with respect to repurchases of common shares made by the company during the three months ended December 31, 2011.

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2)</u>
10/1/2011-10/31/11	30,425	\$21.20	—	2,453,978
11/1/2011-11/30/11	—	—	—	2,453,978
12/1/2011-12/31/11	—	—	—	2,453,978
Total	<u><u>30,425</u></u>	<u><u>\$21.20</u></u>	<u><u>—</u></u>	<u><u>2,453,978</u></u>

- (1) All 30,425 shares repurchased between October 1, 2011 and October 31, 2011 were surrendered to the company by employees for minimum tax withholding purposes in conjunction with the vesting of restricted shares awarded to the employees under the company's 2003 Performance Plan.
- (2) In 2001, the Board of Directors authorized the company to purchase up to 2,000,000 Common Shares, excluding any shares acquired from employees or directors as a result of the exercise of options or vesting of restricted shares pursuant to the company's performance plans. The Board of Directors reaffirmed its authorization of this repurchase program on November 5, 2010, and on August 17, 2011 authorized an additional 2,046,500 shares for repurchase under the plan. To date, the company has purchased 1,592,522 shares under this program, with authorization remaining to purchase 2,453,978 shares. The company purchased 750,422 shares pursuant to this Board authorized program during 2011.

During 2011, the company purchased a total of \$63,351,000 in principal amount of its outstanding 4.125% Convertible Senior Subordinated Debentures due 2027 in open market transactions for an aggregate of approximately \$87,447,000, plus accrued and unpaid interest. The company may continue from time to time seek to retire or purchase the company's outstanding 4.125% Convertible Senior Subordinated Debentures due 2027, in open market purchases, privately negotiated transactions or otherwise.

The equity compensation plan information required under Item 201(d) of Regulation S-K is incorporated by reference to the information under the caption "Equity Compensation Plan Information" in the company's definitive Proxy Statement for the 2012 Annual Meeting of Shareholders.

Item 6. Selected Financial Data.

The selected consolidated financial data set forth below with respect to the company's consolidated statements of operations, cash flows and shareholders' equity for the fiscal years ended December 31, 2011, 2010 and 2009, and the consolidated balance sheets as of December 31, 2011 and 2010 are derived from the Consolidated Financial Statements included elsewhere in this Form 10-K. The consolidated statements of operations, cash flows and shareholders' equity data for the fiscal years ended December 31, 2008 and 2007 and consolidated balance sheet data for the fiscal years ended December 31, 2009, 2008 and 2007 are derived from the company's previously filed Consolidated Financial Statements. The data set forth below should be read in conjunction with Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations" and the company's Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K.

	2011 *	2010 **	2009 ***	2008 ****	2007 *****
	(In thousands, except per share and ratio data)				
Earnings					
Net Sales	\$1,801,130	\$1,722,081	\$1,693,136	\$1,755,694	\$1,602,237
Net Earnings (loss)	(4,113)	25,341	41,179	34,857	(1,714)
Net Earnings (loss) per Share—Basic	(0.13)	0.78	1.29	1.09	(0.05)
Net Earnings (loss) per Share—Assuming Dilution	(0.13)	0.78	1.29	1.09	(0.05)
Dividends per Common Share	0.05	0.05	0.05	0.05	0.05
Dividends per Class B Common Share	0.04545	0.04545	0.04545	0.04545	0.04545
Balance Sheet					
Current Assets	\$ 528,770	\$ 526,159	\$ 528,464	\$ 551,058	\$ 591,085
Total Assets	1,281,054	1,280,400	1,359,501	1,314,473	1,500,042
Current Liabilities	287,939	290,308	290,327	284,998	326,611
Working Capital	240,831	235,851	238,137	266,060	264,474
Long-Term Debt	260,440	238,090	272,234	407,707	457,233
Other Long-Term Obligations	106,150	99,591	95,703	88,826	106,046
Shareholders' Equity	626,525	652,411	701,237	532,942	610,152
Other Data					
Research and Development Expenditures	\$ 27,556	\$ 25,954	\$ 25,725	\$ 24,764	\$ 22,491
Capital Expenditures	22,160	17,353	17,999	19,957	20,068
Depreciation and Amortization	38,883	36,804	40,562	43,744	43,717
Key Ratios					
Return on Sales %	(0.2)	1.5	2.4	2.0	(0.1)
Return on Average Assets %	(0.3)	1.9	3.1	2.5	(0.1)
Return on Beginning Shareholders' Equity %	(0.6)	3.6	7.7	5.7	(0.4)
Current Ratio	1.8:1	1.8:1	1.8:1	1.9:1	1.8:1
Debt-to-Equity Ratio	0.4:1	0.4:1	0.4:1	0.8:1	0.7:1

* Reflects loss on debt extinguishment including debt finance charges and associated fees of \$24,200 (\$24,200 after tax or \$0.76 per share assuming dilution) as a result of the company's decision to extinguish higher interest rate debt; asset write-downs for goodwill and intangibles of \$49,480 (\$48,719 after tax or \$1.52 per share assuming dilution); restructuring charge of \$10,870 (\$10,599 after tax or \$0.33 per share assuming dilution); and a tax benefit in Germany of \$4,947 (\$4,947 after tax or \$0.15 per share assuming dilution).

** Reflects loss on debt extinguishment including debt finance charges and associated fees of \$40,164 (\$40,164 after tax or \$1.23 per share assuming dilution) as a result of the company's decision to extinguish higher interest rate debt.

*** Reflects restructuring charge of \$4,804 (\$4,124 after tax or \$1.13 per share assuming dilution); loss on debt extinguishment including debt fees \$2,878 (\$2,878 after tax or \$0.09 per share assuming dilution); asset write-downs for intangibles and investments of \$8,409 (\$7,909 after tax or \$0.25 per share assuming dilution).

**** Reflects restructuring charge of \$4,766 (\$4,516 after tax or \$1.14 per share assuming dilution).

***** Reflects restructuring charge of \$11,408 (\$10,478 after tax or \$0.33 per share assuming dilution) and \$13,408 expense related to finance charges, interest and fees associated with the company's previously reported debt covenant violations (\$13,408 after tax or \$0.42 per share assuming dilution).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OUTLOOK

In December 2011, the FDA requested that the company agree to a consent decree of injunction at the company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio, the proposed terms of which would require the suspension of certain operations at those facilities until they are certified by the company and then determined by the FDA to be in compliance with FDA quality system regulations (QSR). Since the company is in the process of negotiating with the FDA on the terms of the consent decree, the company is currently unable to provide guidance for 2012. Once the company is able to analyze the final terms of the FDA's proposed consent decree of injunction, it plans on providing guidance. While the final terms of the consent decree have not been determined, it will impact orders and sales in 2012. See Item 1A. Risk Factors.

In the meantime, the company is working expeditiously to make systemic improvements to ensure full compliance with the FDA's QSR. The company continues to add resources in order to support these efforts, which in the fourth quarter of 2011, cost the company an incremental \$2,100,000. The company expects at least a similar incremental spend in each of the quarters of 2012. The company has also diverted some internal resources in order to accelerate progress on regulatory and compliance improvements. Any such diversion of resources could impact other areas of the company's business in 2012, such as, for example, delays in new product development and the globalization initiative. However, these efforts will make Invacare, which is already the market leader in the home and long-term care industries, an even better company.

RESULTS OF OPERATIONS

2011 Versus 2010

Net Sales. Consolidated net sales for 2011 increased 4.6% for the year, to \$1,801,130,000 from \$1,722,081,000 in 2010. Foreign currency translation increased net sales 2.2 percentage points while acquisitions increased sales by 0.7 of a percentage point. The organic net sales increase was 1.7% which was driven by growth in all segments except Asia/Pacific.

North America/Home Medical Equipment (NA/HME)

NA/HME net sales increased 1.1% in 2011 versus the prior year to \$746,782,000 from \$738,441,000 with foreign currency translation increasing net sales by 0.3 of a percentage point. The organic net sales increase of 0.8% was driven by respiratory therapy partially offset by net sales declines in mobility and seating products. Specifically, net sales increases in stationary and portable oxygen concentrators and Invacare® Homefill® Oxygen systems were partially offset by decreases in net sales of powered mobility products including custom and consumer power wheelchairs.

Invacare Supply Group (ISG)

ISG net sales increased 0.7% in 2011 over the prior year to \$299,491,000 from \$297,517,000. The net sales increase was primarily the result of volume increases in urological and ostomy products, partially offset by declines in infusion and enteral products.

Institutional Products Group (IPG)

IPG net sales increased 27.4% in 2011 over the prior year to \$124,121,000 from \$97,419,000. Foreign currency translation increased net sales by 0.5 of a percentage point and acquisitions increased net sales by 12.0 percentage points. The organic net sales increase of 14.9% was largely driven by net sales increases in beds and dialysis chairs. As a result of an acquisition that expanded the company's North American rental operations,

management re-evaluated its rental operations and determined that net sales are more closely aligned with institutional customers and as a result, these operations are now included and evaluated as part of the Institutional Products Group. Last year, the North American rental operations were included in the NA/HME segment. Prior year segment information has been restated for this change.

Europe

European net sales increased 7.6% in 2011 compared to the prior year to \$544,537,000 from \$506,069,000 with foreign currency translation increasing net sales by 5.4 percentage points. Organic net sales increased 2.2% attributable to increases in mobility and seating, respiratory therapy and lifestyle products.

Asia/Pacific

Asia/Pacific net sales increased 4.3% in 2011 from the prior year to \$86,199,000 from \$82,635,000. Foreign currency translation increased net sales by 10.3 percentage points. The organic net sales decline of 6.0% was driven by the company's Australian and New Zealand distribution businesses. Changes in exchange rates, particularly with the Euro and U.S. Dollar, have had, and may continue to have, a significant impact on sales in this segment.

Gross Profit. Consolidated gross profit as a percentage of net sales was 28.8% in 2011 as compared to 29.6% in 2010. The margin decline was principally related to sales mix favoring lower margin product lines and lower margin customers, pricing pressure, primarily in the European segment, and increased warranty costs. Gross profit as a percentage of net sales for IPG and Asia/Pacific segments were favorable as compared to the prior year with NA/HME and European segments unfavorable to the prior year.

NA/HME gross profit as a percentage of net sales decreased by 3.0 percentage points in 2011 from the prior year. The decline in margins was principally due to an unfavorable sales mix favoring lower margin customers and product lines, and increased warranty costs.

ISG gross profit as a percentage of net sales was flat to the prior year. While freight costs increased as compared to last year, this was offset by a favorable customer mix and volume increases.

IPG gross profit as a percentage of net sales increased 5.3 percentage points in 2011 from the prior year. The increase in margin is primarily attributable to volume increases, reduced freight cost and favorable impact from the rental acquisition in the current year.

Gross profit in Europe as a percentage of net sales declined 0.4 percentage points in 2011 from the prior year. The decrease was primarily a result of unfavorable product mix toward lower margin product and lower margin customers, pricing pressures primarily in personal care products and unfavorable foreign currency transactions.

Gross profit in Asia/Pacific as a percentage of net sales increased by 1.4 percentage points in 2011 from the prior year. The improvement was primarily as a result of favorable foreign currency impact principally due to the strengthening of the U.S. dollar partially offset by volume declines.

Selling, General and Administrative. Consolidated selling, general and administrative (SG&A) expenses as a percentage of net sales were 23.4% in 2011 and 23.9% in 2010. The overall dollar increase was \$10,586,000 or 2.6%, with foreign currency translation increasing expenses by \$12,669,000 or 3.1 percentage points and acquisitions increasing expenses by \$7,944,000 or 1.9 percentage points. Excluding acquisitions and the impact of foreign currency translation, SG&A expenses decreased \$10,027,000 or 2.4%. This decrease is primarily attributable to reduced bad debt and product liability expenses, as well as decreased associate costs, including certain retirement plan costs, partially offset by increased legal, regulatory and compliance costs as well as unfavorable foreign currency transactions.

SG&A expenses for NA/HME decreased 5.0% or \$10,615,000 in 2011 compared to 2010 with foreign currency translation increasing SG&A expense by \$704,000. Excluding the foreign currency translation, SG&A expense decreased \$11,319,000 or 5.4% primarily due to reduced bad debt and product liability expenses, as well as decreased associate costs, including certain retirement plan costs, partially offset by increased legal, regulatory and compliance costs.

SG&A expenses for ISG decreased by 2.7% or \$718,000 in 2011 compared to 2010 principally due to reduced bad debt expense.

SG&A expenses for IPG increased by 37.6% or \$9,484,000 in 2011 compared to 2010. Acquisitions increased SG&A expenses by 31.5 percentage points or \$7,944,000, while foreign currency translation increased expense by \$48,000 or 0.2 of a percentage point. Excluding the impact of acquisitions and foreign currency translation, SG&A expenses increased by \$1,492,000 or 5.9% due to increased associate costs, including commission expense, partially offset by favorable currency transaction effects associated with the Canadian Dollar versus the U.S. Dollar.

European SG&A expenses increased by 7.2% or \$8,725,000 in 2011 compared to 2010. Foreign currency translation increased SG&A expenses by approximately \$8,815,000. Excluding the foreign currency translation impact, SG&A expenses decreased by \$90,000.

Asia/Pacific SG&A expenses increased 13.4% or \$3,710,000 in 2011 compared to 2010. Foreign currency translation increased expenses by \$3,102,000. Excluding the foreign currency translation impact, SG&A expenses increased \$608,000 or 2.2% primarily due to increased associate costs.

Asset write-downs to goodwill and intangible assets. The company undertakes its annual impairment test of goodwill and intangible assets in accordance with ASC 350, Intangibles—*Goodwill and Other*, as of October 1 each year. As a result of the reduced forecasted profitability of its Asia/Pacific segment, the company recorded an impairment charge of \$39,729,000 (\$39,729,000 after tax), which represented the entire goodwill amount for the segment. In December 2011, the FDA requested that the company agree to a consent decree of injunction at the company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio, the proposed terms of which would require the suspension of certain operations at those facilities until they are certified by the company and then determined by the FDA to be in compliance with FDA regulations. The significant decline in the company's stock price and market capitalization, as occurred following the announcement of the consent decree, were considered by the company as indicators of possible impairment that required an interim assessment of goodwill for impairment. The company believes the suspension of operations at its wheelchair manufacturing facility as required under the consent decree would primarily impact the company's NA/HME segment. As a result, the company reassessed its goodwill for the NA/HME segment and recorded an estimated impairment charge related for all the goodwill in this segment of \$7,990,000 (\$7,336,000 after tax).

In addition, the company completed its annual impairment test for intangible assets and recorded impairment charges totaling \$1,761,000 (\$1,654,000 after tax) related to certain intangible assets in the NA/HME, Institutional Products Group, Europe and Asia/Pacific segments.

Debt Finance Charges and Fees. In 2011, the company extinguished \$63,351,000 in principal amount of its outstanding 4.125% convertible senior subordinated debentures due in February 2027. This early debt extinguishment resulted in debt fees and premium expenses of \$24,200,000 comprised of \$22,646,000 of premiums paid and losses recorded as a result of early debt extinguishment and \$1,554,000 of expense related to deferred financing fee write-offs, which were previously capitalized.

In 2010, as part of the company's refinancing, proceeds of the refinancing were used by the company to repay amounts outstanding on its then existing \$250,000,000 revolving credit facility which was not due to expire until February 2013 and repurchase all of its outstanding 9.75% Senior Notes which were not due until

February 2015. During 2010, the company also extinguished \$57,799,000 in principal amount of its outstanding 4.125% convertible senior subordinated debentures due in February 2027. This early debt extinguishment resulted in debt fees and premium expenses of \$40,164,000 for all of these debt instruments. Related to the revolving credit facility, the company expensed \$1,228,000 of deferred financing fees, which were previously capitalized. Related to the senior notes, the company incurred the following debt fees and premium expenses: debt deferred financing fees of \$3,764,000, which were previously capitalized and premiums and fees associated with the early extinguishment of the debt of \$14,907,000. Related to the convertible senior subordinated debentures, the company incurred \$18,763,000 of premiums paid and losses recorded as a result of early debt extinguishment and expensed deferred financing fees of \$1,502,000, which were previously capitalized.

All of these charges in 2011 and 2010 are included in the All Other segment.

Charge Related to Restructuring Activities. As disclosed previously and as a result of the company's ongoing globalization initiative to reduce complexity within its global footprint, the company finalized the closure of two facilities in the current year: one in the European segment and the other in the NA/HME segment. The assembly activities have been transferred to other company facilities or outsourced to third parties. In addition, the company, as a continuation of its cost reduction and profit improvement initiatives, reduced headcount, primarily in the U.S. during the fourth quarter of 2011. As a result, the company incurred restructuring charges in 2011 of \$10,870,000 of which \$277,000 was recorded in cost of goods sold, since it related to inventory markdowns, and the remaining charge amount was included in the Charge Related to Restructuring Activities in the Consolidated Statement of Operations. The costs incurred during 2011 were principally related to severance and other associated closure costs.

Interest. Interest expense decreased to \$7,963,000 in 2011 from \$20,647,000 in 2010, representing a 61.4% decrease. This decrease was attributable to lower borrowing rates in 2011 as compared to 2010, and to a lesser extent, debt reduction. Interest income in 2011 was \$1,444,000 as compared to \$724,000 in 2010, primarily due to increased interest rates charged on financing provided to customers.

Income Taxes. The company had an effective tax rate of 173.6% in 2011 and 33.4% in 2010. The company's effective tax rate in 2011 is higher than the expected U.S. federal statutory rate due to goodwill and intangible write-offs without tax benefit and the negative impact of the company not being able to record tax benefits related to losses in countries which had tax valuation allowances for the year, more than offsetting the benefit of foreign income taxed at rates below the U.S. statutory rate. In addition, during 2011, the company recognized a \$4,947,000 tax benefit as a result of a tax settlement in Germany as the German government agreed to follow a European Court of Justice case and a German Tax Court case that impacted an open tax return year. The company's effective tax rate in 2010 is lower than the expected U.S. federal statutory rate due to earnings abroad being taxed at rates lower than the U.S. statutory rate. In both years, the company's rate was higher than it otherwise would have been due to losses without benefit, and due to valuation allowances in the United States, Denmark, Australia and New Zealand. See "Income Taxes" in the Notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

Research and Development. The company continues to invest in research and development activities to maintain its competitive advantage. The company dedicates funds to applied research activities to ensure that new and enhanced design concepts are available to its businesses. Research and development expenditures, which are included in costs of products sold, increased to \$27,556,000 in 2011 from \$25,954,000 in 2010. The expenditures, as a percentage of net sales, were 1.5% and 1.5% in 2011 and 2010, respectively.

2010 Versus 2009

Net Sales. Consolidated net sales for 2010 increased 1.7% for the year, to \$1,722,081,000 from \$1,693,136,000 in 2009. Foreign currency translation increased net sales by 0.3 of a percentage point while acquisitions increased sales by 0.4 of a percentage point. The organic net sales increase was 1.0% which was driven by growth in ISG, Europe and Asia/Pacific segments.

North America/Home Medical Equipment

NA/HME net sales decreased 1.1% in 2010 versus the prior year to \$738,441,000 from \$747,018,000. Foreign currency translation increased net sales by 0.8 of a percentage point. The organic net sales decline of 1.9% was driven by a decline in the Respiratory product line partially offset by increases in Standard and Mobility and Seating product lines. Respiratory product line net sales decreased by 16.9% in 2010, primarily driven by lower sales of both concentrators and HomeFill® oxygen delivery systems to national providers. Standard product line net sales improved by 2.6% in 2010, driven by increased volumes in standard wheelchairs, beds and therapeutic support surfaces. Mobility and Seating product line net sales increased by 2.0% in 2010 primarily driven by increases in custom power products.

Invacare Supply Group

ISG net sales increased 6.1% in 2010 over the prior year to \$297,517,000 from \$280,295,000. The net sales increase was primarily in the result of volume increases in diabetic, incontinence, ostomy and urological products.

Institutional Products Group

IPG net sales increased 7.3% in 2010 over the prior year to \$97,419,000 from \$90,806,000 with an acquisition increasing net sales by 7.1 percentage points while foreign currency translation increased net sales by 0.7 of a percentage point. The organic net sales decrease of 0.5 percentage points was largely driven by continued weakness in capital expenditures by nursing home customers, due primarily to budgetary pressures in state Medicaid programs.

Europe

European net sales increased 0.6% in 2010 compared to the prior year to \$506,069,000 from \$503,084,000 with foreign currency translation decreasing net sales by 1.9 percentage points. Organic net sales increased 2.5% attributable to increases in France, U.K., Germany and Sweden and increases in Standard and Respiratory product lines.

Asia/Pacific

Asia/Pacific net sales increased 14.9% in 2010 from the prior year to \$82,635,000 from \$71,933,000. Foreign currency translation increased net sales by 12.9 percentage points. The organic net sales growth of 2.0% was driven by the company's New Zealand distribution business and increased demand for product from the company's subsidiary which produces microprocessor controllers.

Gross Profit. Consolidated gross profit as a percentage of net sales was 29.6% in 2010 as compared to 29.1% in 2009. The margin improvement was primarily the result of volume increases and cost reduction activities, including warranty costs. Gross profit as a percentage of net sales for NA/HME, IPG and Asia/Pacific segments were favorable as compared to the prior year with ISG and European segments unfavorable to the prior year.

NA/HME gross profit as a percentage of net sales increased by 1.0 percentage points in 2010 versus 2009. The improvement in margins was primarily a result of cost reduction initiatives including freight and warranty expenses.

ISG gross profit as a percentage of net sales decreased 0.6 percentage points in comparison to the prior year. The decrease was primarily as a result of unfavorable product mix to lower margin diabetic and ostomy products partially offset by volume increases and cost reduction programs including freight costs.

IPG gross profit as a percentage of net sales increased 4.5 percentage points in 2010 from the prior year. The increased in margin is primarily attributable to favorable mix toward rental business, which had higher margins, and cost reduction activities which were partially offset by reduced volumes.

Gross profit in Europe as a percentage of net sales declined 0.4 percentage points in 2010 from the prior year. The decrease was primarily a result of unfavorable product mix toward lower margin product and unfavorable foreign currency transactions partially offset by cost reduction activities associated with commodity costs.

Gross profit in Asia/Pacific as a percentage of net sales increased by 4.3 percentage points in 2010 from the prior year. The improvement was primarily as a result of increased volumes and favorable foreign currency impact principally due to the strengthening of the U.S. dollar.

Selling, General and Administrative. Consolidated selling, general and administrative expenses as a percentage of net sales were 23.9% in 2010 and 23.5% in 2009. The overall dollar increase was \$12,867,000 or 3.2%, with foreign currency translation increasing expenses by \$4,869,000 or 1.2 percentage points and an acquisition increasing expenses by approximately \$4,455,000 or 1.1 percentage points. Excluding acquisitions and the impact of foreign currency translation, selling, general and administrative (SG&A) expenses increased \$3,543,000 or 0.9%. This increase is primarily attributable to increased associate costs and higher legal expenses related to enforcement of intellectual property rights.

SG&A expenses for NA/HME increased 2.1% or \$4,267,000 in 2010 compared to 2009. Foreign currency increased SG&A expense by \$1,672,000. Excluding the acquisition and foreign currency translation, SG&A expense increased \$2,595,000 or 1.3% primarily due to increased associate costs, and higher legal expenses related to enforcement of intellectual property rights. In addition, the SG&A expenses for 2010 include an impairment charge related to a customer list of \$248,000 recorded as a result of the company's 2010 intangible impairment review.

SG&A expenses for ISG decreased by 4.8% or \$1,357,000 in 2010 compared to 2009. The decrease is primarily attributable to a decrease in distribution and marketing costs partially offset by increased bad debt expense.

SG&A expenses for IPG increased by 48.8% or \$8,282,000 in 2010 compared to 2009. An acquisition increased these expenses by \$4,455,000 while foreign currency translation increased SG&A expenses by \$242,000 or 1.4 percentage points. Excluding the impact of acquisitions and foreign currency translation, SG&A expenses increased by \$3,585,000 due to increased associate costs and unfavorable currency transaction effects associated with the Canadian Dollar versus the U.S. Dollar. In addition, the SG&A expenses for 2010 include an impairment charge related to a trademark of \$336,000 recorded as a result of the company's 2010 intangible impairment review.

European SG&A expenses decreased by 0.5% or \$568,000 in 2010 compared to 2009. Foreign currency translation decreased SG&A expenses by approximately \$390,000. Excluding the foreign currency translation impact, SG&A expenses decreased by \$178,000.

Asia/Pacific SG&A expenses increased 8.8% or \$2,243,000 in 2010 compared to 2009. Foreign currency translation increased expenses by \$3,345,000. Excluding the foreign currency translation impact, SG&A expenses decreased \$1,102,000 or 4.3% primarily due to favorable currency transactions partially offset by increased associate costs.

Debt Finance Charges and Fees Associated with Debt Refinancing. In 2010, as part of the company's refinancing, proceeds of the refinancing were used by the company to repay amounts outstanding on its \$150,000,000 revolving credit facility which was not due to expire until February 2012 and repurchase all of its

outstanding 9.75% Senior Notes which were not due until February 2015. During 2010, the company also extinguished \$57,799,000 in principal amount of its outstanding 4.125% convertible senior subordinated debentures due in February 2027. This early debt extinguishment resulted in debt fees and premium expenses of \$40,164,000 for all of these debt instruments.

Related to the revolving credit facility, the company expensed \$1,228,000 of deferred financing fees, which were previously capitalized. Related to the senior notes, the company incurred the following debt fees and premium expenses: debt deferred financing fees of \$3,764,000, which were previously capitalized and premiums and fees associated with the early extinguishment of the debt of \$14,907,000. Related to the convertible senior subordinated debentures, the company incurred \$18,763,000 of premiums paid and losses recorded as a result of early debt extinguishment and expensed deferred financing fees of \$1,502,000, which were previously capitalized.

In 2009, the company fully repaid its \$250,000,000 term loan facility which was not due to expire until February 2013. As a result, deferred financing fees of \$2,878,000, which were previously capitalized, were expensed. All of these charges in 2010 and 2009 are included in the All Other segment.

Asset write-downs to intangibles and 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 and the company does not have the ability to easily sell these investments. In 2009, the company recognized an impairment charge totaling \$6,713,000 on investments along with an impairment charge of \$1,696,000 on its intangibles. The company completed an evaluation of the residual value related to its investments in the fourth quarter of 2010 and recognized an immaterial loss. These charges are included in the All Other Segment.

Charge Related to Restructuring Activities. The company recorded restructuring charges which commenced in 2005 and concluded in the first quarter of 2009. For 2009, the company recorded restructuring charges of \$4,804,000 of which \$298,000 was recorded in cost of goods sold, since it related to inventory markdowns, and the remaining charge amount was included in the Charge Related to Restructuring Activities in the Consolidated Statement of Operations. The previous charges were related to a multi-year cost reduction plan.

Interest. Interest expense decreased to \$20,647,000 in 2010 from \$33,150,000 in 2009, representing a 37.7% decrease. This decrease was attributable to debt reduction during the year and, to a lesser extent, decreased borrowing rates in 2010 compared to 2009. Interest income in 2010 was \$724,000, which was lower than the prior year amount of \$1,674,000, primarily due to decreased volume of financing provided to customers.

Income Taxes. The company had an effective tax rate of 33.4% in 2010 and 12.9% in 2009. The company's effective tax rate is lower than the expected U.S. federal statutory rate due to earnings abroad being taxed at rates lower than the U.S. statutory rate. In both years, the company's rate was higher than it otherwise would have been due to losses without benefit, and due to valuation allowances in the United States, Australia and New Zealand. In addition, the 2009 tax rate was lower than the 2010 rate primarily due to a loss carryback, resulting from a tax law change in the United States, which previously was fully offset by a valuation allowance. See "Income Taxes" in the Notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

Research and Development. Research and development expenditures, which are included in costs of products sold, increased to \$25,954,000 in 2010 from \$25,725,000 in 2009. The expenditures, as a percentage of net sales, were 1.5% and 1.5% in 2010 and 2009, respectively.

INFLATION

Although the company cannot determine the precise effects of inflation, management believes that inflation does continue to have an influence on the cost of materials, salaries and benefits, utilities and outside services. The company attempts to minimize or offset the effects through increased sales volumes, capital expenditure programs designed to improve productivity, alternative sourcing of material and other cost control measures.

LIQUIDITY AND CAPITAL RESOURCES

The company continues to maintain an adequate liquidity position through its unused bank lines of credit (see Long-Term Debt in the Notes to Consolidated Financial Statements included in this report) and working capital management.

The company's total debt outstanding, inclusive of the debt discount included in equity in accordance with FSB APB 14-1, decreased by \$1,664,000 to \$269,537,000 at December 31, 2011 from \$271,201,000 as of December 31, 2010. The company's balance sheet reflects the impact of ASC 470-20, which reduced debt and increased equity by \$4,053,000 and \$25,137,000 as of December 31, 2011 and December 31, 2010, respectively. The debt discount decreased \$21,084,000 during 2011, primarily as a result of the extinguishment of convertible debt. The company's cash and cash equivalents were \$34,924,000 at December 31, 2011, down from \$48,462,000 at the end of 2010. At December 31, 2011, the company had outstanding \$247,063,000 on its revolving line of credit compared to \$184,932,000 as of December 31, 2010.

The company's borrowing capacity and cash on hand were utilized for acquisitions of \$42,430,000, purchase \$21,548,000 in company common shares and to pay a premium of \$24,113,000 associated with the repurchase of \$63,351,000 principal amount of Convertible Senior Subordinated Debentures due 2027. Debt repurchases, acquisitions, the timing of vendor payments and other activity can have a significant impact on the company's borrowings outstanding such that the debt reported at the end of a given period may be materially different than debt levels during a given period. During 2011, the outstanding borrowings on the company's revolving credit facility varied from a low of \$182,000,000 to a high of \$325,000,000. While the company has cash balances in various jurisdictions around the world, there are no material restrictions regarding the use of such cash for dividends, loans or other purposes.

The company's senior secured revolving credit agreement (the "Credit Agreement") provides for a \$400 million senior secured revolving credit facility maturing in October 2015. Pursuant to the terms of the Credit Agreement, the company may from time to time borrow, repay and re-borrow up to an aggregate outstanding amount at any one time of \$400 million, subject to customary conditions. The Credit Agreement also provides for the issuance of swing line loans. Borrowings under the Credit Agreement bear interest, at the company's election, at (i) the London Inter-Bank Offer Rate ("LIBOR") plus a margin; or (ii) a Base Rate Option plus a margin. The applicable margin is currently 1.75% per annum for LIBOR loans and 0.75% for the Base Rate Option loans based on the company's leverage ratio. In addition to interest, the company is required to pay commitment fees on the unused portion of the Credit Agreement. The commitment fee rate is currently 0.30% per annum. Like the interest rate spreads, the commitment fee is subject to adjustment based on the company's leverage ratio. The obligations of the borrowers under the Credit Agreement are secured by substantially all of the company's U.S. assets and are guaranteed by substantially all of the company's material domestic and foreign subsidiaries.

The Credit Agreement contains certain covenants that are customary for similar credit arrangements, including covenants relating to, among other things, financial reporting and notification, compliance with laws, preservation of existence, maintenance of books and records, use of proceeds, maintenance of properties and insurance, and limitations on liens, dispositions, issuance of debt, investments, payment of dividends, repurchases of capital stock, acquisitions, transactions with affiliates, and capital expenditures. There also are

financial covenants that require the company to maintain a maximum leverage ratio (consolidated funded indebtedness to consolidated EBITDA, each as defined in the Credit Agreement) of no greater than 3.50 to 1, and a minimum interest coverage ratio (consolidated EBITDA to consolidated interest charges, each as defined in the Credit Agreement) of no less than 3.50 to 1. As of December 31, 2011, the company's leverage ratio was 1.81 and the company's interest coverage ratio was 23.80 compared to a leverage ratio of 1.89 and an interest coverage ratio of 8.40 as of December 31, 2010. As of December 31, 2011, the company was in compliance with all covenant requirements and under the most restrictive covenant of the company's borrowing arrangements, the company had the capacity to borrow up to an additional \$152,937,000.

The company may from time to time seek to retire or purchase its 4.125% Convertible Senior Subordinated Debentures due 2027, in open market purchases, privately negotiated transactions or otherwise. Such purchases or exchanges, if any, will depend on prevailing market conditions, the company's liquidity requirements, contractual restrictions and other factors. The amounts involved in any such transactions, individually or in the aggregate, may be material. In 2011, the company repurchased and extinguished \$63,351,000 principal amount of its Convertible Senior Subordinated Debentures compared to \$57,799,000 in 2010. At December 31, 2011, the company had \$13,850,000 par value outstanding of its Convertible Senior Subordinated Debentures.

While there is general concern about the potential for rising interest rates, the company believes that its exposure to interest rate fluctuations is manageable given that portions of the company's debt are at fixed rates into 2013, the company has the ability to utilize swaps to exchange variable rate debt for fixed rate debt, if needed, and the company's free cash flow should allow it to absorb any modest rate increases in the months ahead without any material impact on its liquidity or capital resources. In 2011, the company entered into interest rate swap agreements to effectively convert a portion of floating rate revolving credit facility debt to fixed rate debt to avoid the risk of changes in market interest rates. Specifically, interest rate swap agreements for notional amounts of \$18,000,000 and \$22,000,000 through September 2013, \$20,000,000 and \$25,000,000 through May 2013 and \$15,000,000 through February 2013 were entered into that fix the LIBOR component of the interest rate on that portion of the revolving credit facility debt at rates of 0.625%, 0.46%, 1.08%, 0.73% and 1.05%, respectively, for effective aggregate rates of 2.375%, 2.21%, 2.83%, 2.48% and 2.80%, respectively. As of December 31, 2011, the weighted average floating interest rate on all borrowings was 2.54% compared to 3.29% as of December 31, 2010.

In the current economic environment, the company is exposed to a number of risks. These risks include the possibility, among other things, that: one or more of the lenders participating in the company's revolving credit facility may be unable or unwilling to extend credit to the company; the third party company that provides lease financing to the company's customers may refuse or be unable to fulfill its financing obligations or extend credit to the company's customers; interest rates on the company's variable rate debt could increase significantly; one or more customers of the company may be unable to pay for purchases of the company's products on a timely basis; one or more key suppliers may be unable or unwilling to provide critical goods or services to the company; and one or more of the counterparties to the company's hedging arrangements may be unable to fulfill its obligations to the company. Although the company has taken actions in an effort to mitigate these risks, during periods of economic downturn, the company's exposure to these risks increases. Events of this nature may adversely affect the company's liquidity or sales and revenues, and therefore have an adverse effect on the company's business and results of operations.

CAPITAL EXPENDITURES

There are no individually material capital expenditure commitments outstanding as of December 31, 2011. The company estimates that capital investments for 2012 could approximate between \$25,000,000 and \$30,000,000, compared to actual capital expenditures of \$22,160,000 in 2011. 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 fund required capital expenditures for the foreseeable future.

CASH FLOWS

Cash flows provided by operating activities were \$99,078,000 in 2011, compared to \$122,207,000 in the previous year. The decline in operating cash flows in 2011 was primarily attributable to an increase in net working capital assets specifically inventories, as well as declines in current assets and other long-term liabilities.

Cash flows used for investing activities were \$65,263,000 in 2011, compared to \$30,617,000 in 2010. The increase in cash used was primarily attributable to acquisitions of \$42,430,000 in the IPG segment in 2011.

Cash flows required by financing activities in 2011 were \$47,082,000, compared to cash flows required of \$77,634,000 in 2010. The decrease in cash used was primarily attributable to reduced debt repayment partially offset purchases of treasury stock.

During 2011, the company generated free cash flow of \$80,603,000 compared to free cash flow of \$104,890,000 in 2010. The decrease is due primarily to an increase in net working capital assets and increased purchases of property and equipment. 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 acquisitions, etc.).

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

	Twelve Months Ended December 31,	
	2011	2010
Net cash provided by operating activities	\$ 99,078	\$122,207
Plus: Net cash impact related to restructuring activities	3,621	—
Less: Purchases of property and equipment—net	(22,096)	(17,317)
Free Cash Flow	\$ 80,603	\$104,890

CONTRACTUAL OBLIGATIONS

The company's contractual obligations as of December 31, 2011 are as follows (in thousands):

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
4.125% Convertible Senior Subordinated Debentures due 2027	\$ 22,492	\$ 571	\$ 1,143	\$ 1,143	\$ 19,635
Revolving Credit Agreement due 2015	268,779	9,872	11,249	247,658	—
Operating lease obligations	69,373	22,711	27,876	12,014	6,772
Capital lease obligations	11,037	1,578	2,921	2,837	3,701
Purchase obligations (primarily computer systems contracts)	7,893	3,823	3,073	997	—
Product liability	21,748	3,468	8,838	4,220	5,222
Supplemental Executive Retirement Plan	27,879	391	2,068	2,640	22,780
Other, principally deferred compensation	10,043	106	260	396	9,281
Total	\$ 439,244	\$ 42,520	\$ 57,428	\$ 271,905	\$ 67,391

“Other” includes an estimated payment of \$50,000 in less than 1 year for liabilities recorded for uncertain tax positions. The table does not include any other payments related to liabilities recorded for uncertain tax positions as the company cannot make a reasonably reliable estimate as to any other payments. See Income Taxes in the Notes to the Consolidated Financial Statements included in this report.

DIVIDEND POLICY

It is the company’s policy to pay a nominal dividend in order for its stock to be more attractive to a broader range of investors. The current annual dividend rate remains at \$0.05 per Common Share and \$0.045 per Class B Common Share. It is not anticipated that this will change materially as the company believe that capital should be kept available for use in growth opportunities through internal development and acquisitions. For 2011, annualized dividends of \$0.05 per Common Share and \$0.045 per Class B Common Share were declared and paid.

CRITICAL ACCOUNTING POLICIES

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

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

Revenue Recognition

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

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

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

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

Product sales that give rise to installment receivables are recorded at the time of sale when the risks and rewards of ownership are transferred. Interest income is recognized on installment agreements in accordance with the terms of the 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

The estimated allowance for uncollectible amounts is based primarily on management's evaluation of the financial condition of the customer. In addition, as a result of the third party financing arrangement, management monitors the collection status of these contracts in accordance with the company's limited recourse obligations and provides amounts necessary for estimated losses in the allowance for doubtful accounts and establishing reserves for specific customers as needed.

The company continues to closely monitor the credit-worthiness of its customers and adhere to tight credit policies. During the first quarter of 2011, the Centers for Medicare and Medicaid Services implemented the single payment amounts for Round 1 of the National Competitive Bidding program in nine metropolitan statistical areas (MSAs). The single payment amounts are used to determine the price that Medicare pays for certain durable medical equipment, prosthetics, orthotics and supplies. The company believes the changes announced could have a significant impact on the collectability of accounts receivable for those customers which are in the MSA locations impacted and which have a portion of their revenues tied to Medicare reimbursement. As a result, this is an additional risk factor which the company considers when assessing the collectability of accounts receivable.

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

Inventories and Related Allowance for Obsolete and Excess Inventory

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

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

Goodwill, Intangible and Other Long-Lived Assets

Property, equipment, intangibles and certain other long-lived assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. Under *Intangibles-Goodwill and Other*, ASC 350, goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. The company's measurement date for its annual goodwill impairment test is October 1. 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.

To review goodwill for impairment in accordance with ASC 350, the company first estimates the fair value of each reporting unit and compares the calculated fair value to the carrying value of the each reporting unit. A reporting unit is defined as an operating segment or one level below. The company has determined that its reporting units are the same as its operating segments. The company completes its annual impairment tests in the fourth quarter of each year. To estimate the fair values of the reporting units, the company utilizes a discounted cash flow method (DCF) in which the company forecasts income statement and balance sheet amounts based on assumptions regarding future sales growth, profitability, inventory turns, days' sales outstanding, etc. to forecast future cash flows. The cash flows are discounted using a weighted average cost of capital discount rate where the cost of debt is based on quoted rates for 20-year debt of companies of similar credit risk and the cost of equity is based upon the 20-year treasury rate for the risk free rate, a market risk premium, the industry average beta and a small cap stock adjustment. The discount rates used have a significant impact upon the discounted cash flow methodology utilized in the company's annual impairment testing as higher discount rates decrease the fair value estimates. The assumptions used are based on a market participant's point of view and yielded a discount rate of 9.27% in 2011 for the company's annual impairment analysis compared to 9.59% in 2010 and 10.74% in 2009.

The company also utilizes an EV (Enterprise Value) to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) Method to compute the fair value of its reporting units which considers potential acquirers and their EV to EBITDA multiples adjusted by an estimated premium. While more weight is given to the discounted cash flow method, the EV to EBITDA method does provide corroborative evidence of the reasonableness of the discounted cash flow method results.

The results of the company's Step I annual impairment test indicated a potential impairment in the Asia/Pacific segment. As a result, the company completed a Step II impairment test for this segment. Pursuant to *Property, Plant and Equipment*, ASC 360, the company compared the forecasted un-discounted cash flows of the Asia/Pacific segment to the carrying value of the net assets, which indicated no impairment of any other long-lived assets. As part of the Step II test, the company calculated the fair value of all recorded and unrecorded assets and liabilities to determine the goodwill impairment amount. As a result of reduced profitability in the Asia/Pacific segment in the fourth quarter of 2011, uncertainty associated with future market conditions, and based on the Step II calculated results, the company recorded an impairment charge related to goodwill in the Asia/Pacific segment of \$39,729,000 in the fourth quarter of 2011, which represented the entire goodwill amount for the reporting unit.

In December 2011, the FDA requested that the company agree to a consent decree of injunction at the company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio, the proposed terms of which would require the suspension of certain operations at those facilities until they are certified by the company and then determined by the FDA to be in compliance with FDA quality system regulations. The significant decline in the company's stock price and market capitalization, as occurred following the announcement of the consent decree, were considered by the company as indicators of possible impairment that required an interim assessment of goodwill for impairment. The company believes the suspension of operations at its wheelchair manufacturing facility as required under the consent decree would primarily impact the company's NA/HME segment.

The company is in the process of negotiating with the FDA on the terms of the consent decree. As of December 31, 2011, the company updated the assumptions and variables in its DCF model in regards to the NA/HME segment and factored in a 230 basis point risk premium to the discount rate used to reflect the increased uncertainty with the company's forecasted cash flows for the reporting unit. The risk premium adjustment was calculated by the company by considering the decline in the company's stock price as well as the company's EBITDA multiple. The premium adjustment was made as the company was not able to produce a range of cash flows given the lack of clarity on the final terms of the consent decree. The results of the calculation as of December 31, 2011 confirmed that the carrying value of the NA/HME reporting unit exceeded its fair value. Pursuant to ASC 360, the company compared the forecasted un-discounted cash flows of the NA/HME segment to the carrying value of the net assets, which indicated no impairment of any other long-lived assets. The company then conducted a preliminary Step II test in which the fair values of all recorded and unrecorded assets and liabilities were calculated to determine the estimated impairment charge of \$7,990,000, which represented the entire goodwill amount for the reporting unit. The company expects to finalize the Step II analysis and record any adjustment in the first quarter of 2012.

While there was no indication of impairment in 2011 related to goodwill for the Europe, ISG or IPG segments, a future potential impairment is possible for each or any of the company's segments should actual results differ materially from forecasted results used in the valuation analysis. Furthermore, the company's annual valuation of goodwill can differ materially if the market inputs used to determine the discount rate change significantly. For instance, higher interest rates or greater stock price volatility would increase the discount rate and thus increase the chance of impairment. In consideration of this potential, the company reviewed the results if the discount rate used were 100 basis points higher for the 2011 impairment analysis and determined that there still would not be any indicator of potential impairment for the Europe, ISG or IPG segments.

The company's intangible assets consist of intangible assets with defined lives as well as intangible assets with indefinite lives. Defined-lived intangible assets consist principally of customer lists, developed technology, license agreements, patents and other miscellaneous intangibles such as non-compete agreements. The company's indefinite lived intangible assets consist entirely of trademarks.

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.

During the fourth quarter of 2011, the company recognized an intangible impairment charge of \$1,761,000. In the IPG segment, the company recognized a \$625,000 impairment related to a customer list which had a remaining life of five years. In the NA/HME segment, a \$508,000 impairment, representing the entire carrying value, was recognized related to a customer list which had a remaining life of seven years. In the Europe segment, a \$427,000 indefinite-lived trademark impairment was recognized as the calculated fair value was less than its carrying value. In the Asia/Pacific segment, a \$201,000 impairment, representing the entire carrying value, was recognized related to intellectual property which had a remaining life of approximately 10 years. The fair value of the customer lists were calculated using an excess earnings method, using a discounted cash flow model. Estimated cash flow returns to the customer relationship were reduced by the cash flows required to satisfy the return requirements of each of the assets employed with the residual cash flow then discounted to value the customer relationship. The fair value of the trademark was calculated using a relief from royalty payment methodology which requires applying an estimated market royalty rate to forecasted net sales and discounting the resulting cash flows to determine fair value. The intellectual property intangible asset was impaired as the intellectual property was determined to be no longer viable and is no longer being used.

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 aggregate losses per policy year 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 awards and settlements on claims. While actuarial analysis is used to help determine adequate reserves, the company is responsible 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. See Warranty Costs in the Notes to the Condensed Consolidated Financial Statements included in this report for a reconciliation of the changes in the warranty accrual.

Accounting for Stock-Based Compensation

The company accounts for share based compensation under the provisions of *Compensation—Stock Compensation*, ASC 718. The company has not made any modifications to the terms of any previously granted options and no changes have been made regarding the valuation methodologies or assumptions used to determine the fair value of options granted and the company continues to use a Black-Scholes valuation model. As of December 31, 2011, there was \$16,031,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the 2003 Performance Plan, which is related to non-vested options and shares, and includes \$5,227,000 related to restricted stock awards. The company expects the compensation expense to be recognized over a four-year period for a weighted-average period of approximately two years.

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

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. Substantially all of the company's U.S. and New Zealand deferred tax assets are offset by a valuation allowance. 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 ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05 or the ASU). ASU 2011-05 requires comprehensive income to be reported in either a single statement or in two consecutive statements reporting net income and other comprehensive income (OCI). The ASU does not change what is required to be reported in OCI or the requirement to disclose reclassifications of items from OCI to net income. The company is analyzing the impact of ASU 2011-05, which is required to be adopted for the company's first quarter 2012 Form 10-Q. The company does not believe ASU 2011-05 will have a material impact on the company's financial position, results of operations or cash flows.

Item 7A. 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 does at times use interest swap agreements to mitigate its exposure to interest rate fluctuations. Based on December 31, 2011 debt levels, a 1% change in interest rates would impact annual interest expense by approximately \$1,471,000. Additionally, the company operates internationally and, as a result, is exposed to foreign currency fluctuations. Specifically, the exposure results from intercompany loans, intercompany sales or payments and third party sales or payments. In an attempt to reduce this exposure, foreign currency forward contracts are utilized to hedge intercompany purchases and sales as well as third party purchases and sales. 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.

In 2011, the company entered into interest rate swap agreements to effectively convert a portion of floating rate revolving credit facility debt to fixed rate debt to avoid the risk of changes in market interest rates. Specifically, interest rate swap agreements for notional amounts of \$18,000,000 and \$22,000,000 through September 2013, \$20,000,000 and \$25,000,000 through May 2013 and \$15,000,000 through February 2013 were entered into that fix the LIBOR component of the interest rate on that portion of the revolving credit facility debt at rates of 0.625%, 0.46%, 1.08%, 0.73% and 1.05%, respectively, for effective aggregate rates of 2.375%, 2.21%, 2.83%, 2.48% and 2.80%, respectively.

On October 28, 2010, the company entered into the Credit Agreement which provides for a \$400,000,000 senior secured revolving credit facility maturing in October 2015 at variable rates. As of December 31, 2011, the company had outstanding \$13,850,000 in principal amount of 4.125% Convertible Senior Subordinated Debentures due in February 2027, of which \$4,053,000 is included in equity. Accordingly, while the company is exposed to increases in interest rates, its exposure to the volatility of the current market environment is limited as the company does not currently need to re-finance any of its debt. However, the company's Credit Agreement contains covenants with respect to, among other items, consolidated funded indebtedness to consolidated

earnings before interest, taxes, depreciation and amortization (EBITDA) and interest coverage, as defined in the agreement. The company is in compliance with all covenant requirements, but should it fall out of compliance with these requirements, the company would have to attempt to obtain alternative financing and thus likely be required to pay much higher interest rates.

Item 8. Financial Statements and Supplementary Data.

Reference is made to the Report of Independent Registered Public Accounting Firm, Consolidated Balance Sheets, Consolidated Statement of Operations, Consolidated Statement of Cash Flows, Consolidated Statement of Shareholders' Equity, Notes to Consolidated Financial Statements and Financial Statement Schedule, which appear on pages FS-1 to FS-55 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

As of December 31, 2011, 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 December 31, 2011, 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.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining a system of adequate internal control over financial reporting that provides reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. The system includes self-monitoring mechanisms; regular testing by the company's internal auditors; a Code of Conduct; written policies and procedures; and a careful selection and training of employees. Actions are taken to correct deficiencies as they are identified. An effective internal control system, no matter how well designed, has inherent limitations—including the possibility of the circumvention or overriding of controls—and therefore can provide only reasonable assurance that errors and fraud that can be material to the financial statements are prevented or would be detected on a timely basis. Further, because of changes in conditions, internal control system effectiveness may vary over time.

Management's assessment of the effectiveness of the company's internal control over financial reporting is based on the Internal Control—Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission.

In management's opinion, internal control over financial reporting is effective as of December 31, 2011.

(c) Attestation Report of the Independent Registered Public Accounting Firm

The company's independent registered public accounting firm, Ernst & Young LLP, audited the company's internal control over financial reporting and, based on that audit, issued an attestation report regarding the

company's internal control over financial reporting, which is included in this Annual Report on Form 10-K on page FS-2.

(d) Changes in Internal Control Over Financial Reporting

There have been no changes in the company's internal control over financial reporting that occurred during the company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by Item 10 as to the executive officers of the company is included in Part I of this Annual Report on Form 10-K. The other information required by Item 10 as to the directors of the company, the Audit Committee, the audit committee financial expert, the procedures for recommending nominees to the Board of Directors, compliance with Section 16(a) of the Exchange Act and corporate governance is incorporated herein by reference to the information set forth under the captions “Election of Directors,” “Corporate Governance,” and “Section 16(a) Beneficial Ownership Compliance” in the company’s definitive Proxy Statement for the 2012 Annual Meeting of Shareholders.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference to the information set forth under the captions “Executive Compensation” and “Corporate Governance” in the company’s definitive Proxy Statement for the 2012 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by Item 12 is incorporated by reference to the information set forth under the caption “Share Ownership of Principal Holders and Management” in the company’s definitive Proxy Statement for the 2012 Annual Meeting of Shareholders.

Information regarding the securities authorized for issuance under the company’s equity compensation plans is incorporated by reference to the information set forth under the captions “Compensation of Executive Officers” and “Compensation of Directors” in the company’s definitive Proxy Statement for the 2012 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 is incorporated by reference to the information set forth under the caption “Certain Relationships and Related Transactions” in the company’s definitive Proxy Statement for the 2012 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services.

The information required by Item 14 is incorporated by reference to the information set forth under the caption “Independent Auditors” and “Pre-Approval Policies and Procedures” in the company’s definitive Proxy Statement for the 2012 Annual Meeting of Shareholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) *Financial Statements.*

The following financial statements of the company are included in Part II, Item 8:

Consolidated Statement of Operations—years ended December 31, 2011, 2010 and 2009

Consolidated Balance Sheet—December 31, 2011 and 2010

Consolidated Statement of Cash Flows—years ended December 31, 2011, 2010 and 2009

Consolidated Statement of Shareholders' Equity—years ended December 31, 2011, 2010 and 2009

Notes to Consolidated Financial Statements

(a)(2) *Financial Statement Schedules.*

The following financial statement schedule of the company is included in Part II, Item 8:

Schedule II—Valuation and Qualifying Accounts

All other schedules have been omitted because they are not applicable or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

(a)(3) *Exhibits.*

See Exhibit Index at page number I-62 of this Report on Form 10-K.

Pursuant to the requirements of Section 13 or 15(d) 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 as of February 27, 2012.

INVACARE CORPORATION

By: /s/ GERALD B. BLOUCH
Gerald B. Blouch
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of February 27, 2012.

<u>Signature</u>	<u>Title</u>
<u>/s/ A. MALACHI MIXON, III</u> A. Malachi Mixon, III	Chairman of the Board of Directors
<u>/s/ GERALD B. BLOUCH</u> Gerald B. Blouch	President and Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ ROBERT K. GUDBRANSON</u> Robert K. Gudbranson	Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ JAMES C. BOLAND</u> James C. Boland	Director
<u>/s/ MICHAEL F. DELANEY</u> Michael F. Delaney	Director
<u>/s/ C. MARTIN HARRIS, M.D.</u> C. Martin Harris, M.D.	Director
<u>/s/ JAMES L. JONES</u> James L. Jones	Director
<u>/s/ DALE C. LAPORTE</u> Dale C. LaPorte	Director
<u>/s/ DAN T. MOORE, III</u> Dan T. Moore, III	Director
<u>/s/ JOSEPH B. RICHEY, II</u> Joseph B. Richey, II	President—Invacare Technologies, Senior Vice President—Electronics and Design Engineering and Director
<u>/s/ CHARLES S. ROBB</u> Charles S. Robb	Director
<u>/s/ BAIJU R. SHAH</u> Baiju R. Shah	Director
<u>/s/ ELLEN O. TAUSCHER</u> Ellen O. Tauscher	Director
<u>/s/ WILLIAM M. WEBER</u> William M. Weber	Director

INVACARE CORPORATION

Report on Form 10-K for the fiscal year ended December 31, 2011.

Exhibit Index

<u>Official Exhibit No.</u>	<u>Description</u>	<u>Sequential Page No.</u>
3(a)	Second Amended and Restated Articles of Incorporation	(K)
3(b)	Code of Regulations, as amended on May 21, 2009	(M)
3(c)	Amendment to Code of Regulations, adopted May 20, 2010	(R)
4(a)	Specimen Share Certificate for Common Shares	(F)
4(b)	Specimen Share Certificate for Class B Common Shares	(F)
4(c)	Rights agreement between Invacare Corporation and National City Bank (as predecessor in interest to Wells Fargo Bank, N.A.) dated as of July 8, 2005	(E)
4(d)	Indenture, dated as of February 12, 2007, by and among Invacare Corporation, the Guarantors named therein and Wells Fargo Bank, N.A., as trustee (including the Form of 4.125% Convertible Senior Subordinated Debenture due 2027 and related Guarantee attached as Exhibit A)	(H)
4(f)	Amendment No. 1 to Rights agreement between Invacare Corporation and Wells Fargo Bank, N.A. dated as of October 28, 2009	(N)
10(a)	Invacare Corporation 1994 Performance Plan approved January 28, 1994	(D)*
10(b)	Amendment No. 1 to the Invacare Corporation 1994 Performance Plan approved May 28, 1998	(D)*
10(c)	Amendment No. 2 to the Invacare Corporation 1994 Performance Plan approved May 24, 2000	(A)*
10(d)	Amendment No. 3 to the Invacare Corporation 1994 Performance Plan approved March 13, 2003	(B)*
10(e)	Invacare Retirement Savings Plan, effective January 1, 2001, as amended	(I)*
10(f)	Agreement entered into by and between the company and its Chief Financial Officer	(C)*
10(g)	Invacare Corporation 401(K) Plus Benefit Equalization Plan, effective January 1, 2003, as amended and restated	(I)*
10(h)	Invacare Corporation Amended and Restated 2003 Performance Plan	(L)*
10(i)	Form of Change of Control Agreement entered into by and between the company and certain of its executive officers and schedule of all such agreements with current executive officers	(S)*
10(j)**	Form of Indemnity Agreement entered into by and between the company and its directors and certain of its executive officers and schedule of all such agreements with directors and executive officers	*
10(k)	Invacare Corporation Deferred Compensation Plus Plan, effective January 1, 2005, as amended August 19, 2009 and on November 23, 2010	(S)*
10(l)	Invacare Corporation Death Benefit Only Plan, effective January 1, 2005, as amended	(I)*

<u>Official Exhibit No.</u>	<u>Description</u>	<u>Sequential Page No.</u>
10(m)	Supplemental Executive Retirement Plan, as amended and restated effective February 1, 2000	(D)*
10(n)	Form of Director Stock Option Award under Invacare Corporation 1994 Performance Plan	(D)*
10(o)	Form of Director Stock Option Award under Invacare Corporation 2003 Performance Plan	(I)*
10(p)	Form of Director Deferred Option Award under Invacare Corporation 2003 Performance Plan	(S)*
10(q)**	Form of Restricted Stock Option Award under Invacare Corporation 2003 Performance Plan	
10(r)	Form of Stock Option Award under Invacare Corporation 2003 Performance Plan	(I)*
10(s)	Form of Executive Stock Option Award under Invacare Corporation 2003 Performance Plan	(I)*
10(t)	Form of Switzerland Stock Option Award under Invacare Corporation 2003 Performance Plan	(I)*
10(u)	Form of Switzerland Executive Stock Option Award under Invacare Corporation 2003 Performance Plan	(I)*
10(v)**	Director Compensation Schedule	*
10(w)	Invacare Corporation Executive Incentive Bonus Plan, as amended March 9, 2010	(P)*
10(x)	Purchase Agreement by and among Invacare Corporation, the Subsidiary Guarantors named therein, and the Initial Purchasers named therein dated as of February 5, 2007	(G)
10(y)	Form of Rule 10b5-1 Sales Plan entered into between the company and certain of its executive officers and other employees and a schedule of all such agreements with executive officers and other employees	(S)
10(z)	A. Malachi Mixon, III Retirement Benefit Agreement	(I)*
10(aa)	Cash Balance Supplemental Executive Retirement Plan, as amended and restated, effective December 31, 2008	(J)*
10(ab)	Form of Participation Agreement, for current participants in the Cash Balance Supplemental Executive Retirement Plan, as of December 31, 2008, entered into by and between the company and certain participants and a schedule of all such agreements with participants	(J)*
10(ac)	Amended and Restated Severance Protection Agreement, between the company and Gerald B. Blouch, effective December 31, 2008	(J)*
10(ad)	Amendment No. 1 to the Cash Balance Supplemental Executive Retirement Plan, effective August 19, 2009	(O)*
10(ae)	\$400,000,000 Revolving Credit Facility Credit Agreement by and among Invacare Corporation, the other borrowers, guarantors and lenders thereto; PNC Bank, National Association, as Administrative Agent; Keybank National Association and Bank of America, N.A. as Co-Syndication Agents; and RBS Citizens, N.A. as Documentation Agent.	(Q)

<u>Official Exhibit No.</u>	<u>Description</u>	<u>Sequential Page No.</u>
10(af)	Amendment No. 1 to the \$400,000,000 Revolving Credit Facility Credit Agreement by and among Invacare Corporation, the other borrowers, guarantors and lenders thereto; PNC Bank, National Association, as Administrative Agent; Keybank National Association and Bank of America, N.A. as Co-Syndication Agents; and RBS Citizens, N.A. as Documentation Agent.	(T)
10(ag)**	Amendment No. 2 to the \$400,000,000 Revolving Credit Facility Credit Agreement by and among Invacare Corporation, the other borrowers, guarantors and lenders thereto; PNC Bank, National Association, as Administrative Agent; Keybank National Association and Bank of America, N.A. as Co-Syndication Agents; and RBS Citizens, N.A. as Documentation Agent.	
10(ah)**	2012 Non-employee Directors Deferred Compensation Plan, effective January 1, 2012	*
10(ai)**	Amendment No. 3 to Invacare Corporation Deferred Compensation Plus Plan, effective January 1, 2005	*
21**	Subsidiaries of the company	
23**	Consent of Independent Registered Public Accounting Firm	
31.1**	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
31.2**	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
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	
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	
101.INS***	XBRL instance document	
101.SCH***	XBRL taxonomy extension schema	
101.CAL***	XBRL taxonomy extension calculation linkbase	
101.DEF***	XBRL taxonomy extension definition linkbase	
101.LAB***	XBRL taxonomy extension label linkbase	
101.PRE***	XBRL taxonomy extension presentation linkbase	

* Management contract, compensatory plan or arrangement

** Filed herewith

*** To be furnished by amendment

- (A) Reference is made to Exhibit 4.7 of the company's registration statement on Form S-8, filed March 30, 2001, which Exhibit is incorporated herein by reference.
- (B) Reference is made to Exhibit 10(z) of the company report on Form 10-Q for the quarter ended March 31, 2003, which Exhibit is incorporated herein by reference.
- (C) Reference is made to Exhibit 10.1 of the company report on Form 8-K, dated March 6, 2008, which Exhibit is incorporated herein by reference.

- (D) Reference is made to the appropriate Exhibit of the company report on Form 10-K for the fiscal year ended December 31, 2004, which Exhibit is incorporated herein by reference.
- (E) Reference is made to Exhibit 4.1 of the company report on Form 8-K, dated July 8, 2005, which Exhibit is incorporated herein by reference.
- (F) Reference is made to the appropriate Exhibit of the company report on Form 10-K for the fiscal year ended December 31, 2005, which Exhibit is incorporated herein by reference.
- (G) Reference is made to Exhibit 10.1 of the company report on Form 8-K, dated February 5, 2007, which Exhibit is incorporated herein by reference.
- (H) Reference is made to Exhibit 4.1 of the company report on Form 8-K, dated February 12, 2007, which Exhibit is incorporated herein by reference.
- (I) Reference is made to the appropriate Exhibit of the company report on Form 10-K for the fiscal year ended December 31, 2007, which Exhibit is incorporated herein by reference.
- (J) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated December 31, 2008, which Exhibit is incorporated herein by reference.
- (K) Reference is made to Exhibit 3(a) of the company report on Form 10-K for the fiscal year ended December 31, 2008, which Exhibit is incorporated herein by reference.
- (L) Reference is made to Exhibit 10.1 of the company report on Form 8-K, dated May 21, 2009, which Exhibit is incorporated herein by reference.
- (M) Reference is made to Exhibit 3.1 of the company report on Form 10-Q, dated June 30, 2009, which Exhibit is incorporated herein by reference.
- (N) Reference is made to Exhibit 2.3 of the company report on Form 8-A, dated October 30, 2009, which Exhibit is incorporated herein by reference.
- (O) Reference is made to the Exhibit 10.2 of the company report on Form 10-Q, dated September 30, 2009, which Exhibit is incorporated herein by reference.
- (P) Reference is made to Appendix B of the company Definitive Proxy Statement on Schedule 14A, dated April 7, 2010, which is incorporated herein by reference.
- (Q) Reference is made to Exhibit 10.1 of the company report on Form 8-K, dated October 28, 2010, which Exhibit is incorporated herein by reference.
- (R) Reference is made to Appendix A to the company's Definitive Proxy Statement on Schedule 14A dated April 7, 2010, which is incorporated herein by reference.
- (S) Reference is made to the appropriate Exhibit of the company report on Form 10-K for the fiscal year ended December 31, 2010, which Exhibit is incorporated herein by reference.
- (T) Reference is made to Exhibit 10.1 of the company report on Form 8-K, dated April 5, 2011, which Exhibit is incorporated herein by reference.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders Invacare Corporation

We have audited the accompanying consolidated balance sheets of Invacare Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Invacare Corporation and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U. S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Invacare Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
February 27, 2012

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders Invacare Corporation

We have audited Invacare Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Invacare Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting" which is included in Item 9A. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Invacare Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Invacare Corporation and subsidiaries as of December 31, 2011 and 2010 and the related consolidated statements of operations, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2011 of Invacare Corporation and our report dated February 27, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
February 27, 2012

CONSOLIDATED STATEMENT OF OPERATIONS
INVACARE CORPORATION AND SUBSIDIARIES

	Years Ended December 31,		
	2011	2010	2009
	(In thousands, except per share data)		
Net sales	\$1,801,130	\$1,722,081	\$1,693,136
Cost of products sold	1,282,652	1,212,440	1,199,942
Gross Profit	518,478	509,641	493,194
Selling, general and administrative expenses	422,099	411,513	398,646
Charges related to restructuring activities	10,593	—	4,506
Loss on debt extinguishment including debt finance charges and associated fees	24,200	40,164	2,878
Asset write-downs to goodwill, intangible assets and investments	49,480	—	8,409
Interest expense	7,963	20,647	33,150
Interest income	(1,444)	(724)	(1,674)
Earnings before Income Taxes	5,587	38,041	47,279
Income taxes	9,700	12,700	6,100
Net Earnings (loss)	<u>\$ (4,113)</u>	<u>\$ 25,341</u>	<u>\$ 41,179</u>
Net Earnings (loss) per Share—Basic	<u>\$ (0.13)</u>	<u>\$ 0.78</u>	<u>\$ 1.29</u>
Weighted Average Shares Outstanding—Basic	<u>31,958</u>	<u>32,393</u>	<u>31,969</u>
Net Earnings (loss) per Share—Assuming Dilution	<u>\$ (0.13)</u>	<u>\$ 0.78</u>	<u>\$ 1.29</u>
Weighted Average Shares Outstanding—Assuming Dilution	<u>31,958</u>	<u>32,694</u>	<u>31,996</u>

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
INVACARE CORPORATION AND SUBSIDIARIES

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
(In thousands)		
Assets		
Current Assets		
Cash and cash equivalents	\$ 34,924	\$ 48,462
Trade receivables, net	247,974	252,004
Installment receivables, net	6,671	3,959
Inventories, net	192,761	174,375
Deferred income taxes	1,620	5,778
Other current assets	44,820	41,581
Total Current Assets	<u>528,770</u>	<u>526,159</u>
Other Assets	42,647	45,484
Other Intangibles	83,320	70,911
Property and Equipment, net	129,712	130,763
Goodwill	496,605	507,083
Total Assets	<u>\$1,281,054</u>	<u>\$1,280,400</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 148,805	\$ 143,753
Accrued expenses	132,595	130,079
Accrued income taxes	1,495	8,502
Short-term debt and current maturities of long-term obligations	5,044	7,974
Total Current Liabilities	<u>287,939</u>	<u>290,308</u>
Long-Term Debt	260,440	238,090
Other Long-Term Obligations	106,150	99,591
Shareholders' Equity		
Preferred Shares (Authorized 300 shares; none outstanding)	—	—
Common Shares (Authorized 100,000 shares; 33,835 and 33,559 issued in 2011 and 2010, respectively)—no par	8,471	8,401
Class B Common Shares (Authorized 12,000 shares; 1,086 and 1,086, issued and outstanding in 2011 and 2010, respectively)—no par	272	272
Additional paid-in-capital	221,409	231,685
Retained earnings	364,300	370,001
Accumulated other comprehensive earnings	124,876	112,631
Treasury shares (3,100 and 2,319 shares in 2011 and 2010, respectively)	(92,803)	(70,579)
Total Shareholders' Equity	<u>626,525</u>	<u>652,411</u>
Total Liabilities and Shareholders' Equity	<u>\$1,281,054</u>	<u>\$1,280,400</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
INVACARE CORPORATION AND SUBSIDIARIES

	Years Ended December 31,		
	2011	2010	2009
	(In thousands)		
Operating Activities			
Net earnings (loss)	\$ (4,113)	\$ 25,341	\$ 41,179
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	38,883	36,804	40,562
Provision for losses on trade and installment receivables	11,460	16,979	19,281
(Benefit) provision for deferred income taxes	(7,552)	(2,467)	1,785
Provision for other deferred liabilities	2,676	2,781	2,573
Provision for stock-based compensation	6,640	6,135	4,495
Loss on disposals of property and equipment	209	233	1,237
Loss on debt extinguishment including debt finance charges and associated fees	24,200	40,164	2,878
Asset write-downs to goodwill, intangible assets and investments	49,480	—	8,409
Amortization of convertible debt discount	1,565	3,198	4,142
Changes in operating assets and liabilities:			
Trade receivables	(1,514)	(5,839)	6,452
Installment sales contracts, net	(3,162)	(2,423)	(3,356)
Inventories	(16,389)	(6,352)	20,515
Other current assets	649	3,181	11,628
Accounts payable	2,299	5,534	12,532
Accrued expenses	(4,087)	(6,980)	(18,012)
Other long-term liabilities	(2,166)	5,918	(637)
Net Cash Provided by Operating Activities	99,078	122,207	155,663
Investing Activities			
Purchases of property and equipment	(22,160)	(17,353)	(17,999)
Proceeds from sale of property and equipment	64	36	1,163
Business acquisitions, net of cash acquired	(42,430)	(13,725)	—
(Increase) Decrease in other long-term assets	(724)	801	601
Other	(13)	(376)	(447)
Net Cash Used for Investing Activities	(65,263)	(30,617)	(16,682)
Financing Activities			
Proceeds from revolving lines of credit and long-term borrowings	450,595	708,742	400,123
Payments on revolving lines of credit and long-term borrowings	(454,567)	(751,660)	(553,436)
Proceeds from exercise of stock options	4,139	2,912	1,628
Payment of financing costs	(24,113)	(30,329)	—
Payment of dividends	(1,588)	(1,612)	(1,605)
Purchase of treasury stock	(21,548)	(5,687)	—
Net Cash Used by Financing Activities	(47,082)	(77,634)	(153,290)
Effect of exchange rate changes on cash	(271)	(2,995)	4,294
Increase (decrease) in cash and cash equivalents	(13,538)	10,961	(10,015)
Cash and cash equivalents at beginning of year	48,462	37,501	47,516
Cash and cash equivalents at end of year	<u>\$ 34,924</u>	<u>\$ 48,462</u>	<u>\$ 37,501</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
INVACARE CORPORATION AND SUBSIDIARIES

	Common Stock	Class B Stock	Additional Paid-in- Capital	Retained Earnings	Accumulated Other Comprehensive Earnings	Treasury Stock	Total
	(In thousands)						
January 1, 2009 Balance	\$8,119	\$278	\$215,279	\$306,698	\$ 50,789	\$(48,221)	\$532,942
Exercise of stock options	123		9,529			(8,297)	1,355
Non-qualified stock option expense			2,713				2,713
Restricted stock awards	31		1,751			(544)	1,238
Net earnings				41,179			41,179
Foreign currency translation adjustments					119,453		119,453
Unrealized gain on cash flow hedges					3,329		3,329
Defined benefit plans:							
Amortization of prior service costs and unrecognized losses and credits					537		537
Marketable securities holding gain					96		96
Total comprehensive income							164,594
Dividends				(1,605)			(1,605)
December 31, 2009 Balance	<u>\$8,273</u>	<u>\$278</u>	<u>\$229,272</u>	<u>\$346,272</u>	<u>\$174,204</u>	<u>\$(57,062)</u>	<u>\$701,237</u>
Exercise of stock options	99		9,108			(6,909)	2,298
Non-qualified stock option expense			4,113				4,113
Restricted stock awards	23		1,999			(921)	1,101
Conversion from Class B Stock to Common Stock	6	(6)					
Net earnings				25,341			25,341
Foreign currency translation adjustments					(59,823)		(59,823)
Unrealized gain on cash flow hedges					245		245
Defined benefit plans:							
Amortization of prior service costs and unrecognized losses and credits					549		549
Amounts arising during the year, primarily due to the addition of new participants					(1,860)		(1,860)
Marketable securities holding loss					(684)		(684)
Total comprehensive loss							(36,232)
Extinguishment of Convertible Debt			(12,807)				(12,807)
Dividends				(1,612)			(1,612)
Purchase of treasury shares						(5,687)	(5,687)
December 31, 2010 Balance	<u>\$8,401</u>	<u>\$272</u>	<u>\$231,685</u>	<u>\$370,001</u>	<u>\$112,631</u>	<u>\$(70,579)</u>	<u>\$652,411</u>
Exercise of stock options	45		4,098			(10)	4,133
Non-qualified stock option expense			4,441				4,441
Restricted stock awards	25		2,174			(666)	1,533
Net earnings (loss)				(4,113)			(4,113)
Foreign currency translation adjustments					14,440		14,440
Unrealized gain on cash flow hedges					254		254
Defined benefit plans:							
Amortization of prior service costs and unrecognized losses and credits					321		321
Amounts arising during the year, primarily due to the addition of new participants					(2,770)		(2,770)
Total comprehensive income							8,132
Extinguishment of Convertible Debt			(20,989)				(20,989)
Dividends				(1,588)			(1,588)
Purchase of treasury shares						(21,548)	(21,548)
December 31, 2011 Balance	<u>\$8,471</u>	<u>\$272</u>	<u>\$221,409</u>	<u>\$364,300</u>	<u>\$124,876</u>	<u>\$(92,803)</u>	<u>\$626,525</u>

See notes to consolidated financial statements.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies

Nature of Operations: Invacare Corporation is the world's leading manufacturer and distributor in the estimated \$11.0 billion worldwide market for medical equipment and supplies used in the home based upon the company's distribution channels, breadth of product line and net sales. The company designs, manufactures and distributes an extensive line of health care products for the non-acute care environment, including the home health care, retail and extended care markets.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries. Certain foreign subsidiaries, represented by the European segment, are consolidated using a November 30 fiscal year 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.

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.

Inventories: Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out method. Market values are based on the lower of replacement cost or estimated net realizable value. 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.

Property and Equipment: Property and equipment are stated on the basis of cost. The company principally uses the straight-line method of depreciation for financial reporting purposes based on annual rates sufficient to amortize the cost of the assets over their estimated useful lives. Machinery and equipment as well as furniture and fixtures are generally depreciated using lives of 3 to 10 years, while buildings and improvements are depreciated using lives of 5 to 40 years. Accelerated methods of depreciation are used for federal income tax purposes. Expenditures for maintenance and repairs are charged to expense as incurred. Amortization of assets under capital leases is included in depreciation expense.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An asset would be considered impaired when the future net undiscounted cash flows generated by the asset are less than its carrying value. An impairment loss would be recognized based on the amount by which the carrying value of the asset exceeds its fair value.

Goodwill and Other Intangibles: In accordance with *Intangibles—Goodwill and Other*, ASC 350, goodwill and indefinite lived intangibles are subject to annual impairment testing. For purposes of the goodwill impairment test, the fair value of each reporting unit is estimated by forecasting cash flows and discounting those cash flows using appropriate discount rates. The fair values are then compared to the carrying value of the net assets of each reporting unit. Intangibles assets are also reviewed for impairment by estimating forecasted cash flows and discounting those cash flows as needed to calculate impairment amounts. In the fourth quarter of 2011, the company recorded goodwill impairment charges of \$39,729,000 and \$7,990,000 related to the Asia/Pacific and North America/Home Medical Equipment (NA/HME) segments, respectively, and intangible asset impairment amounts of \$625,000; \$508,000; \$427,000 and \$201,000 were recorded for the IPG, NA/HME, Europe and Asia/Pacific segments, respectively. These impairments were due to the fact that actual and future projected cash flows associated with these intangibles were insufficient to justify the carrying values.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounting Policies—Continued

In 2010, the company recorded impairment charges, included in amortization expense, of \$336,000 and \$248,000 related to intangible assets for the IPG and the NA/HME segments, respectively, as the actual and future projected cash flows associated with these intangibles were less than what was originally used to value the intangibles. In 2009, the company recorded impairment charges related to intangible assets for Europe of \$896,000 and NA/HME of \$800,000 as the actual and future projected cash flows associated with these intangibles were less than what was originally used to value the intangibles. See the Goodwill and Other Intangible Notes to the Condensed Consolidated Financial Statements included in this report for the details of the calculations and reasons for the impairments.

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

Product Liability Cost: 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 aggregate losses per policy year 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 other indicators. Additional reserves, in excess of the specific individual case reserves, are provided for incurred but not reported claims based upon actuarial valuations at the time such valuations are conducted. Historical claims experience and other assumptions are taken into consideration by the company in estimating 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 awards and settlements on claims. While actuarial analysis is used to help determine adequate reserves, the company is responsible for the determination and recording of adequate reserves in accordance with accepted loss reserving standards and practices.

Revenue Recognition: Invacare's revenues are recognized when products are shipped or service provided to unaffiliated customers, risk of loss is passed and title is transferred. *Revenue Recognition*, ASC 605, provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. Shipping and handling costs are included in cost of goods sold.

Sales are made only to customers with whom the company believes collection is reasonably assured based upon a credit analysis, which may include obtaining a credit application, a signed security agreement, personal

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounting Policies—Continued

guarantee and/or a cross corporate guarantee depending on the credit history of the customer. Credit lines are established for new customers after an evaluation of their credit report and/or other relevant financial information. Existing credit lines are regularly reviewed and adjusted with consideration given to any outstanding past due amounts.

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

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

Product sales that give rise to installment receivables are recorded at the time of sale when the risks and rewards of ownership are transferred. 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. The company has entered into an agreement with De Lage Landen, Inc. (“DLL”), a third party financing company, to provide the majority of future lease financing to Invacare customers.

Research and Development: Research and development costs are expensed as incurred and included in cost of products sold. The company’s annual expenditures for product development and engineering were approximately \$27,556,000, \$25,954,000 and \$25,725,000 for 2011, 2010 and 2009, respectively.

Advertising: Advertising costs are expensed as incurred and included in selling, general and administrative expenses. Advertising expenses amounted to \$19,523,000, \$20,119,000 and \$16,519,000 for 2011, 2010 and 2009, respectively, the majority of which is incurred for advertising in the United States.

Stock-Based Compensation Plans: The company accounts for share based compensation under the provisions of the *Compensation—Stock Compensation*, ASC 718. The amounts of stock-based compensation expense recognized were as follows (in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Stock-based compensation expense recognized as part of selling, general and administrative expense	\$6,640	\$6,135	\$4,495

The 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.

Income Taxes: The company uses the liability method in measuring the provision for income taxes and recognizing deferred tax assets and liabilities on the balance sheet. The liability method requires that deferred

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounting Policies—Continued

income taxes reflect the tax consequences of currently enacted rates for differences between the tax and financial reporting bases of assets and liabilities. With the exception of two subsidiaries, foreign subsidiaries with undistributed earnings are considered to have such earnings indefinitely reinvested and, accordingly with the exception of the two subsidiaries, no provision for income taxes has been provided for unremitted earnings of these foreign subsidiaries. The amount of the unrecognized deferred tax liability for temporary differences related to investments in these foreign subsidiaries that are permanently reinvested is not practically determinable. The company has established a deferred tax liability of \$660,000 for the unremitted earnings of the two subsidiaries for which the company intends to remit earnings when available under local statutory laws.

Derivative Instruments: Derivatives and Hedging. 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.

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.

Foreign Currency Translation: The functional currency of the company's subsidiaries outside the United States is the applicable local currency. The assets and liabilities of the company's foreign subsidiaries are translated into U.S. dollars at year-end exchange rates. Revenues and expenses are translated at monthly average exchange rates. Gains and losses resulting from translation of balance sheet items are included in accumulated other comprehensive earnings.

Net Earnings Per Share: Basic earnings per share are computed based on the weighted-average number of Common Shares and Class B Common Shares outstanding during the year. Diluted earnings per share are computed based on the weighted-average number of Common Shares and Class B Common Shares outstanding plus the effects of dilutive stock options and awards outstanding during the year. Diluted earnings per share can potentially be impacted by the convertible notes should the conditions be met to make the notes convertible or if average market price of company stock for the period exceeds the conversion price of \$24.79. For the year ended December 31, 2011, net loss per share assuming dilution utilized weighted average shares-basic as a result of the company's net loss.

Defined Benefit Plans: The company's benefit plans are accounted for in accordance with *Compensation-Retirement Benefits*, ASC 715 which requires plan sponsors to recognize the funded status of their defined benefit postretirement benefit plans in the consolidated balance sheet, measure the fair value of plan assets and benefit obligations as of the balance sheet date and to recognize changes in that funded status in the year in which the changes occur through comprehensive income.

Recent Accounting Pronouncements: In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05) or the

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounting Policies—Continued

ASU). ASU 2011-05 requires comprehensive income to be reported in either a single statement or in two consecutive statements reporting net income and other comprehensive income (OCI). The ASU does not change what is required to be reported in OCI or the requirement to disclose reclassifications of items from OCI to net income. The company is analyzing the impact of ASU 2011-05, which is required to be adopted for the company's first quarter 2012 Form 10-Q. The company does not believe ASU 2011-05 will have a material impact on the company's financial position, results of operations or cash flows.

Receivables

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the company's receivables are due from health care, medical equipment providers and long term care facilities located throughout the United States, Australia, Canada, New Zealand and Europe. A significant portion of products sold to providers, both foreign and domestic, is ultimately funded through government reimbursement programs such as Medicare and Medicaid in the U.S. As a consequence, changes in these programs can have an adverse impact on dealer liquidity and profitability. The estimated allowance for uncollectible amounts (\$27,947,000 in 2011 and \$25,327,000 in 2010) is based primarily on management's evaluation of the financial condition of specific customers. In addition, as a result of the third party financing arrangement with 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, Invacare 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. 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 Invacare 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

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Receivables—Continued

collateral and time in business. Additional analysis is performed for customers desiring credit greater than \$250,000 which includes a detailed review of the customer's financials as well as consideration of other factors such as exposure to changing reimbursement laws.

Interest income is recognized on installment receivables based on the terms of the installment agreements. Installment accounts are monitored and if a customer defaults on payments and is moved to collection, interest income is no longer recognized. Subsequent payments received once an account is put on non-accrual status are generally first applied to the principal balance and then to the interest. Accruing of interest on collection accounts would only be restarted if the account became current again. All installment accounts are accounted for using the same methodology regardless of the duration of the installment agreements. When an account is placed in collection status, the company goes through a legal process of adjudication which typically approximates 18 months. Any write-offs are made after the legal process has been completed. The company has not made any changes to either its accounting policies or methodology to estimation allowances for doubtful accounts in the last twelve months.

Installment receivables as of December 31, 2011 and 2010 consist of the following (in thousands):

	2011			2010		
	Current	Long-Term	Total	Current	Long-Term	Total
Installment receivables	\$ 8,990	\$ 2,931	\$11,921	\$ 5,777	\$ 4,854	\$10,631
Less:						
Unearned interest	(171)	—	(171)	(118)	—	(118)
	8,819	2,931	11,750	5,659	4,854	10,513
Allowance for doubtful accounts	(2,148)	(2,125)	(4,273)	(1,700)	(3,141)	(4,841)
	\$ 6,671	\$ 806	\$ 7,477	\$ 3,959	\$ 1,713	\$ 5,672

Installment receivable purchased from DLL during the twelve months ended December 31, 2011 increased the gross installment receivables balance by \$3,806,000 during the year compared to \$4,799,000 in 2010. No sales of installment receivables were made by the company during the year.

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

	2011
Balance as of January 1	\$ 4,841
Current period provision	1,215
Direct write-offs charged against the allowance	(1,783)
Balance as of December 31	\$ 4,273

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Receivables—Continued

Installment receivables by class as of December 31, 2011 consist of the following (in thousands):

	<u>Total Installment Receivables</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance for Doubtful Accounts</u>	<u>Interest Income Recognized</u>
U.S.				
Impaired Installment receivables with a related allowance recorded	\$ 6,116	\$ 6,116	\$4,240	\$—
Canada				
Non-Impaired Installment receivables with no related allowance recorded	5,696	5,525	—	271
Impaired Installment receivables with a related allowance recorded	<u>109</u>	<u>109</u>	<u>33</u>	<u>—</u>
Total Canadian Installment Receivables	<u>\$ 5,805</u>	<u>\$ 5,634</u>	<u>\$ 33</u>	<u>\$271</u>
Total				
Non-Impaired Installment receivables with no related allowance recorded	5,696	5,525	—	271
Impaired Installment receivables with a related allowance recorded	<u>6,225</u>	<u>6,225</u>	<u>4,273</u>	<u>—</u>
Total Installment Receivables	<u>\$11,921</u>	<u>\$11,750</u>	<u>\$4,273</u>	<u>\$271</u>

Installment receivables by class as of December 31, 2010 consist of the following (in thousands):

	<u>Total Installment Receivables</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance for Doubtful Accounts</u>	<u>Interest Income Recognized</u>
U.S.				
Impaired Installment receivables with a related allowance recorded	\$ 7,153	\$ 7,153	\$4,822	\$—
Canada				
Non-Impaired Installment receivables with no related allowance recorded	3,222	3,104	—	109
Impaired Installment receivables with a related allowance recorded	<u>256</u>	<u>256</u>	<u>19</u>	<u>—</u>
Total Canadian Installment Receivables	<u>\$ 3,478</u>	<u>\$ 3,360</u>	<u>\$ 19</u>	<u>\$109</u>
Total				
Non-Impaired Installment receivables with no related allowance recorded	3,222	3,104	—	109
Impaired Installment receivables with a related allowance recorded	<u>7,409</u>	<u>7,409</u>	<u>4,841</u>	<u>—</u>
Total Installment Receivables	<u>\$10,631</u>	<u>\$10,513</u>	<u>\$4,841</u>	<u>\$109</u>

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Receivables—Continued

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 December 31, 2011, the company had no U.S. installment receivables past due of 90 days or more for which the company is still accruing interest. Individually, all U.S. installment receivables are assigned a specific allowance for doubtful accounts based on management's review when the company does not expect to receive both the contractual principal and interest payments as specified in the loan agreement. However, while the full balance may be deemed to be impaired, the company does historically collect a large percentage of the principal of its U.S. installment receivables.

In Canada, the company had an immaterial amount of installment receivables which were past due of 90 days or more as of December 31, 2011 and December 31, 2010 for which the company is still accruing interest.

The aging of the company's installment receivables was as follows as of December 31, 2011 (in thousands):

	<u>Total</u>	<u>U.S.</u>	<u>Canada</u>
Current	\$ 5,612	\$ —	\$5,612
0-30 Days Past Due	84	—	84
31-60 Days Past Due	42	—	42
61-90 Days Past Due	8	—	8
90+ Days Past Due	6,175	6,116	59
	<u>\$11,921</u>	<u>\$6,116</u>	<u>\$5,805</u>

Inventories

Inventories as of December 31, 2011 and 2010 consist of the following (in thousands):

	<u>2011</u>	<u>2010</u>
Finished goods	\$116,378	\$101,243
Raw materials	63,244	59,921
Work in process	13,139	13,211
	<u>\$192,761</u>	<u>\$174,375</u>

Other Current Assets

Other current assets as of December 31, 2011 and 2010 consist of the following (in thousands):

	<u>2011</u>	<u>2010</u>
Value added tax receivables	\$16,941	\$13,829
Supplier receivables	5,381	5,703
Recoverable income taxes	3,338	3,708
Derivatives (forward exchange contracts)	1,703	2,884
Prepaid insurance	2,307	2,222
Prepays and other current assets	15,150	13,235
	<u>\$44,820</u>	<u>\$41,581</u>

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Property and Equipment

Property and equipment as of December 31, 2011 and 2010 consist of the following (in thousands):

	<u>2011</u>	<u>2010</u>
Machinery and equipment	\$ 360,215	\$ 332,687
Land, buildings and improvements	95,737	91,956
Furniture and fixtures	14,034	27,775
Leasehold improvements	<u>15,750</u>	<u>15,705</u>
	485,736	468,123
Less allowance for depreciation	<u>(356,024)</u>	<u>(337,360)</u>
	<u>\$ 129,712</u>	<u>\$ 130,763</u>

Acquisitions

In September 2011, the company completed the acquisition of Dynamic Medical Systems (DMS), a solutions-based service organization with a strong presence in the western United States, for \$41,465,000, which was paid in cash. The acquisition gives the company a national rental footprint, which strategically enhances the company's ability to service regional and national long-term care providers. DMS has a clinical solution selling approach for wound therapies, safe patient handling and other rental applications in institutional settings. Pursuant to the purchase agreement, the company agreed to pay contingent consideration of up to \$8,000,000 if certain goals were met over the next 24 months, principally earnings projections, for which the company has recorded a liability amount of \$7,300,000 based on the company's estimate of the probable payout.

In October 2011, the company acquired a developed technology intangible asset and inventory related to a negative pressure wound therapy product in the United States for \$965,000.

In June 2010, Invacare Corporation acquired Centralized Medical Equipment LLC and the majority of the assets of Specialty Medical Equipment LLC, both Massachusetts limited liability companies, collectively referred to as Boston Rentals, which rent equipment to skilled nursing and long-term care providers, for \$13,725,000, which was paid in cash.

The results of the acquisitions are included in the Institutional Products Group segment since the date of acquisition.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Goodwill

The carrying amount of goodwill by operating segment is as follows (in thousands):

	<u>North America/ HME</u>	<u>Invacare Supply Group</u>	<u>Institutional Products Group</u>	<u>Europe</u>	<u>Asia/ Pacific</u>	<u>Consolidated</u>
Balance at January 1, 2010	\$ 9,551	\$23,073	\$20,267	\$467,385	\$ 35,817	\$556,093
Foreign currency translation adjustments	—	—	1,238	(60,870)	4,330	(55,302)
Purchase accounting adjustments	6,292	—	—	—	—	6,292
Balance at December 31, 2010	\$15,843	\$23,073	\$21,505	\$406,515	\$ 40,147	\$507,083
Reclassification	(7,853)	—	7,853	—	—	—
Foreign currency translation adjustments	—	—	(537)	14,668	(418)	13,713
Acquisitions	—	—	23,528	—	—	23,528
Impairment charge	(7,990)	—	—	—	(39,729)	(47,719)
Balance at December 31, 2011	<u>\$ —</u>	<u>\$23,073</u>	<u>\$52,349</u>	<u>\$421,183</u>	<u>\$ —</u>	<u>\$496,605</u>

As a result of the Dynamic Medical Systems acquisition in 2011, additional goodwill of \$23,528,000 was recorded for the Institutional Product Group segment, which is deductible for tax purposes. As a result of the Boston Rentals acquisition in 2010, additional goodwill of \$6,292,000 was recorded, which is deductible for tax purposes. In the third quarter of 2011 and as a result of an acquisition that expanded the company's North American rental operations, management re-evaluated its rental operations and determined that sales are more closely aligned with institutional customers and as a result, these operations are now included and evaluated as part of IPG. The reclassification noted in the table above reflects the impact of the change by management.

In accordance with *Intangibles—Goodwill and Other*, ASC 350, goodwill is reviewed for impairment. To review goodwill for impairment in accordance with ASC 350, the company first estimates the fair value of each reporting unit and compares the calculated fair value to the carrying value of the each reporting unit. A reporting unit is defined as an operating segment or one level below. The company has determined that its reporting units are the same as its operating segments. The company completes its annual impairment tests in the fourth quarter of each year or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. To estimate the fair values of the reporting units, the company utilizes a discounted cash flow method (DCF) model in which the company forecasts income statement and balance sheet amounts based on assumptions regarding future sales growth, profitability, inventory turns, days' sales outstanding, etc. to forecast future cash flows. The cash flows are discounted using a weighted average cost of capital discount rate where the cost of debt is based on quoted rates for 20-year debt of companies of similar credit risk and the cost of equity is based upon the 20-year treasury rate for the risk free rate, a market risk premium, the industry average beta and a small cap stock adjustment. The discount rates used have a significant impact upon the discounted cash flow methodology utilized in the company's annual impairment testing as higher discount rates decrease the fair value estimates. The assumptions used are based on a market participant's point of view and yielded a discount rate of 9.27% in 2011 for the company's initial impairment analysis compared to 9.59% in 2010 and 10.74% in 2009.

The company also utilizes an EV (Enterprise Value) to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) Method to compute the fair value of its reporting units which considers potential acquirers and their EV to EBITDA multiples adjusted by an estimated premium. While more weight is given to the discounted cash flow method, the EV to EBITDA Method does provide corroborative evidence of the reasonableness of the discounted cash flow method results.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Goodwill—Continued

The results of the company's Step I annual impairment test indicated a potential impairment in the Asia Pacific segment. As a result, the company completed a Step II impairment test for this segment. Pursuant to ASC 360, the company compared the forecasted un-discounted cash flows of the Asia/Pacific segment to the carrying value of the net assets, which indicated no impairment of any other long-lived assets. As part of the Step II test, the company calculated the fair value of all recorded and unrecorded assets and liabilities to determine the goodwill impairment amount. As a result of reduced profitability in the Asia/Pacific segment in the fourth quarter of 2011, uncertainty associated with future market conditions, and based on the Step II calculated results, the company recorded an impairment charge related to goodwill in the Asia Pacific segment of \$39,729,000 in the fourth quarter of 2011, which represented the entire goodwill amount for the segment.

In December 2011, the FDA requested that the company agree to a consent decree of injunction at the company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio, the proposed terms of which would require the suspension of certain operations at those facilities until they are certified by the company and then determined by the FDA to be in compliance with FDA quality system regulations. In accordance with ASC 350, a significant decline in the company's stock price and market capitalization, as occurred following the announcement of the consent decree, should be considered as indicators of possible impairment that would require an interim assessment of goodwill for impairment. The company believes the consent decree would primarily impact the company's NA/HME segment if the operations at the facilities cited were suspended.

The company is in the process of negotiating with the FDA on the terms of the consent decree. As of December 31, 2011, the company updated the assumptions and variables in its DCF model as of December 31, 2011 in regards to the NA/HME segment and factored in a 230 basis point risk premium to the discount rate used to reflect the increased uncertainty with the company's forecasted cash flows for the reporting unit. The risk premium adjustment was calculated by the company by considering the decline in the company's stock price as well as the company's EBITDA multiple. The premium adjustment was made as the company was not able to produce a range of cash flows given the lack of clarity on the final terms of the consent decree. The results of the calculation as of December 31, 2011 confirmed that the carrying value of the NA/HME reporting unit exceeded its fair value. Pursuant to ASC 360, the company compared the forecasted un-discounted cash flows of the NA/HME segment to the carrying value of the net assets, which indicated no impairment of any other long-lived assets. The company then conducted a preliminary Step II test in which the fair values of all recorded and unrecorded assets and liabilities were calculated to determine the estimated impairment charge of \$7,990,000, which represented the entire goodwill amount for the segment. The company expects to finalize the Step II analysis and record any adjustment in the first quarter of 2012.

While there was no indication of impairment in 2011 related to goodwill for the Europe, ISG or IPG segments, a future potential impairment is possible for each or any of the company's segments should actual results differ materially from forecasted results used in the valuation analysis. Furthermore, the company's annual valuation of goodwill can differ materially if the market inputs used to determine the discount rate change significantly. For instance, higher interest rates or greater stock price volatility would increase the discount rate and thus increase the chance of impairment. In consideration of this potential, the company reviewed the results if the discount rate used were 100 basis points higher for the 2011 impairment analysis and determined that there still would not be an indicator of potential impairment for the Europe, ISG or IPG segments.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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 \$31,777,000 related to trademarks, which have indefinite lives. The changes in intangible balances reflected on the balance sheet from December 31, 2010 to December 31, 2011 were the result of foreign currency translation and amortization except for intangible write-downs, noted below, which totaled \$1,761,000 and additions resulting from acquisitions. As a result of the DMS acquisition, a customer list intangible of \$18,800,000, which was assigned a ten-year life, other intangibles of \$1,000,000, which were assigned four-year lives, and a trademark intangible of \$400,000, which was assigned a five-year life, were recorded by the IPG segment. The IPG segment also acquired a developed technology intangible of \$801,000, which was assigned a seven-year life, and a trademark intangible of \$295,000, which has an indefinite life.

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

	December 31, 2011		December 31, 2010	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer Lists	\$ 94,790	\$50,832	\$ 72,998	\$40,071
Trademarks	31,777	—	31,246	—
License agreements	3,160	3,160	3,183	2,958
Developed Technology	9,823	4,870	8,521	3,988
Patents	6,358	5,266	7,518	5,863
Other	7,510	5,970	6,092	5,767
	<u>\$153,418</u>	<u>\$70,098</u>	<u>\$129,558</u>	<u>\$58,647</u>

Amortization expense related to other intangibles was \$10,542,000, \$8,451,000 and \$8,671,000 for 2011, 2010 and 2009, respectively. Estimated amortization expense for each of the next five years is expected to be \$10,175,000 for 2012, \$9,414,000 in 2013, \$8,633,000 in 2014, \$7,219,000 in 2015 and \$5,440,000 in 2016. Amortized intangibles are being amortized on a straight-line basis for periods from 3 to 20 years with the majority of the intangibles being amortized over a life of between 10 and 13 years.

In accordance with ASC 350, *Intangibles—Goodwill and Other*, the company reviews intangibles for impairment. The company's intangible assets consist of intangible assets with defined lives as well as intangible assets with indefinite lives. Defined-lived intangible assets consist principally of customer lists, developed technology, license agreements, patents and other miscellaneous intangibles such as non-compete agreements. The company's indefinite lived intangible assets consist entirely of trademarks.

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.

During the fourth quarter of 2011, the company recognized intangible write-down charges of \$1,761,000 comprised of: customer list impairment of \$625,000 in the IPG segment, customer list impairment of \$508,000 in the NA/HME segment, indefinite-lived trademark impairment of \$427,000 in the Europe segment and an

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other Intangibles —Continued

intellectual property impairment of \$201,000 in the Asia/Pacific segment. The after-tax and pre-tax impairment amounts were the same for each of the above impairments except for the indefinite-lived trademark impairment in the Europe segment which was \$320,000 after-tax. As a result of the company's 2010 intangible impairment review, impairment charges of \$336,000 and \$248,000 were recorded related to trademarks for IPG and a customer list for NA/HME, respectively, as the actual and remaining forecasted cash flows associated with these intangibles were less than the cash flows originally used to value the intangibles.

Current Liabilities

Accrued expenses as of December 31, 2011 and 2010 consisted of accruals for the following (in thousands):

	<u>2011</u>	<u>2010</u>
Salaries and wages	\$ 42,174	\$ 46,658
Taxes other than income taxes, primarily Value Added Taxes	23,007	19,981
Warranty cost	19,842	18,252
Freight	11,087	11,189
Professional	7,252	7,333
Product liability, current portion	3,468	4,134
Rebates	3,681	3,320
Insurance	2,657	2,393
Interest	1,255	2,273
Derivative liability (foreign forward exchange contracts)	893	1,929
Severance	5,158	524
Other items, principally trade accruals	12,121	12,093
	<u>\$132,595</u>	<u>\$130,079</u>

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*.

Changes in accrued warranty costs were as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Balance as of January 1	\$ 18,252	\$21,506
Warranties provided during the period	11,225	5,996
Settlements made during the period	(12,068)	(9,681)
Changes in liability for pre-existing warranties during the period, including expirations	2,433	431
Balance as of December 31	<u>\$ 19,842</u>	<u>\$18,252</u>

The increase in the liability for pre-existing warranties in 2011, as shown above, is the result of product recalls.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Long-Term Debt

Debt as of December 31, 2011 and 2010 consisted of the following (in thousands):

	<u>2011</u>	<u>2010</u>
\$400,000,000 senior secured revolving credit facility, due in October 2015	\$247,063	\$184,932
Convertible senior subordinated debentures at 4.125%, due in February 2027	9,797	52,064
Other notes and lease obligations	<u>8,624</u>	<u>9,068</u>
	265,484	246,064
Less current maturities of long-term debt	<u>(5,044)</u>	<u>(7,974)</u>
	<u>\$260,440</u>	<u>\$238,090</u>

The company's senior secured revolving credit agreement (the "Credit Agreement"), entered into on October 28, 2010, provides for a \$400 million senior secured revolving credit facility maturing in October 2015. Pursuant to the terms of the Credit Agreement, the company may from time to time borrow, repay and re-borrow up to an aggregate outstanding amount at any one time of \$400 million, subject to customary conditions. The Credit Agreement also provides for the issuance of swing line loans. Borrowings under the Credit Agreement bear interest, at the company's election, at (i) the London Inter-Bank Offer Rate ("LIBOR") plus a margin; or (ii) a Base Rate Option plus a margin. The applicable margin is currently 1.75% per annum for LIBOR loans and 0.75% for the Base Rate Option loans based on the company's leverage ratio. In addition to interest, the company is required to pay commitment fees on the unused portion of the Credit Agreement. The commitment fee rate is currently 0.30% per annum. Like the interest rate spreads, the commitment fee is subject to adjustment based on the company's leverage ratio. The obligations of the borrowers under the Credit Agreement are secured by substantially all of the company's U.S. assets and are guaranteed by substantially all of the company's material domestic and foreign subsidiaries.

The Credit Agreement contains certain covenants that are customary for similar credit arrangements, including covenants relating to, among other things, financial reporting and notification, compliance with laws, preservation of existence, maintenance of books and records, use of proceeds, maintenance of properties and insurance, and limitations on liens, dispositions, issuance of debt, investments, payment of dividends, repurchases of capital stock, acquisitions, transactions with affiliates, and capital expenditures. There also are financial covenants that require the company to maintain a maximum leverage ratio (consolidated funded indebtedness to consolidated EBITDA, each as defined in the Credit Agreement) of no greater than 3.5 to 1, and a minimum interest coverage ratio (consolidated EBITDA to consolidated interest charges, each as defined in the Credit Agreement) of no less than 3.5 to 1. As of December 31, 2011, the company's leverage ratio was 1.81 and the company's interest coverage ratio was 23.80 compared to a leverage ratio of 1.89 and an interest coverage ratio of 8.40 as of December 31, 2010. As of December 31, 2011, the company was in compliance with all covenant requirements and under the most restrictive covenant of the company's borrowing arrangements, the company had the capacity to borrow up to an additional \$152,937,000.

The company may from time to time seek to retire or purchase its 4.125% Convertible Senior Subordinated Debentures due 2027, in open market purchases, privately negotiated transactions or otherwise. Such purchases or exchanges, if any, will depend on prevailing market conditions, the company's liquidity requirements, contractual restrictions and other factors. The amounts involved in any such transactions, individually or in the aggregate, may be material. In 2011, the company repurchased and extinguished \$63,351,000 principal amount of its Convertible Senior Subordinated Debentures compared to \$57,799,000 in 2010. As of December 31, 2011, the company had \$13,850,000 remaining of Convertible Senior Subordinated Debentures.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Long-Term Debt—Continued

While there is general concern about the potential for rising interest rates, the company believes that its exposure to interest rate fluctuations is manageable given that portions of the company's debt are at fixed rates into 2013, the company has the ability to utilize swaps to exchange variable rate debt to fixed rate debt, if needed, and the company's free cash flow should allow it to absorb any modest rate increases in the months ahead without any material impact on its liquidity or capital resources. In 2011, the company entered into interest rate swap agreements to effectively convert a portion of floating rate revolving credit facility debt to fixed rate debt to avoid the risk of changes in market interest rates. Specifically, interest rate swap agreements for notional amounts of \$18,000,000 and \$22,000,000 through September 2013, \$20,000,000 and \$25,000,000 through May 2013 and \$15,000,000 through February 2013 were entered into that fix the LIBOR component of the interest rate on that portion of the revolving credit facility debt at rates of 0.625%, 0.46%, 1.08%, 0.73% and 1.05%, respectively, for effective aggregate rates of 2.375%, 2.21%, 2.83%, 2.48% and 2.80%, respectively. As of December 31, 2011, the weighted average floating interest rate on borrowing was 2.54% compared to 3.29% as of December 31, 2010.

The Credit Agreement required the company to redeem, purchase or repurchase no less than \$100 million in principal amount of the 9.75% Senior Notes due 2015 and/or the company's 4.25% Convertible Senior Subordinated Debentures due 2027 (the "Convertible Notes") by February 28, 2011. This was completed by December 31, 2010. After February 28, 2011, the company may redeem, purchase or repurchase the Convertible Notes so long as no event of default is then occurring or would be caused thereby and the company's leverage ratio after such redemption, purchase or repurchase is not more than 3.00 to 1. The Credit Agreement provides for customary events of default with corresponding grace periods, including, among other things, failure to pay any principal or interest when due, failure to perform or observe covenants, bankruptcy or insolvency events and change of control.

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, and at the company's discretion. The debentures allow the company to satisfy the conversion using any combination of cash or stock. 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. As of December 31, 2011, the principal amount of the company's Convertible Notes exceeded the if-converted value of those notes by \$5,307,000. During 2011, the company retired \$63,351,000 in principal amount of Convertible Notes at a premium above par. In accordance with ASC 470-20, Convertible Debt, the company utilized the inducement method of accounting to calculate the loss associated with the early retirement of the convertible debt. For the year ended December 31, 2011, the company recorded expense of \$24,200,000 related to the loss on the debt extinguishment including the write-off of \$1,554,000 of deferred financing fees, which were previously capitalized.

The company includes the dilutive effect of shares necessary to settle the conversion spread in the Net Earnings per Share—Assuming Dilution calculation unless such amounts are anti-dilutive. The initial conversion rate is 40.3323 shares per \$1,000 principal amount of debentures, which represents an initial conversion price of approximately \$24.79 per share. Holders of the debentures can convert the debt to common stock if the company's common stock price is at a level in excess of \$32.23, a 30% premium to the initial conversion price for at least 20 trading days during a period of 30 consecutive trading days preceding the date on which the notice of conversion is given. At a conversion price of \$32.23 (30% premium over \$24.79), the full conversion of the

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Long-Term Debt—Continued

convertible debt equates to 559,000 shares. The debentures are redeemable at the company's option, subject to specified conditions, on or after February 6, 2012 through and including February 1, 2017. The company may redeem some or all of the debentures for cash on or after February 1, 2017. Holders have the right to require the company to repurchase all or some of their debentures upon the occurrence of certain circumstances on February 1, 2017 and 2022. The company evaluated the terms of the call, redemption and conversion features under the applicable accounting literature, including *Derivatives and Hedging*, ASC 815, and determined that the features did not require separate accounting as derivatives. The notes, debentures and common shares issuable upon conversion of the debentures have been registered under the Securities Act.

The components of the company's convertible debt as of December 31, 2011 and 2010 consist of the following (in thousands):

	<u>2011</u>	<u>2010</u>
Carrying amount of equity component	\$25,216	\$ 46,205
Principal amount of liability component	\$13,850	\$ 77,201
Unamortized discount	(4,053)	(25,137)
Net carrying amount of liability component	<u>\$ 9,797</u>	<u>\$ 52,064</u>

The unamortized discount of \$4,053,000 is to be amortized through February 2017. The effective interest rate on the liability component was 11.5% for 2007 through 2011. Non-cash interest expense of \$1,565,000, \$3,198,000 and \$4,142,000 was recognized in 2011, 2010 and 2009, respectively, in comparison to actual interest expense paid of \$1,670,000, \$4,178,000 and \$5,569,000 based on the stated coupon rate of 4.125%, for each of the same periods. The convertible debt was not convertible as of December 31, 2011 nor was the convertible debt conversion price threshold of \$32.23, as noted above, met.

Included in the \$400,000,000 senior secured revolving credit facility, there was \$12,982,000 of borrowings denominated in foreign currencies as of December 31, 2010 compared to none as of December 31, 2011. For 2011 and 2010, the weighted average interest rate on all borrowings was 2.64% and 6.06%, respectively.

The aggregate minimum maturities of long-term debt for each of the next five years are as follows: \$5,044,000 in 2012, \$1,143,000 in 2013, \$1,071,000 in 2014, \$1,088,000 in 2015, and \$244,161,000 in 2016. Interest paid on all borrowings was \$10,789,000, \$28,341,000 and \$33,188,000 in 2011, 2010 and 2009, respectively.

Other Long-Term Obligations

Other long-term obligations as of December 31, 2011 and 2010 consist of the following (in thousands):

	<u>2011</u>	<u>2010</u>
Supplemental Executive Retirement Plan liability	\$ 27,488	\$26,133
Product liability	18,280	20,026
Deferred income taxes	28,948	32,559
Deferred compensation	9,937	8,542
Other	21,497	12,331
Total long-term obligations	<u>\$106,150</u>	<u>\$99,591</u>

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Leases and Commitments

The company leases a portion of its facilities, transportation equipment, data processing equipment and certain other equipment. These leases have terms from 1 to 20 years and provide for renewal options. Generally, the company is required to pay taxes and normal expenses of operating the facilities and equipment. As of December 31, 2011, the company is committed under non-cancelable operating leases, which have initial or remaining terms in excess of one year and expire on various dates through 2024. Lease expenses were approximately \$27,298,000 in 2011, \$23,094,000 in 2010, and \$23,966,000 in 2009.

The amount of buildings and equipment capitalized in connection with capital leases was \$14,643,000 and \$14,197,000 at December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, accumulated amortization was \$5,914,000 and \$5,201,000, respectively, which is included in depreciation expense.

Future minimum operating and capital lease commitments, as of December 31, 2011, are as follows (in thousands):

<u>Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2012	\$ 1,578	\$22,711
2013	1,481	16,585
2014	1,440	11,291
2015	1,420	7,611
2016	1,417	4,403
Thereafter	<u>3,701</u>	<u>6,772</u>
Total future minimum lease payments	11,037	<u>\$69,373</u>
Amounts representing interest	<u>(2,587)</u>	
Present value of minimum lease payments	<u>\$ 8,450</u>	

Retirement and Benefit Plans

Substantially all full-time salaried and hourly domestic employees are included in the Invacare Retirement Savings Plan sponsored by the company. The company makes matching cash contributions up to 66.7% of employees' contributions up to 3% of compensation. The company also makes quarterly contributions to this Plan equal to a percentage of qualified wages as determined by resolution of the Compensation and Management Development Committee of the Board of Directors. In the first and second quarters of 2011, quarterly contributions were made at 4% of qualified wages. Per resolution of the Compensation and Management Development Committee of the Board of Directors, effective July 1, 2011, quarterly contributions were reduced to 1% of qualified wages. The company will continue contributions at 1% for subsequent quarters unless and until the company determines that a different rate of quarterly contributions shall be made. The company may make discretionary contributions to the domestic plans based on an annual resolution of the Board of Directors. Contribution expense for the Invacare Retirement Savings Plan in 2011, 2010 and 2009 was \$5,599,000, \$7,153,000, and \$6,681,000, respectively.

The company sponsors a Deferred Compensation Plus Plan covering certain employees, which provides for elective deferrals and the company retirement deferrals so that the total retirement deferrals equal amounts that would have contributed to the company's principal retirement plans if it were not for limitations imposed by income tax regulations.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Retirement and Benefit Plans—Continued

The company also sponsors a non-qualified defined benefit Supplemental Executive Retirement Plan (SERP) for certain key executives. Effective December 31, 2008, the SERP was amended, in part to comply with IRS Section 409A. As a result of the amendment, the plan became a defined benefit cash balance plan for the non-retired participants and thus, future payments by the company will be made based upon a cash balance formula with interest credited at a rate determined annually by the Compensation and Management Development Committee of the Board of Directors, currently 0%. In the first and second quarters of 2011, interest was credited at 6%. Per resolution of the Compensation and Management Development Committee of the Board of Directors, the interest crediting rate was reduced from 6% per annum to 0% effective as of July 1, 2011 for active participants in the SERP. The fund will continue the interest crediting rate at 0% thereafter unless and until the Administrative Committee determines that a different crediting interest rate shall be made. The plan continues to be unfunded with individual hypothetical accounts maintained for each participant.

The SERP projected benefit obligation related to this unfunded plan was \$27,879,000 and \$26,524,000 at December 31, 2011 and 2010, respectively, and the accumulated benefit obligation was \$27,879,000 and \$26,524,000 at December 31, 2011 and 2010, respectively. The projected benefit obligations were calculated using an assumed future salary increase of 4% at both December 31, 2011 and 2010. The assumed discount rate, relevant for three participants unaffected by plan conversion was 4.4% and 6% for 2011 and 2010, respectively, based upon the discount rate on high-quality fixed-income investments without adjustment. The retirement age was 65 for both 2011 and 2010. Expense for the plan in 2011, 2010 and 2009 was \$1,765,000, \$2,176,000, and \$2,128,000, respectively of which \$904,000, \$1,535,000, and \$1,454,000 was related to interest cost with the remaining portion related to service costs, prior service costs and other gains/losses. Benefit payments in 2011, 2010 and 2009 were \$410,000, \$1,592,000 and \$517,000, respectively. In 2010, benefit payments included a lump sum distribution to a plan participant.

In 2005, the company began sponsoring a Death Benefit Only Plan (DBO) for certain key executives that provides a benefit equal to three times the participant's final target earnings should the participant's death occur while an employee and a benefit equal to one times the participant's final earnings upon the participant's death after normal retirement or post-employment. Expense for the plan in 2011, 2010 and 2009 was \$536,000, \$399,000, and \$190,000, respectively of which \$449,000, \$235,000, and \$131,000 was related to service cost and accrual adjustments with the remaining portion related to interest costs. There were no benefit payments in 2011, 2010 or 2009.

In Europe, the company maintains defined benefit plans in Switzerland and in the Netherlands. In Switzerland, a statutory pension plan is maintained with a private insurance company and, in accordance with Swiss law, the plan functions as a defined contribution plan whereby employee and employer contributions are defined as a percentage of individual salary depending on the age of the employee and a guaranteed interest rate, which is annually defined by the Swiss Pension Fund. Under U.S. GAAP, the plan is treated as a defined benefit plan. In the Netherlands, the statutory pension plan contains benefits and provisions for an Old Age Pension benefit that starts at age 65 and is payable until death and a Survivors Pension that starts immediately after the death of the insured and is payable until the death of the surviving spouse. The plan also provides for a Temporary Survivors Pension, an Orphans Pension and Premium Waiver During Disability. Under U.S. GAAP the plan is treated as a defined benefit plan. In 2011, income for the plans was \$215,000 while in 2010 expense for the plans was \$23,000.

Accumulated other comprehensive income associated with the SERP, Swiss pension plan, Netherlands pension plan and DBO was \$4,781,000 and \$2,332,000 as of December 31, 2011 and 2010, respectively for a net change of \$2,449,000 with \$2,086,000 in net periodic benefit costs recognized during the year.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Retirement and Benefit Plans—Continued

In conjunction with these non-qualified U.S. defined benefit plans, the company has invested in life insurance policies related to certain employees to help satisfy these future obligations. The current cash surrender value of these policies approximates the current benefit obligations.

Shareholders' Equity Transactions

The company's Common Shares have a \$.25 stated value. The Common Shares and the Class B Common Shares generally have identical rights, terms and conditions and vote together as a single class on most issues, except that the Class B Common Shares have ten votes per share, carry a 10% lower cash dividend rate and, in general, can only be transferred to family members. Holders of Class B Common Shares are entitled to convert their shares into Common Shares at any time on a share-for-share basis.

The 2003 Performance Plan, as amended (the "2003 Plan"), allows the Compensation and Management Development Committee of the Board of Directors (the "Committee") to grant up to 6,800,000 Common Shares in connection with incentive stock options, non-qualified stock options, stock appreciation rights and stock awards (including the use of restricted stock), which includes the addition of 3,000,000 Common Shares authorized for issuance under the 2003 Plan, as approved by the company's shareholders on May 21, 2009. The maximum aggregate number of Common Shares that may be granted during the term of the 2003 Plan pursuant to all awards, other than stock options, is 1,300,000 Common Shares. The Committee has the authority to determine which participants will receive awards, the amount of the awards and the other terms and conditions of the awards. During 2011, 2010 and 2009, the Committee granted 608,896, 646,797 and 754,581 non-qualified stock options, respectively, each having a term of ten years and generally granted at the fair market value of the company's Common Shares on the date of grant under the 2003 Plan. There were no stock appreciation rights outstanding at December 31, 2011, 2010 or 2009.

Restricted stock awards for 101,329, 92,900, and 125,840 shares were granted in years 2011, 2010 and 2009 without cost to the recipients. The 2011 weighted average fair value of the 2011 restricted stock awards was \$24.45. The restricted stock awards vest ratably over the four years after the award date. There were 90,700 restricted stock awards with a weighted average fair value of \$23.39 that vested in 2011 and no restricted stock awards were forfeited in 2011.

At December 31, 2011 and 2010, there were 249,499 and 243,770 shares, respectively, for restricted stock awards that were unvested. Unearned restricted stock compensation of \$5,227,000 in 2011, \$5,190,000 in 2010 and \$4,866,000 in 2009, 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. Compensation expense of \$2,199,000, \$2,023,000 and \$1,783,000 was recognized in 2011, 2010 and 2009, respectively, related to restricted stock awards granted since 2004.

The 2003 Plan and the 1994 Performance Plan have provisions that allow employees to exchange mature shares to pay the exercise price and surrender shares for the options or restricted awards to cover the minimum tax withholding obligation. Under these provisions, the company acquired approximately 31,000 treasury shares for \$676,000 in 2011, 280,000 shares for \$7,830,000 in 2010 and 410,000 shares for \$8,841,000 in 2009.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Shareholders' Equity Transactions—Continued

The following table summarizes information about stock option activity for the three years ended 2011, 2010 and 2009:

	<u>2011</u>	<u>Weighted Average Exercise Price</u>	<u>2010</u>	<u>Weighted Average Exercise Price</u>	<u>2009</u>	<u>Weighted Average Exercise Price</u>
Options outstanding at January 1	4,484,195	\$29.60	4,619,528	\$29.28	4,910,547	\$29.37
Granted	608,896	24.57	646,797	25.22	754,581	20.38
Exercised	(178,744)	23.15	(399,144)	23.08	(490,325)	19.68
Canceled	(458,982)	31.42	(382,986)	25.07	(555,275)	26.27
Options outstanding at December 31	<u>4,455,365</u>	<u>\$28.99</u>	<u>4,484,195</u>	<u>\$29.60</u>	<u>4,619,528</u>	<u>\$29.28</u>
Options exercise price range at						
December 31	10.70 to		10.70 to		10.70 to	
	\$ 47.80		\$ 47.80		\$ 47.80	
Options exercisable at December 31	2,960,317		2,941,772		3,099,092	
Options available for grant at						
December 31*	1,914,574		2,478,905		3,132,623	

* Options available for grant as of December 31, 2011 reduced by net restricted stock award activity of 584,007.

The following table summarizes information about stock options outstanding at December 31, 2011:

<u>Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding At 12/31/11</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable At 12/31/11</u>	<u>Weighted Average Exercise Price</u>
\$ 10.70 – \$15.00	15,653	4.1 years	\$12.19	10,153	\$10.70
\$ 15.01 – \$25.00	1,857,809	7.4	22.54	933,867	22.13
\$ 25.01 – \$35.00	1,241,312	6.8	26.28	675,706	26.87
\$ 35.01 – \$47.80	1,340,591	2.3	40.64	1,340,591	40.64
Total	<u>4,455,365</u>	5.7	<u>\$28.99</u>	<u>2,960,317</u>	<u>\$31.55</u>

The plans provide that shares granted come from the company's authorized but un-issued Common Shares or treasury shares. In addition, the company's stock-based compensation plans allow participants to exchange mature shares for the exercise price and surrender shares for minimum withholding taxes, which results in the company acquiring treasury shares. Pursuant to the plans, the Committee has established that the majority of the 2011 grants may not be exercised within one year from the date granted and options must be exercised within ten years from the date granted. Accordingly, for the stock options issued in 2011, 2010 and 2009, 25% of such options vested in the year following issuance. The stock options awarded during such years provided a four-year vesting period whereby options vest equally in each year. The 2011, 2010 and 2009 expense has been adjusted for estimated forfeitures of awards that will not vest because service or employment requirements have not been met.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Shareholders' Equity Transactions—Continued

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:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Expected dividend yield	0.2%	0.21%	0.21%
Expected stock price volatility	37.3%	39.6%	39.9%
Risk-free interest rate	1.11%	1.57%	1.81%
Expected life in years	5.9	3.9	3.7
Forfeiture percentage	6.9%	10.5%	12.7%

Expected stock price volatility is calculated at each date of grant based on historical stock prices for a period of time commensurate with the expected life of the option. The weighted-average fair value of options granted during 2011, 2010 and 2009 was \$8.88, \$7.83 and \$6.84, respectively. The weighted-average remaining contractual life of options outstanding at December 31, 2011, 2010 and 2009 was 5.7, 5.8 and 5.5 years, respectively. The weighted-average contractual life of options exercisable at December 31, 2011 was 4.2 years. The total intrinsic value of stock awards exercised in 2011, 2010 and 2009 was \$1,429,000, \$1,928,000 and \$962,000, respectively. As of December 31, 2011, the intrinsic value of all options outstanding and of all options exercisable was \$49,000 and \$47,000, respectively.

The exercise of stock awards in 2011, 2010 and 2009 resulted in cash received by the company totaling \$4,139,000, \$2,912,000 and \$1,628,000 for each period, respectively with no tax benefits for any period. The total fair value of awards vested during 2011, 2010 and 2009 was \$4,362,000, \$5,261,000 and \$1,716,000, respectively.

As of December 31, 2011, there was \$16,031,000 of total unrecognized compensation cost from stock-based compensation arrangements granted under the plans, which is related to non-vested options and shares, which includes \$5,227,000 related to restricted stock awards. The company expects the compensation expense to be recognized over a weighted-average period of approximately two years. Prior to the adoption of ASC 718, *Compensation—Stock Compensation*, the company presented all tax benefit deductions resulting from the exercise of stock options as a component of operating cash flows in the Consolidated Statement of Cash Flows. In accordance with ASC 718, any tax benefits resulting from tax deductions in excess of the compensation expense recognized for those options is classified as a component of financing cash flows.

Effective July 8, 2005, the company adopted a new Rights Agreement to replace the company's previous shareholder rights plan, which expired on July 7, 2005. In order to implement the new Rights Agreement, the Board of Directors declared a dividend of one Right for each outstanding share of the company's Common Shares and Class B Common Shares to shareholders of record at the close of business on July 19, 2005. Each Right entitles the registered holder to purchase from the company one one-thousandth of a Series A Participating Serial Preferred Share, without par value, at a Purchase Price of \$180.00 in cash, subject to adjustment. The Rights will not become exercisable until after a person (an "Acquiring Party") has acquired, or obtained the right to acquire, or commences a tender offer to acquire, shares representing 30% or more of the company's outstanding voting power, subject to deferral by the Board of Directors. After the Rights become exercisable, under certain circumstances, the Rights may be exercisable to purchase Common Shares of the company, or common shares of an acquiring company, at a price equal to the exercise price of the Right divided by 50% of the then current market price per Common Share or acquiring company common share, as the case may be. The Rights will expire on July 18, 2015 unless previously redeemed or exchanged by the company. The company may redeem and terminate the Rights in whole, but not in part, at a price of \$0.001 per Right at any time prior to 10 days following a public announcement that an Acquiring Party has acquired beneficial ownership of shares representing 30% or more of the company's outstanding voting power, and in certain other circumstances described in the Rights Agreement.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Capital Stock

Capital stock activity for 2011, 2010 and 2009 consisted of the following (in thousands of shares):

	<u>Common Stock Shares</u>	<u>Class B Shares</u>	<u>Treasury Shares</u>
January 1, 2009 Balance	32,449	1,111	(1,424)
Exercise of stock options	490	—	(386)
Restricted stock awards	109	—	(24)
December 31, 2009 Balance	<u>33,048</u>	<u>1,111</u>	<u>(1,834)</u>
Exercise of stock options	399	—	(247)
Restricted stock awards	87	—	(33)
Purchase of shares for treasury	—	—	(205)
Conversion of Class B to Common	25	(25)	—
December 31, 2010 Balance	<u>33,559</u>	<u>1,086</u>	<u>(2,319)</u>
Exercise of stock options	180	—	—
Restricted stock awards	96	—	(31)
Purchase of shares for treasury	—	—	(750)
December 31, 2011 Balance	<u><u>33,835</u></u>	<u><u>1,086</u></u>	<u><u>(3,100)</u></u>

Stock awards for 4,900, 5,600 and 17,325 shares were canceled in 2011, 2010 and 2009.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other Comprehensive Earnings

The components of accumulated other comprehensive earnings are as follows (in thousands):

	<u>Currency Translation Adjustments</u>	<u>Unrealized Gain (Loss) on Available- for-Sale Securities</u>	<u>Defined Benefit Plans</u>	<u>Unrealized Gain (Loss) on Derivative Financial Instruments</u>	<u>Total</u>
Balance at January 1, 2009	\$ 54,692	\$ 588	\$(1,558)	\$(2,933)	\$ 50,789
Foreign currency translation adjustments	119,453				119,453
Unrealized gain on available for sale securities		96			96
Deferred tax liability relating to unrealized gain on available for sale securities		(34)			(34)
Valuation reserve reduction relating to unrealized loss on available for sale securities		34			34
Defined Benefit Plans:					
Amortization of prior service costs and unrecognized losses ...			537		537
Deferred tax expense resulting from amortization of prior service costs and unrecognized losses, prior service credit and other amounts arising during the year			(188)		(188)
Valuation reserve reduction associated with item directly above			188		188
Current period unrealized gain on cash flow hedges, net of reclassifications				3,360	3,360
Deferred tax loss relating to unrealized loss on derivative financial instruments				(31)	(31)
Balance at December 31, 2009	<u>\$174,145</u>	<u>\$ 684</u>	<u>\$(1,021)</u>	<u>\$ 396</u>	<u>\$174,204</u>
Foreign currency translation adjustments	(59,823)				(59,823)
Unrealized loss on available for sale securities		(684)			(684)
Deferred tax asset relating to unrealized loss on available for sale securities		239			239
Valuation reserve reduction relating to unrealized loss on available for sale securities		(239)			(239)
Defined Benefit Plans:					
Amortization of prior service costs and unrecognized losses ...			549		549
Amounts arising during the year, primarily due to the addition of new participants			(1,860)		(1,860)
Deferred tax adjustment resulting from defined benefit plan amortization of prior service costs and unrecognized losses			459		459
Valuation reserve increase associated with item directly above			(459)		(459)
Current period unrealized gain on cash flow hedges, net of reclassifications				273	273
Deferred tax loss relating to unrealized gain on derivative financial instruments				(28)	(28)
Balance at December 31, 2010	<u>\$114,322</u>	<u>\$ —</u>	<u>\$(2,332)</u>	<u>\$ 641</u>	<u>\$112,631</u>
Foreign currency translation adjustments	14,440				14,440
Defined Benefit Plans:					
Amortization of prior service costs and unrecognized losses ...			321		321
Amounts arising during the year, primarily due to the addition of new participants			(2,770)		(2,770)
Deferred tax adjustment resulting from Defined benefit plan amortization of prior service costs and unrecognized losses			857		857
Valuation reserve increase associated with item directly above			(857)		(857)
Current period unrealized loss on cash flow hedges, net of reclassifications				305	305
Deferred tax benefits relating to unrealized loss on derivative financial instruments				(51)	(51)
Balance at December 31, 2011	<u>\$128,762</u>	<u>\$ —</u>	<u>\$(4,781)</u>	<u>\$ 895</u>	<u>\$124,876</u>

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other Comprehensive Earnings —Continued

A \$250,000 net loss in 2011, a net gain of \$2,803,000 in 2010 and a net loss of \$3,158,000 in 2009 were reclassified into earnings related to derivative instruments designated and qualifying as cash flow hedges.

Charges Related to Restructuring Activities

During 2011, as part of the company's ongoing globalization initiative to reduce complexity within its global footprint, the company finalized the closure of two 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. As a result, the company recorded restructuring charges of \$10,870,000 in 2011, of which \$277,000 was recorded in cost of products sold as it related to inventory markdowns. 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. The majority of the outstanding charge accruals at December 31, 2011 are expected to be paid out within the next twelve months.

Previously, the company recorded restructuring charges which commenced in 2005 and concluded in the fourth quarter of 2009. For 2009, the company recorded restructuring charges of \$4,804,000 of which \$298,000 was recorded in cost of products sold as it related to inventory markdowns. The previous charges were related to a multi-year cost reduction plan.

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

	<u>Severance</u>	<u>Product Line Discontinuance</u>	<u>Contract Terminations</u>	<u>Other</u>	<u>Total</u>
December 31, 2010 Balance					
NA/HME	—	—	—	—	—
ISG	—	—	—	—	—
Europe	—	—	—	—	—
Asia/Pacific	—	—	—	—	—
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Charges					
NA/HME	4,756	—	—	4	4,760
IPG	123	—	—	—	123
ISG	335	—	—	—	335
Europe	3,288	277	1,788	113	5,466
Asia/Pacific	186	—	—	—	186
Total	<u>8,688</u>	<u>277</u>	<u>1,788</u>	<u>117</u>	<u>10,870</u>
Payments					
NA/HME	(1,664)	—	—	(4)	(1,668)
IPG	(52)	—	—	—	(52)
ISG	(82)	—	—	—	(82)
Europe	(1,546)	(277)	(1,714)	(113)	(3,650)
Asia/Pacific	(186)	—	—	—	(186)
Total	<u>(3,530)</u>	<u>(277)</u>	<u>(1,714)</u>	<u>(117)</u>	<u>(5,638)</u>
December 31, 2011 Balance					
NA/HME	3,092	—	—	—	3,092
IPG	71	—	—	—	71
ISG	253	—	—	—	253
Europe	1,742	—	74	—	1,816
Asia/Pacific	—	—	—	—	—
Total	<u>\$ 5,158</u>	<u>\$ —</u>	<u>\$ 74</u>	<u>\$ —</u>	<u>\$ 5,232</u>

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income Taxes

Earnings (loss) before income taxes consist of the following (in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Domestic	\$(6,910)	\$(16,115)	\$ (797)
Foreign	12,497	54,156	48,076
	<u>\$ 5,587</u>	<u>\$ 38,041</u>	<u>\$47,279</u>

The company has provided for income taxes (benefits) as follows (in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current:			
Federal	\$ 3,244	\$ 4,749	\$(8,310)
State	1,000	689	1,775
Foreign	<u>13,008</u>	<u>9,729</u>	<u>10,850</u>
	17,252	15,167	4,315
Deferred:			
Federal	(3,474)	(1,696)	—
Foreign	<u>(4,078)</u>	<u>(771)</u>	<u>1,785</u>
	<u>(7,552)</u>	<u>(2,467)</u>	<u>1,785</u>
Income Taxes	<u>\$ 9,700</u>	<u>\$12,700</u>	<u>\$ 6,100</u>

Included in the 2009 Federal current tax benefit is a benefit of \$7,750,000 resulting from the carryback of the 2008 Federal domestic net operating loss as a result of the Worker, Homeownership and Business Assistance Act of 2009, which became effective in November of 2009. The deferred tax asset previously recorded by the company, related to the loss carryforward, was fully offset by a tax valuation allowance. A reconciliation to the effective income tax rate from the federal statutory rate is as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	11.6	1.2	2.4
Tax credits	(22.1)	(41.1)	(146.4)
Foreign taxes at less than the federal statutory rate excluding valuation allowances ..	(89.2)	(24.4)	(12.2)
Federal and foreign valuation allowance	0.7	4.6	13.3
Non-deductible extinguishment and debt finance costs	46.1	8.5	—
Withholding taxes	(0.6)	(0.4)	2.4
Compensation	5.6	(0.3)	0.6
Dividends	47.0	54.8	129.3
Life insurance	(12.2)	(1.1)	(1.0)
Foreign branch activity	(25.2)	(3.4)	(5.2)
Uncertain tax positions	2.0	(1.7)	(2.5)
Goodwill and intangible asset impairment (Asia/Pacific)	252.7	—	—
Foreign tax audit settlement	(88.6)	—	—
Other, net	<u>10.8</u>	<u>1.7</u>	<u>(2.8)</u>
	<u>173.6%</u>	<u>33.4%</u>	<u>12.9%</u>

INVACARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income Taxes—Continued

The foreign tax audit settlement above relates to a tax settlement in Germany as the German government agreed to follow a European Court of Justice case and a German Tax Court case that impacted an open tax return year for a benefit of \$4,947,000 or \$0.15 per diluted share.

At December 31, 2011, total deferred tax assets were \$104,493,000, total deferred tax liabilities were \$39,278,000 and the tax valuation allowance total was \$92,543,000 for a net deferred income tax liability of \$27,328,000 compared to total deferred tax assets of \$108,850,000, total deferred tax liabilities of \$53,650,000 and a tax valuation allowance total of \$81,981,000 for a net deferred income tax liability of \$26,781,000 at December 31, 2010. Significant components of deferred income tax assets and liabilities at December 31, 2011 and 2010 are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Current deferred income tax assets (liabilities), net:		
Loss carryforwards	\$ 2,017	\$ 5,853
Bad debt	9,698	9,398
Warranty	4,591	4,338
State and local taxes	2,687	2,699
Other accrued expenses and reserves	2,068	5,535
Inventory	1,949	2,742
Compensation and benefits	2,644	1,182
Product liability	292	292
Valuation allowance	(24,887)	(21,657)
Other, net	561	(4,604)
	<u>\$ 1,620</u>	<u>\$ 5,778</u>
Long-term deferred income tax assets (liabilities), net:		
Goodwill & intangibles	(23,388)	(24,478)
Convertible debt	(941)	(8,798)
Fixed assets	(14,949)	(15,770)
Compensation and benefits	14,388	13,416
Loss and credit carryforwards	43,603	45,519
Product liability	4,236	4,428
State and local taxes	10,734	9,480
Valuation allowance	(67,656)	(60,324)
Other, net	5,025	3,968
	<u>\$(28,948)</u>	<u>\$(32,559)</u>
Net Deferred Income Taxes	<u>\$(27,328)</u>	<u>\$(26,781)</u>

The company recorded a valuation allowance for its domestic net deferred tax assets due to a domestic loss recognized in each year from 2007 through 2011 and based upon near term domestic projections. For 2010, the company had a domestic current tax return liability of \$1,800,000 and for 2011 the company estimates a domestic current tax return liability of approximately \$4,750,000 and has recorded a deferred tax asset equal to these amounts. In addition, during 2007 through 2010, the company also recorded valuation allowances for certain foreign country net deferred tax assets where recent performance results in a three year cumulative loss and near term projections do not warrant substantial positive evidence to overcome the past losses. The company made net payments for income taxes of \$14,290,000, \$2,600,000, and \$12,340,000 during the years ended December 31, 2011, 2010 and 2009, respectively.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Income Taxes—Continued

At December 31, 2011, the company had foreign tax loss carryforwards of approximately \$39,102,000 of which \$31,662,000 are non-expiring and \$7,440,000 expire in 2027, of which \$30,305,000 are offset by valuation allowances. At December 31, 2011, the company also had a \$3,798,000 domestic capital loss carryforward which expires in 2012, and \$370,000,000 of domestic state and local tax loss carryforwards, of which \$175,000,000 expire between 2012 and 2015, \$92,000,000 expire between 2016 and 2025 and \$103,000,000 expire after 2026. The company has domestic federal tax credit carryforwards of \$34,340,000 of which \$12,953,000 expire between 2014 and 2018 and \$21,387,000 expire between 2019 and 2021.

As of December 31, 2011 and 2010, the company had a liability for uncertain tax positions, excluding interest and penalties of \$3,525,000 and \$3,420,000, respectively. The company does not believe there will be a material change in its unrecognized tax positions over the next twelve months.

The total liabilities associated with unrecognized tax benefits that, if recognized, would impact the effective tax rates were \$3,525,000 and \$3,420,000 at December 31, 2011 and 2010, respectively.

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$4,500	\$ 6,710
Additions to:		
Positions taken during the current year	475	1,400
Positions taken during a prior year	105	265
Deductions due to:		
Exchange rate impact	20	(65)
Positions taken during a prior year	(545)	(15)
Settlements with taxing authorities	(195)	(3,185)
Lapse of statute of limitations	(285)	(610)
Balance at end of year	<u>\$4,075</u>	<u>\$ 4,500</u>

The company recognizes interest and penalties associated with uncertain tax positions in income tax expense. During 2011, 2010 and 2009 the benefit for interest and penalties was \$20,000, \$1,150,000 and \$490,000, respectively. The company had approximately \$720,000 and \$740,000 of accrued interest and penalties as of December 31, 2011 and 2010, respectively.

The company and its subsidiaries file income tax returns in the U.S. and certain foreign jurisdictions. The company is subject to U.S. federal income tax examinations for calendar year 2009 and 2011, and is subject to various U.S. state income tax examinations for 2006 to 2011. With regards to foreign income tax jurisdictions, the company is generally subject to examinations for the periods 2006 to 2011.

INVACARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Net Earnings Per Common Share

The following table sets forth the computation of basic and diluted net earnings per common share.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(In thousands except per share data)		
Basic			
Average common shares outstanding	31,958	32,393	31,969
Net earnings (loss)	\$ (4,113)	\$25,341	\$41,179
Net earnings per common share	\$ (0.13)	\$ 0.78	\$ 1.29
Diluted			
Average common shares outstanding	31,958	32,393	31,969
Shares related to convertible debt	—	163	—
Stock options and awards	—	138	27
Average common shares assuming dilution	31,958	32,694	31,996
Net earnings (loss)	\$ (4,113)	\$25,341	\$41,179
Net earnings (loss) per common share	\$ (0.13)	\$ 0.78	\$ 1.29

At December 31, 2011, 2010, and 2009, 2,355,567, 2,396,061 and 4,230,630 shares associated with stock options, respectively were excluded from the average common shares assuming dilution, as they were anti-dilutive. At December 31, 2011, the majority of the anti-dilutive shares were granted at an exercise price of \$24.45, which was lower than the average fair market value price of \$27.4 for 2011. For the 2011 Net Earnings per Share calculation, all of the shares associated with stock options were anti-dilutive because of the company's loss. In 2010, 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 price of \$25.82 for 2010. In 2009, the majority of the anti-dilutive shares were granted at an exercise price of \$41.87, which was higher than the average fair market value price of \$19.42 for 2009. Shares necessary to settle a conversion spread on the convertible notes were included in the common shares assuming dilution as the average market price of the company stock for 2010 did exceed the conversion price, which was not the case in 2011 and 2009.

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. In December 2000, Invacare entered into an agreement with De Lage Landen, Inc. ("DLL"), a third party financing company, to provide the majority of future lease financing to Invacare's North America customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The company retains a recourse obligation of \$10,414,000 at December 31, 2011 to DLL for events of default under the contracts, which total \$70,354,000 at December 31, 2011. *Guarantees*, ASC 460, requires the company to record a guarantee liability as it relates to the limited recourse obligation. As such, the company has recorded a liability of \$381,000 for this guarantee obligation within accrued expenses. The company monitors the collections status of these contracts and has provided amounts for estimated losses in its allowances for doubtful accounts in accordance with *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

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Concentration of Credit Risk—Continued

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.

The company's top 10 customers accounted for approximately 14.4% of 2011 net sales. The loss of business of one or more of these customers may have a significant impact on the company, although no single customer accounted for more than 3.3% of the company's 2011 net sales. Providers who are part of a buying group generally make individual purchasing decisions and are invoiced directly by the company.

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 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 2011, 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 operations. The company was not a party to any interest rate swap agreements during 2010.

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

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Derivatives—Continued

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 60% and 90% of total forecasted transactions for a given entity's exposure to currency rate changes and the transactions hedged are recurring in nature. 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 \$189,793,000 and \$173,337,000 matured during the twelve months ended December 31, 2011 and 2010, respectively. Foreign exchange forward contracts qualifying and designated for hedge accounting treatment were as follows (in thousands USD):

	December 31, 2011		December 31, 2010	
	Notional Amount	Unrealized Net Gain (Loss)	Notional Amount	Unrealized Net Gain (Loss)
USD / AUD	\$ 3,324	\$ 104	\$ 3,072	\$(223)
USD / CAD	8,424	29	32,974	(14)
USD / CNY	8,130	(16)	—	—
USD / EUR	42,267	701	32,419	927
USD / GBP	1,806	19	4,212	86
USD / NZD	8,256	86	9,577	202
USD / SEK	4,520	19	10,395	95
USD / MXP	14,029	(146)	—	—
EUR / AUD	1,220	(48)	—	—
EUR / CHF	5,433	(22)	8,768	54
EUR / GBP	17,201	9	18,068	(577)
EUR / SEK	—	—	8,045	92
EUR / NZD	7,009	505	2,630	5
GBP / CHF	929	(5)	770	(3)
GBP / SEK	1,690	12	2,014	(43)
GBP / DKK	—	—	1,016	(27)
CHF / SEK	271	(2)	6,937	(3)
DKK / CHF	—	—	514	1
DKK / SEK	—	—	1,465	18
NOK / CHF	436	(1)	—	—
	<u>\$124,945</u>	<u>\$1,244</u>	<u>\$142,876</u>	<u>\$ 590</u>

Fair Value Hedging Strategy

In 2011 and 2010, the company did not utilize any derivatives designated as fair value hedges. However, the company has in the past utilized fair value hedges in the form of forward contracts to manage the foreign exchange risk associated with certain firm commitments and has entered into interest rate swaps to effectively convert fixed-rate debt to floating-rate debt in an attempt to avoid paying higher than market interest rates. For derivative instruments designated and qualifying as fair value hedges, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item associated with the hedged risk are recognized in the same line item associated with the hedged item in earnings.

Derivatives Not Qualifying or Designated for Hedge Accounting Treatment

The company utilizes foreign currency forward or option contracts that do not qualify for hedge accounting treatment in an attempt to manage the risk associated with the conversion of earnings in foreign currencies into U.S. Dollars. While these derivative instruments do not qualify for hedge accounting treatment in accordance

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Derivatives—Continued

with ASC 815, these derivatives do provide the company with a means to manage the risk associated with currency translation. These instruments are recorded at fair value in the consolidated balance sheet and any gains or losses are recorded as part of earnings in the current period. Gains of \$48,000 and \$28,000 were recorded by the company for the year ended December 31, 2011 and 2010, respectively, related to derivatives not qualifying for hedge accounting treatment.

The company also utilizes foreign currency forward contracts that are not designated as hedges in accordance with ASC 815. 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 2011 or 2010 related to these forward contracts and the associated short-term intercompany trading receivables and payables.

Foreign exchange forward contracts not qualifying or designated for hedge accounting treatment entered into in 2011 and 2010, respectively, and outstanding were as follows (in thousands USD):

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Notional Amount</u>	<u>Gain (Loss)</u>	<u>Notional Amount</u>	<u>Gain (Loss)</u>
CAD / USD	\$ 2,146	\$ 12	\$14,636	\$337
EUR / USD	—	—	1,394	28
CHF / USD	3,419	(118)	—	—
SEK / CAD	2,545	52	—	—
EUR / CAD	4,244	(10)	—	—
EUR / DKK	3,482	—	—	—
	<u>\$15,836</u>	<u>\$ (64)</u>	<u>\$16,030</u>	<u>\$365</u>

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

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
<u>Derivatives designated as hedging instruments under ASC 815</u>				
Foreign currency forward contracts	\$1,621	\$377	\$2,518	\$1,928
Interest rate swap contracts	18	388	—	—
<u>Derivatives not designated as hedging instruments under ASC 815</u>				
Foreign currency forward contracts	64	128	366	1
Total derivatives	<u>\$1,703</u>	<u>\$893</u>	<u>\$2,884</u>	<u>\$1,929</u>

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

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Derivatives—Continued

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

<u>Derivatives in ASC 815 cash flow hedge relationships</u>	<u>Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)</u>	<u>Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)</u>	<u>Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)</u>
<u>Year ended December 31, 2011</u>			
Foreign currency forward contracts	\$ 925	\$ (250)	\$ (7)
Interest rate swap contracts	(370)	—	—
	<u>\$ 555</u>	<u>\$ (250)</u>	<u>\$ (7)</u>
<u>Year ended December 31, 2010</u>			
Foreign currency forward contracts	\$(2,530)	\$2,803	\$ (134)
Interest rate swap contracts	—	—	—
	<u>\$(2,530)</u>	<u>\$2,803</u>	<u>\$ (134)</u>
<u>Derivatives not designated as hedging instruments under ASC 815</u>			<u>Amount of Gain (Loss) Recognized in Income on Derivatives</u>
<u>Year ended December 31, 2011</u>			
Foreign currency forward contracts			\$ 83
<u>Year ended December 31, 2010</u>			
Foreign currency forward contracts			\$3,800

The gains or losses recognized as the result of the settlement of cash flow hedge foreign currency forward contracts are recognized in net sales for hedges of inventory sales or cost of product sold for hedges of inventory purchases. In 2011, net sales were increased by \$3,080,000 and cost of product sold was increased by \$3,330,000 for a net realized loss of \$250,000. In 2010, net sales were increased by \$1,605,000 and cost of product sold was decreased by \$1,198,000 for a net realized gain of \$2,803,000 compared to a net loss of \$339,000 in 2009.

The company recognized net losses of \$385,000 and \$0 in 2011 and 2010, respectively related to interest rate swap agreements which are reflected in interest expense on the consolidated statement of operations. Gains of \$83,000 and \$3,800,000 were recognized in selling, general and administrative (SG&A) expenses in 2011 and 2010, respectively, on foreign currency forward contracts not designated as hedging instruments which were offset by losses of comparable amounts also recorded in SG&A expenses on the intercompany trade payables for which the derivatives were entered into to offset.

Fair Values of Financial Instruments

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.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Values of Financial Instruments—Continued

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

	Total	Basis for Fair Value Measurements at Reporting Date		
		Quoted Prices in Active Markets for Identical Assets / (Liabilities)	Significant Other Observable Inputs	Significant Other Unobservable Inputs
		Level I	Level II	Level III
December 31, 2011:				
Forward Exchange Contracts—net	\$1,180	—	\$1,180	—
Interest Rate Swap Agreements—net	(370)	—	(370)	—
December 31, 2010:				
Forward Exchange Contracts—net	\$ 955	—	\$ 955	—

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 gains and losses that result from the majority of the forward contracts are deferred and recognized when the offsetting gains and losses for the identified transactions are recognized. The company recognized a net loss of \$250,000 in 2011, a net gain of \$2,803,000 in 2010 and a net loss of \$339,000 in 2009 on ASC 815 designated derivatives. Gains or losses recognized as the result of the settlement of forward contracts are recognized in cost of products sold for hedges of inventory transactions, sales for hedges of forecasted sales or selling, general and administrative expenses for other hedged transactions. The company's forward contracts are included in Other Current Assets or Accrued Expenses in the Consolidated Balance Sheets.

The carrying amounts and fair values of the company's financial instruments at December 31, 2011 and 2010 are as follows (in thousands):

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 34,924	\$ 34,924	\$ 48,462	\$ 48,462
Other investments	1,362	1,362	1,588	1,588
Installment receivables, net of reserves	7,477	7,477	5,672	5,672
Long-term debt (including current maturities of long-term debt)	(265,484)	(264,112)	(246,064)	(264,382)
Forward contracts in Other Current Assets	1,685	1,685	2,884	2,884
Forward contracts in Accrued Expenses	(505)	(505)	(1,929)	(1,929)
Interest Rate Swap Agreements in Other Current Assets	18	18	—	—
Interest Rate Swap Agreements in Accrued Expenses	(388)	(388)	—	—

The company, in estimating its fair value disclosures for financial instruments, used the following methods and assumptions:

Cash, cash equivalents: The carrying amount reported in the balance sheet for cash, cash equivalents equals its fair value.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Values of Financial Instruments—Continued

Installment receivables: The carrying amount 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 values for the company's senior notes and convertible debt are based on quoted market prices as of the end of the year, while the revolving credit facility fair values are based upon the company's estimate of the market for similar borrowing arrangements.

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 and the company does not have the ability to easily sell these investments. The company completed an evaluation of the residual value related to these investments in the fourth quarter of 2011 and recognized an immaterial loss. An immaterial loss was also recognized in the fourth quarter of 2010. In the fourth quarter 2009, the company recognized impairment charges totaling \$6,713,000 pre-tax, which is included in the All Other segment, as a result of an evaluation of the residual value related to these investments which considered the weakening in the commercial real estate market as well as the redemption of one of the investments for a nominal amount.

Other Intangibles and Goodwill: Under *Intangibles—Goodwill and Other*, ASC 350, goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. Furthermore, goodwill and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. To review goodwill for impairment in accordance with ASC 350, the company first estimates the fair value of each reporting unit and compares the calculated fair value to the carrying value of the each reporting unit. A reporting unit is defined as an operating segment or one level below. The company has determined that its reporting units are the same as its operating segments. The company completes its annual impairment tests in the fourth quarter of each year. To estimate the fair values of the reporting units, the company utilizes a discounted cash flow method (DCF) model in which the company forecasts income statement and balance sheet amounts based on assumptions regarding future sales growth, profitability, inventory turns, days' sales outstanding, etc. to forecast future cash flows. The cash flows are discounted using a weighted average cost of capital discount rate where the cost of debt is based on quoted rates for 20-year debt of companies of similar credit risk and the cost of equity is based upon the 20-year treasury rate for the risk free rate, a market risk premium, the industry average beta and a small cap stock adjustment. The discount rates used have a significant impact upon the discounted cash flow methodology utilized in the company's annual impairment testing as higher discount rates decrease the fair value estimates. The assumptions used are based on a market participant's point of view and yielded a discount rate of 9.27% in 2011 for the company's initial impairment analysis compared to 9.59% in 2010 and 10.74% in 2009.

The company also utilizes an EV (Enterprise Value) to EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) Method to compute the fair value of its reporting units which considers potential acquirers and their EV to EBITDA multiples adjusted by an estimated premium. While more weight is given to the discounted cash flow method, the EV to EBITDA Method does provide corroborative evidence of the reasonableness of the discounted cash flow method results.

The results of the company's Step I annual impairment test indicated a potential impairment in the Asia Pacific segment. As a result, the company completed a Step II impairment test for this segment. Pursuant to *Property, Plant and Equipment*, ASC 360, the company compared the forecasted un-discounted cash flows of the Asia/Pacific

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Values of Financial Instruments—Continued

segment to the carrying value of the net assets, which calculated no impairment of any other long-lived assets. As part of the Step II test, the company calculated the fair value of all recorded and unrecorded assets and liabilities to determine the goodwill impairment amount. As a result of reduced profitability in the Asia/Pacific segment in the fourth quarter of 2011, uncertainty associated with future market conditions, and based on the Step II calculated results, the company recorded an impairment charge related to goodwill in the Asia Pacific segment of \$39,729,000 in the fourth quarter of 2011, which represented the entire goodwill amount for the segment.

In December, 2011, the FDA requested that the company agree to a consent decree of injunction at the company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio, the proposed terms of which would require the suspension of certain operations at those facilities until they are certified by the company and determined by the FDA to be in compliance with FDA quality system regulations. As a result of this potential uncertain event, the company's market capitalization declined considerably on the day of the disclosure. In accordance with ASC 350, a significant decline in the company's stock price and market capitalization, should be considered as indicators of possible impairment that would require an interim assessment of goodwill for impairment. The company believes the consent decree would primarily impact the company's NA/HME segment if the operations at the subject facilities were suspended.

The company is in the process of negotiating with the FDA the terms of the consent decree. As of December, 2011, the company updated the assumptions and variables in its DCF model as of December, 2011 in regards to the NA/HME segment and factored in a 230 basis point risk premium to the discount rate used to reflect the increased uncertainty with the company's forecasted cash flows for the reporting unit. The risk premium adjustment was calculated by the company by considering the decline in the company's stock price as well as the company's EBITDA multiple. The premium adjustment was made as the company was not able to produce a range of cash flows given the lack of clarity on the final terms of the consent decree. The results of the calculation as of December 31, 2011 confirmed that the carrying value of the NA/HME reporting unit exceeded its fair value. Pursuant to ASC 360, the company compared the forecasted un-discounted cash flows of the NA/HME segment to the carrying value of the net assets, which indicated no impairment of any other long-lived assets. The company then conducted a preliminary Step II test in which the fair values of all recorded and unrecorded assets and liabilities were calculated to determine the estimated impairment charge of \$7,990,000, which represented the entire goodwill amount for the segment. The company expects to finalize the Step II analysis and record any adjustment in the first quarter of 2012.

While there was no indication of impairment in 2011 related to goodwill for the Europe, ISG or IPG segments, a future potential impairment is possible for any of the company's segments should actual results differ materially from forecasted results used in the valuation analysis. Furthermore, the company's annual valuation of goodwill can differ materially if the market inputs used to determine the discount rate change significantly. For instance, higher interest rates or greater stock price volatility would increase the discount rate and thus increase the chance of impairment. In consideration of this potential, the company reviewed the results if the discount rate used were 100 basis points higher for the 2011 impairment analysis and determined that there still would not be any indicator of potential impairment for the Europe, ISG or IPG segments.

The company's intangible assets consist of intangible assets with defined lives as well as intangible assets with indefinite lives. Defined-lived intangible assets consist principally of customer lists, developed technology, license agreements, patents and other miscellaneous intangibles such as non-compete agreements. The company's indefinite lived intangible assets consist entirely of trademarks.

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

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Values of Financial Instruments—Continued

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.

During the fourth quarter of 2011, the company recognized intangible write-down charges of \$1,761,000 comprised of: customer list impairment of \$625,000 in the IPG segment, customer list impairment of \$508,000 in the NA/HME segment, indefinite-lived trademark impairment of \$427,000 in the European segment and an intellectual property impairment of \$201,000 in the Asia/Pacific segment. The fair value of the customer lists were calculated using an excess earnings method, using a discounted cash flow model. Estimated cash flow returns to the customer relationship were reduced by the cash flows required to satisfy the return requirements of each of the assets employed with the residual cash flow then discounted to value the customer relationship. The fair value of the trademark was calculated using a relief from royalty payment methodology which requires applying an estimated market royalty rate to forecasted net sales and discounting the resulting cash flows to determine fair value. The intellectual property intangible asset was impaired as the intellectual property was deemed no longer viable and is no longer being used.

As a result of the company's 2010 intangible impairment review, the company calculated the fair value of an IPG segment indefinite-lived trademark and a NA/HME segment customer list as each had indicators of impairment, principally net sales less than forecasted. The fair value of the trademark was calculated using a relief from royalty payment methodology which requires applying an estimated market royalty rate to forecasted net sales and discounting the resulting cash flows to determine fair value. The calculated fair value resulted in an impairment charge of \$336,000 for the IPG segment indefinite-lived trademark. The fair value of the customer list was calculated using an excess earnings method, using a discounted cash flow model. Estimated cash flow returns to the customer relationship were reduced by the cash flows required to satisfy the return requirements of each of the assets employed with the residual cash flow then discounted to value the customer relationship. The calculated fair value resulted in an impairment charge of \$248,000 for the NA/HME segment customer list.

The fair values of the company's intangible assets were calculated using inputs that are not observable in the market and included management's own estimates regarding the assumptions that market participants would use and thus these inputs are deemed Level III inputs in regards to the fair value hierarchy.

Business Segments

The company operates in five primary business segments: North America/Home Medical Equipment (NA/HME), Invacare Supply Group (ISG), Institutional Products Group (IPG), Europe and Asia/Pacific.

The NA/HME segment sells each of three primary product lines, which includes: lifestyle, mobility and seating and respiratory therapy products. Invacare Supply Group sells distributed product and the Institutional Products Group sells or rents long-term care medical equipment, health care furnishings and accessory products. Europe and Asia/Pacific sell the same product lines as NA/HME and IPG. Each business segment sells 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.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Business Segments—Continued

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.

In 2011, and as a result of an acquisition that expanded the company's North American rental operations, management re-evaluated its rental operations and determined that sales are more closely aligned with institutional customers and as a result, these operations are now included and evaluated as part of IPG. The principal changes were that IPG revenues for 2010 and 2009 were increased by \$9,158,000 and \$1,383,000, respectively, with an offsetting decrease in revenues for the NA/HME segment. In addition, IPG earnings before income taxes for 2010 and 2009 were decreased by \$128,000 and \$472,000, respectively, with an offsetting increase in NA/HME earnings before income taxes. In addition, IPG total assets for 2010 and 2009 were increased by \$21,945,000 and \$4,193,000, respectively, with an offsetting decrease in NA/HME.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues from external customers			
North America/HME	\$ 746,782	\$ 738,441	\$ 747,018
Invacare Supply Group	299,491	297,517	280,295
Institutional Products Group	124,121	97,419	90,806
Europe	544,537	506,069	503,084
Asia/Pacific	86,199	82,635	71,933
Consolidated	<u>\$1,801,130</u>	<u>\$1,722,081</u>	<u>\$1,693,136</u>
Intersegment revenues			
North America/HME	\$ 88,188	\$ 83,316	\$ 72,273
Invacare Supply Group	76	75	232
Institutional Products Group	6,567	5,571	2,639
Europe	9,308	10,165	9,719
Asia/Pacific	32,876	33,616	31,143
Consolidated	<u>\$ 137,015</u>	<u>\$ 132,743</u>	<u>\$ 116,006</u>
Depreciation and amortization			
North America/HME	\$ 12,814	\$ 15,674	\$ 17,872
Invacare Supply Group	471	383	403
Institutional Products Group	4,942	1,995	1,339
Europe	15,799	13,620	15,285
Asia/Pacific	4,645	4,941	5,555
All Other(1)	212	191	108
Consolidated	<u>\$ 38,883</u>	<u>\$ 36,804</u>	<u>\$ 40,562</u>
Net interest expense (income)			
North America/HME	\$ (446)	\$ 12,824	\$ 26,686
Invacare Supply Group	3,045	3,058	3,153
Institutional Products Group	2,729	530	2,526
Europe	(1,754)	721	(1,876)
Asia/Pacific	2,945	2,790	987
Consolidated	<u>\$ 6,519</u>	<u>\$ 19,923</u>	<u>\$ 31,476</u>

INVACARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Business Segments—Continued

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Earnings (loss) before income taxes			
North America/HME	\$ 42,200	\$ 54,714	\$ 39,587
Invacare Supply Group	8,002	7,547	5,374
Institutional Products Group	12,378	9,130	8,741
Europe	33,579	39,344	34,685
Asia/Pacific	(35,141)	6,754	1,639
All Other(1)	(55,431)	(79,448)	(42,747)
Consolidated	<u>\$ 5,587</u>	<u>\$ 38,041</u>	<u>\$ 47,279</u>
Assets			
North America/HME(2)	\$ 293,949	\$ 334,733	\$ 306,211
Invacare Supply Group	93,566	88,678	86,469
Institutional Products Group	117,626	67,506	49,711
Europe	689,596	660,620	761,992
Asia/Pacific(2)	50,604	92,322	90,318
All Other(1)	35,713	36,541	64,800
Consolidated	<u>\$1,281,054</u>	<u>\$1,280,400</u>	<u>\$1,359,501</u>
Long-lived assets			
North America/HME(2)	\$ 68,190	\$ 81,426	\$ 69,430
Invacare Supply Group	24,445	24,126	24,085
Institutional Products Group	95,010	49,291	34,288
Europe	518,382	510,728	596,142
Asia/Pacific(2)	10,896	52,565	50,323
All Other(1)	35,361	36,105	56,769
Consolidated	<u>\$ 752,284</u>	<u>\$ 754,241</u>	<u>\$ 831,037</u>
Expenditures for assets			
North America/HME	\$ 9,189	\$ 7,407	\$ 7,718
Invacare Supply Group	789	404	196
Institutional Products Group	3,612	2,663	637
Europe	4,876	4,448	5,268
Asia/Pacific	3,480	2,224	3,433
All Other(1)	214	207	747
Consolidated	<u>\$ 22,160</u>	<u>\$ 17,353</u>	<u>\$ 17,999</u>

- (1) Consists of un-allocated corporate SG&A 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 includes loss on debt extinguishment including debt finance charges, interest and fees and impairment charges recognized related to limited partnership investments.
- (2) Asia/Pacific assets and long-lived assets decrease includes decrease of \$39,729,000 and \$201,000 due to goodwill and intangible asset write-offs, respectively in 2011. NA/HME assets and long-lived assets included decreases of \$7,990,000 and \$508,000 due to the goodwill and intangible asset impairment write-offs, respectively, in 2011.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Business Segments—Continued

Net sales by product, are as follows (in thousands):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
North America/HME			
Lifestyle Products	\$ 302,043	\$ 303,798	\$ 296,068
Mobility and Seating	278,113	288,756	283,214
Respiratory Therapy	133,273	111,242	133,821
Other(1)	33,353	34,645	33,915
	<u>\$ 746,782</u>	<u>\$ 738,441</u>	<u>\$ 747,018</u>
Invacare Supply Group			
Distributed	\$ 299,491	\$ 297,517	\$ 280,295
Institutional Products Group			
Continuing Care	\$ 101,889	\$ 88,261	\$ 89,423
Other(1)	22,232	9,158	1,383
	<u>\$ 124,121</u>	<u>\$ 97,419</u>	<u>\$ 90,806</u>
Europe			
Lifestyle Products	\$ 293,425	\$ 289,577	\$ 285,253
Mobility and Seating	209,732	183,271	185,186
Respiratory Therapy	27,866	20,493	17,137
Other(1)	13,514	12,728	15,508
	<u>\$ 544,537</u>	<u>\$ 506,069</u>	<u>\$ 503,084</u>
Asia/Pacific			
Mobility and Seating	\$ 36,483	\$ 38,226	\$ 31,428
Lifestyle Products	20,151	21,216	28,363
Respiratory Therapy	682	1,021	626
Other(1)	28,883	22,172	11,516
	<u>\$ 86,199</u>	<u>\$ 82,635</u>	<u>\$ 71,933</u>
Total Consolidated	<u>\$1,801,130</u>	<u>\$1,722,081</u>	<u>\$1,693,136</u>

(1) Includes various services, including repair services, equipment rentals and external contracting.

No single customer accounted for more than 3.3% of the company's sales.

Contingencies

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 allegedly caused by defective products. All of the product liability lawsuits have been referred to the company's captive insurance company and/or excess insurance carriers and generally are contested vigorously. The coverage territory of the company's insurance is worldwide with the exception of those countries with respect to which, at the time the product is sold for use or at the time a claim is made, the U.S. government has suspended or prohibited diplomatic or trade relations. The amount recorded for identified contingent liabilities is based on estimates. See Other Long-Term Obligations. Amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Contingencies—Continued

that becomes available. Actual costs to be incurred in future periods may vary from the estimates, given the inherent uncertainties in evaluating certain exposures.

As a medical device manufacturer, the company is subject to extensive government regulation, including numerous laws directed at preventing fraud and abuse and laws regulating reimbursement under various government programs. The marketing, invoicing, documenting and other practices of health care suppliers and manufacturers are all subject to government scrutiny. Violations of law or regulations can result in administrative, civil and criminal penalties and sanctions, including disqualification from Medicare and other reimbursement programs, which could have a material adverse effect on the company's business.

Further, the FDA regulates virtually all aspects of a medical device's development, testing, manufacturing, labeling, promotion, distribution and marketing. The company's failure to comply with the regulatory requirements of the FDA and other applicable U.S. regulatory requirements may subject the company to administrative or judicially imposed sanctions. These sanctions include warning letters, civil penalties, criminal penalties, injunctions, consent decrees, product seizure or detention, product recalls and total or partial suspension of production.

As part of its regulatory function, the FDA routinely inspects the sites of medical device companies, and in 2011, the FDA inspected certain of the company's facilities. In December 2011, the FDA requested that the company negotiate and agree to a consent decree of injunction related to the company's headquarters facility and its wheelchair manufacturing facility in Elyria, Ohio. The FDA's proposed consent decree would require suspension of certain operations at these Elyria facilities until they are certified by the company and then determined by FDA to be in compliance with FDA quality system regulations. The company is in the process of negotiating the terms of the proposed consent decree with FDA. In addition, in December 2010, the company received a warning letter from the FDA related to quality system processes and procedures at the company's Sanford, Florida facility. The company is taking these issues very seriously and has added resources to ensure it is addressing all of the FDA's concerns in a timely manner. However, the results of regulatory claims, proceedings, investigations, or litigation are difficult to predict. An unfavorable resolution or outcome of the FDA warning letter or consent decree of injunction could materially and adversely affect the company's business, financial condition, and results of operations.

Any of the above contingencies could have an adverse impact on the company's financial condition or results of operations.

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 4.125% Convertible Senior Subordinated Debentures due 2027 (the "Debentures") with an original aggregate principal amount of \$135,000,000. The majority of the company's subsidiaries are not guaranteeing the indebtedness of the 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 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.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Supplemental Guarantor Information—Continued

CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS

	<u>The Company (Parent)</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Total</u>
			(in thousands)		
Year ended December 31, 2011					
Net sales	\$379,570	\$776,105	\$746,359	\$(100,904)	\$1,801,130
Cost of products sold	276,164	604,102	503,050	(100,664)	1,282,652
Gross Profit	<u>103,406</u>	<u>172,003</u>	<u>243,309</u>	<u>(240)</u>	<u>518,478</u>
Selling, general and administrative expenses	131,145	53,884	182,510	54,560	422,099
Charge related to restructuring activities	3,854	762	5,977	—	10,593
Loss on debt extinguishment including debt finance charges and associated fees	24,200	—	—	—	24,200
Asset write-downs to intangibles and investments	5,531	3,592	40,357	—	49,480
Income (loss) from equity investee	58,155	3,364	1,523	(63,042)	—
Interest expense—net	38	3,056	3,425	—	6,519
Earnings (loss) before Income Taxes	<u>(3,207)</u>	<u>114,073</u>	<u>12,563</u>	<u>(117,842)</u>	<u>5,587</u>
Income taxes	906	76	8,718	—	9,700
Net Earnings (loss)	<u>\$ (4,113)</u>	<u>\$ 113,997</u>	<u>\$ 3,845</u>	<u>\$(117,842)</u>	<u>\$ (4,113)</u>
Year ended December 31, 2010					
Net sales	\$403,227	\$723,402	\$693,463	\$ (98,011)	\$1,722,081
Cost of products sold	283,859	563,837	462,776	(98,032)	1,212,440
Gross Profit	<u>119,368</u>	<u>159,565</u>	<u>230,687</u>	<u>21</u>	<u>509,641</u>
Selling, general and administrative expenses	132,177	70,902	169,114	39,320	411,513
Loss on debt extinguishment including debt finance charges and associated fees	40,164	—	—	—	40,164
Income (loss) from equity investee	97,602	37,438	(591)	(134,449)	—
Interest expense—net	16,208	729	2,986	—	19,923
Earnings (loss) before Income Taxes	<u>28,421</u>	<u>125,372</u>	<u>57,996</u>	<u>(173,748)</u>	<u>38,041</u>
Income taxes	3,080	—	9,620	—	12,700
Net Earnings (loss)	<u>\$ 25,341</u>	<u>\$ 125,372</u>	<u>\$ 48,376</u>	<u>\$(173,748)</u>	<u>\$ 25,341</u>
Year ended December 31, 2009					
Net sales	\$388,141	\$707,618	\$681,374	\$ (83,997)	\$1,693,136
Cost of products sold	275,089	555,503	453,464	(84,114)	1,199,942
Gross Profit	<u>113,052</u>	<u>152,115</u>	<u>227,910</u>	<u>117</u>	<u>493,194</u>
Selling, general and administrative expenses	16,813	118,940	156,791	106,102	398,646
Charge related to restructuring activities	301	60	4,145	—	4,506
Loss on debt extinguishment including debt finance charges and associated fees	2,878	—	—	—	2,878
Asset write-downs to intangibles and investments	8,409	—	—	—	8,409
Income (loss) from equity investee	(22,580)	25,508	(13,445)	10,517	—
Interest expense (income)—net	27,021	(2,897)	7,352	—	31,476
Earnings (loss) before Income Taxes	<u>35,050</u>	<u>61,520</u>	<u>46,177</u>	<u>(95,468)</u>	<u>47,279</u>
Income taxes (benefit)	(6,129)	99	12,130	—	6,100
Net Earnings (loss)	<u>\$ 41,179</u>	<u>\$ 61,421</u>	<u>\$ 34,047</u>	<u>\$(95,468)</u>	<u>\$ 41,179</u>

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Supplemental Guarantor Information—Continued

CONSOLIDATING CONDENSED BALANCE SHEETS

	<u>The Company (Parent)</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Total</u>
	(in thousands)				
December 31, 2011					
Assets					
Current Assets					
Cash and cash equivalents	\$ 3,642	\$ 2,104	\$ 29,178	\$ —	\$ 34,924
Trade receivables, net	83,522	74,161	90,291	—	247,974
Installment receivables, net	—	1,180	5,491	—	6,671
Inventories, net	45,937	49,336	99,006	(1,518)	192,761
Deferred income taxes	422	45	1,153	—	1,620
Other current assets	10,171	6,517	33,812	(5,680)	44,820
Total Current Assets	143,694	133,343	258,931	(7,198)	528,770
Investment in subsidiaries	1,560,693	524,800	—	(2,085,493)	—
Intercompany advances, net	79,598	846,829	200,157	(1,126,584)	—
Other Assets	40,813	698	1,136	—	42,647
Other Intangibles	821	26,838	55,661	—	83,320
Property and Equipment, net	45,459	17,770	66,483	—	129,712
Goodwill	—	54,894	441,711	—	496,605
Total Assets	<u>\$1,871,078</u>	<u>\$1,605,172</u>	<u>\$1,024,079</u>	<u>\$(3,219,275)</u>	<u>\$1,281,054</u>
Liabilities and Shareholders' Equity					
Current Liabilities					
Accounts payable	\$ 73,948	\$ 18,078	\$ 56,779	\$ —	\$ 148,805
Accrued expenses	37,708	21,038	79,529	(5,680)	132,595
Accrued income taxes	508	—	987	—	1,495
Short-term debt and current maturities of long-term obligations	4,210	4	830	—	5,044
Total Current Liabilities	116,374	39,120	138,125	(5,680)	287,939
Long-Term Debt	252,855	227	7,358	—	260,440
Other Long-Term Obligations	47,873	7,312	50,965	—	106,150
Intercompany advances, net	827,451	210,005	89,128	(1,126,584)	—
Total Shareholders' Equity	<u>626,525</u>	<u>1,348,508</u>	<u>738,503</u>	<u>(2,087,011)</u>	<u>626,525</u>
Total Liabilities and Shareholders' Equity	<u>\$1,871,078</u>	<u>\$1,605,172</u>	<u>\$1,024,079</u>	<u>\$(3,219,275)</u>	<u>\$1,281,054</u>

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Supplemental Guarantor Information—Continued

CONSOLIDATING CONDENSED BALANCE SHEETS

	The Company (Parent)	Combined Guarantor Subsidiaries	Combined Non-Guarantor Subsidiaries <small>(in thousands)</small>	Eliminations	Total
December 31, 2010					
Assets					
Current Assets					
Cash and cash equivalents	\$ 4,036	\$ 2,476	\$ 41,950	\$ —	\$ 48,462
Trade receivables, net	95,673	68,504	87,827	—	252,004
Installment receivables, net	—	876	3,083	—	3,959
Inventories, net	72,499	39,299	63,873	(1,296)	174,375
Deferred income taxes	3,289	—	2,489	—	5,778
Other current assets	12,274	6,895	27,685	(5,273)	41,581
Total Current Assets	187,771	118,050	226,907	(6,569)	526,159
Investment in subsidiaries	1,489,732	594,690	—	(2,084,422)	—
Intercompany advances, net	77,990	745,991	226,421	(1,050,402)	—
Other Assets	42,782	1,881	821	—	45,484
Other Intangibles	1,241	8,590	61,080	—	70,911
Property and Equipment, net	46,791	12,093	71,879	—	130,763
Goodwill	5,023	34,388	467,672	—	507,083
Total Assets	\$1,851,330	\$1,515,683	\$1,054,780	\$(3,141,393)	\$1,280,400
Liabilities and Shareholders' Equity					
Current Liabilities					
Accounts payable	\$ 73,468	\$ 14,923	\$ 55,362	\$ —	\$ 143,753
Accrued expenses	39,090	20,690	75,572	(5,273)	130,079
Accrued income taxes	5,633	—	2,869	—	8,502
Short-term debt and current maturities of long-term obligations	7,149	83	742	—	7,974
Total Current Liabilities	125,340	35,696	134,545	(5,273)	290,308
Long-Term Debt	217,164	—	20,926	—	238,090
Other Long-Term Obligations	48,645	1,123	49,823	—	99,591
Intercompany advances, net	807,770	180,743	61,889	(1,050,402)	—
Total Shareholders' Equity	652,411	1,298,121	787,597	(2,085,718)	652,411
Total Liabilities and Shareholders' Equity	\$1,851,330	\$1,515,683	\$1,054,780	\$(3,141,393)	\$1,280,400

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Supplemental Guarantor Information—Continued

CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS

	<u>The Company (Parent)</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u> (in thousands)	<u>Eliminations</u>	<u>Total</u>
Year ended December 31, 2011					
Net Cash Provided (Used) by Operating					
Activities	\$ 38,724	\$ 49,396	\$ 65,516	\$(54,558)	\$ 99,078
Investing Activities					
Purchases of property and equipment	(6,887)	(5,316)	(9,957)	—	(22,160)
Proceeds from sale of property and equipment	—	16	48	—	64
Business acquisitions, net of cash acquired	—	(42,430)	—	—	(42,430)
Other long-term assets	(731)	—	7	—	(724)
Other	(219)	73	133	—	(13)
Net Cash Used for Investing					
Activities	(7,837)	(47,657)	(9,769)	—	(65,263)
Financing Activities					
Proceeds from revolving lines of credit and long-term borrowings	450,595	—	—	—	450,595
Payments on revolving lines of credit and long-term borrowings	(438,766)	(2,111)	(13,690)	—	(454,567)
Proceeds from exercise of stock options	4,139	—	—	—	4,139
Payment of financing costs	(24,113)	—	—	—	(24,113)
Payment of dividends	(1,588)	—	(54,558)	54,558	(1,588)
Purchase of treasury stock	(21,548)	—	—	—	(21,548)
Net Cash Provided (Used) by Financing					
Activities	(31,281)	(2,111)	(68,248)	54,558	(47,082)
Effect of exchange rate changes on cash	—	—	(271)	—	(271)
Decrease in cash and cash equivalents	(394)	(372)	(12,772)	—	(13,538)
Cash and cash equivalents at beginning of year	4,036	2,476	41,950	—	48,462
Cash and cash equivalents at end of year	<u>\$ 3,642</u>	<u>\$ 2,104</u>	<u>\$ 29,178</u>	<u>\$ —</u>	<u>\$ 34,924</u>

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Supplemental Guarantor Information—Continued

CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS

	<u>The Company (Parent)</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u> (in thousands)	<u>Eliminations</u>	<u>Total</u>
Year ended December 31, 2010					
Net Cash Provided (Used) by Operating Activities	\$ 101,658	\$ 15,427	\$ 44,442	\$(39,320)	\$ 122,207
Investing Activities					
Purchases of property and equipment	(7,281)	(1,567)	(8,505)	—	(17,353)
Proceeds from sale of property and equipment	—	—	36	—	36
Business acquisitions, net of cash acquired	—	(13,725)	—	—	(13,725)
Other long-term assets	291	(11)	521	—	801
Other	153	(174)	(355)	—	(376)
Net Cash Used for Investing Activities	(6,837)	(15,477)	(8,303)	—	(30,617)
Financing Activities					
Proceeds from revolving lines of credit and long-term borrowings	689,022	—	19,720	—	708,742
Payments on revolving lines of credit and long-term borrowings	(751,660)	—	—	—	(751,660)
Proceeds from exercise of stock options	2,912	—	—	—	2,912
Payment of financing costs	(30,329)	—	—	—	(30,329)
Payment of dividends	(1,612)	—	(39,320)	39,320	(1,612)
Purchase of treasury stock	(5,687)	—	—	—	(5,687)
Net Cash Provided (Used) by Financing Activities	(97,354)	—	(19,600)	39,320	(77,634)
Effect of exchange rate changes on cash	—	—	(2,995)	—	(2,995)
Increase (Decrease) in cash and cash equivalents	(2,533)	(50)	13,544	—	10,961
Cash and cash equivalents at beginning of year	6,569	2,526	28,406	—	37,501
Cash and cash equivalents at end of year	<u>\$ 4,036</u>	<u>\$ 2,476</u>	<u>\$ 41,950</u>	<u>\$ —</u>	<u>\$ 48,462</u>

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Supplemental Guarantor Information—Continued

CONSOLIDATING CONDENSED STATEMENTS OF CASH FLOWS

	<u>The Company (Parent)</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u> (in thousands)	<u>Eliminations</u>	<u>Total</u>
Year ended December 31, 2009					
Net Cash Provided (Used) by Operating Activities	\$ 154,367	\$ 1,823	\$ 105,575	\$(106,102)	\$ 155,663
Investing Activities					
Purchases of property and equipment	(6,733)	(1,875)	(9,391)	—	(17,999)
Proceeds from sale of property and equipment	5	—	1,158	—	1,163
Other long-term assets	737	(122)	(14)	—	601
Other	(579)	416	(284)	—	(447)
Net Cash Used for Investing Activities	(6,570)	(1,581)	(8,531)	—	(16,682)
Financing Activities					
Proceeds from revolving lines of credit and long-term borrowings	400,123	—	—	—	400,123
Payments on revolving lines of credit and long-term borrowings	(552,294)	—	(1,142)	—	(553,436)
Proceeds from exercise of stock options	1,628	—	—	—	1,628
Payment of dividends	(1,605)	—	(106,102)	106,102	(1,605)
Net Cash Provided (Used) by Financing Activities	(152,148)	—	(107,244)	106,102	(153,290)
Effect of exchange rate changes on cash	—	—	4,294	—	4,294
Increase (Decrease) in cash and cash equivalents	(4,351)	242	(5,906)	—	(10,015)
Cash and cash equivalents at beginning of year	10,920	2,284	34,312	—	47,516
Cash and cash equivalents at end of year	<u>\$ 6,569</u>	<u>\$ 2,526</u>	<u>\$ 28,406</u>	<u>\$ —</u>	<u>\$ 37,501</u>

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Interim Financial Information (unaudited)

	QUARTER ENDED (In thousands, except per share data)			
	March 31,	June 30,	September 30,	December 31,
2011				
Net sales	\$428,498	\$466,412	\$456,519	\$449,701
Gross profit	123,006	134,918	131,077	129,477
Earnings before income taxes	10,004	8,261	17,150	(29,828)
Net earnings (loss)	7,454	10,661	12,800	(35,028)
Net earnings (loss) per share—basic	0.23	0.33	0.40	(1.10)
Net earnings (loss) per share—assuming dilution	0.23	0.32	0.40	(1.10)
	March 31,	June 30,	September 30,	December 31,
2010				
Net sales	\$402,240	\$430,828	\$437,476	\$451,537
Gross profit	117,713	126,490	131,567	133,871
Earnings before income taxes	5,306	2,414	20,923	9,398
Net earnings	3,106	(611)	15,598	7,248
Net earnings per share—basic	0.10	(0.02)	0.48	0.22
Net earnings per share—assuming dilution	0.09	(0.02)	0.48	0.22

Earnings and earnings per share for the quarter ended March 31, 2011 reflects loss on debt extinguishment including debt finance charges and associated fees of \$4,881,000 (\$4,881,000 after tax or \$0.15 per share assuming dilution) as a result of the company's decision to extinguish higher interest rate debt.

Earnings and earnings per share for the quarter ended June 30, 2011 reflects loss on debt extinguishment including debt finance charges and associated fees of \$11,855,000 (\$11,855,000 after tax or \$0.36 per share assuming dilution) as a result of the company's decision to extinguish higher interest rate debt; a tax settlement benefit in Germany of \$5,100,000 (\$5,100,000 after tax or \$0.16 per share assuming dilution); and restructuring charges of \$431,000 (\$411,000 after tax or \$0.01 per share assuming dilution).

Earnings and earnings per share for the quarter ended September 30, 2011 reflects loss on debt extinguishment including debt finance charges and associated fees of \$7,462,000 (7,462,000 after tax or \$0.23 per share assuming dilution) as a result of the company's decision to extinguish higher interest rate debt and restructuring charge of \$1,311,000 (\$971,000 after tax or \$0.03 per share assuming dilution).

Loss and loss per share for the quarter ended December 31, 2011 reflects asset write-downs for goodwill and intangibles of \$49,480,000 (\$48,719,000 after tax or \$1.53 per share assuming dilution) and restructuring charges of \$9,128,000 (\$9,217,000 after tax or \$0.29 per share assuming dilution).

Earnings and earnings per share for the quarter ended March 31, 2010 reflects loss on debt extinguishment including debt finance charges and associated fees of \$4,386,000 (\$3,786,000 after tax or \$0.11 per share assuming dilution) as a result of the company's decision to extinguish higher interest rate debt.

Loss and loss per share for the quarter ended June 30, 2010 reflects loss on debt extinguishment including debt finance charges and associated fees of \$14,048,000 (\$14,648,000 after tax or \$0.45 per share assuming dilution) as a result of the company's decision to extinguish higher interest rate debt.

INVACARE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Interim Financial Information (unaudited)—Continued

Earnings and earnings per share for the quarter ended September 30, 2010 reflects loss on debt extinguishment including debt finance charges and associated fees of \$3,711,000 (\$3,711,000 after tax or \$0.11 per share assuming dilution) as a result of the company's decision to extinguish higher interest rate debt.

Loss and loss per share for the quarter ended December 31, 2010 reflects loss on debt extinguishment including debt finance charges and associated fees of \$18,019,000 (\$14,154,000 after tax or \$0.43 per share assuming dilution) as a result of the company's decision to extinguish higher interest rate debt.

INVACARE CORPORATION AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

	<u>COL A.</u>	<u>COL B.</u>	<u>COL C.</u>	<u>COL D.</u>
	<u>Balance At Beginning of Period</u>	<u>Charged To Cost And Expenses</u>	<u>Additions (Deductions) Describe</u>	<u>Balance At End of Period</u>
	(In thousands)			
Year Ended December 31, 2011				
Deducted from asset accounts—				
Allowance for doubtful accounts	\$30,168	\$11,460	\$ (9,408)(A)	\$32,220
Inventory obsolescence reserve	14,242	3,885	(3,890)(B)	14,237
Tax valuation allowances	81,981	37	10,525(D)	92,543
Accrued warranty cost	18,252	13,658	(12,068)(B)	19,842
Accrued product liability	24,160	8,917	(11,329)(C)	21,748
Year Ended December 31, 2010				
Deducted from asset accounts—				
Allowance for doubtful accounts	\$28,075	\$16,979	\$(14,886)(A)	\$30,168
Inventory obsolescence reserve	15,009	5,350	(6,117)(B)	14,242
Tax valuation allowances	65,050	4,526	12,405(D)	81,981
Accrued warranty cost	21,506	6,427	(9,681)(B)	18,252
Accrued product liability	23,989	8,523	(8,352)(C)	24,160
Year Ended December 31, 2009				
Deducted from asset accounts—				
Allowance for doubtful accounts	\$23,090	\$19,281	\$(14,296)(A)	\$28,075
Inventory obsolescence reserve	12,419	6,497	(3,907)(B)	15,009
Tax valuation allowances	75,507	6,275	(16,732)(D)	65,050
Accrued warranty cost	16,798	14,112	(9,404)(B)	21,506
Accrued product liability	23,758	7,880	(7,649)(C)	23,989

Note (A)—Uncollectible accounts written off, net of recoveries.

Note (B)—Amounts written off or payments incurred.

Note (C)—Loss and loss adjustment.

Note (D)—Other activity not affecting federal or foreign tax expense.

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CERTIFICATIONS

I, Gerald B. Blouch, certify that:

1. I have reviewed this annual report on Form 10-K of Invacare Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

INVACARE CORPORATION

/s/ GERALD B. BLOUCH

Gerald B. Blouch
Chief Executive Officer
(Principal Executive Officer)

Date: February 27, 2012

CERTIFICATIONS

I, Robert K. Gudbranson, certify that:

1. I have reviewed this annual report on Form 10-K of Invacare Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

INVACARE CORPORATION

/s/ ROBERT K. GUDBRANSON

Robert K. Gudbranson
Chief Financial Officer
(Principal Financial Officer)

Date: February 27, 2012

Certification
Pursuant to Section 18 U.S.C. Section 1350,
as adopted pursuant to Section 906
of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Invacare Corporation (the “company”) on Form 10-K for the period ending December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gerald B. Blouch, Chief Executive Officer of the company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

/s/ GERALD B. BLOUCH

Gerald B. Blouch
Chief Executive Officer

Date: February 27, 2012

A signed original of this written statement required by Section 906 has been provided to Invacare Corporation and will be retained by Invacare Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Certification
Pursuant to Section 18 U.S.C. Section 1350,
as adopted pursuant to Section 906
of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Invacare Corporation (the “company”) on Form 10-K for the period ending December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert K. Gudbranson, Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

/s/ ROBERT K. GUDBRANSON

Robert K. Gudbranson
Chief Financial Officer

Date: February 27, 2012

A signed original of this written statement required by Section 906 has been provided to Invacare Corporation and will be retained by Invacare Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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**INVACARE CORPORATION
ONE INVACARE WAY
ELYRIA, OH 44035-490**

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M43570-P22522

KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

INVACARE CORPORATION

The Board of Directors recommends that you vote FOR the following:

1. Election of Directors

For All Withhold All For All Except

To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.

Nominees:

- | | |
|----------------------------|----------------------|
| 01) Michael F. Delaney | 05) Gerald B. Blouch |
| 02) C. Martin Harris, M.D. | 06) William M. Weber |
| 03) A. Malachi Mixon, III | 07) Charles S. Robb |
| 04) Bajju R. Shah | |

The Board of Directors recommends you vote FOR the following proposals:

2. Ratify appointment of Ernst & Young LLP as the Company's independent registered public accounting firm.

For Against Abstain

3. An advisory vote to approve the compensation of the Company's Named Executive Officers.

NOTE: If any other matters properly come before the meeting or any adjournment thereof, the persons named in this proxy will vote the shares represented by this proxy in their discretion.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]

Date

Signature (Joint Owners)

Date

YOUR VOTE IS IMPORTANT

Regardless of whether you plan to attend the Annual Meeting of Shareholders, you can be sure the shares are represented at the meeting by promptly returning your proxy or voting instruction card in the enclosed envelope.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:
Form 10-K and The Notice and Proxy Statement are available at www.invacare.com/annualreport.

M43571-P22522

**INVACARE CORPORATION
PROXY FOR COMMON SHARES AND CLASS B COMMON SHARES
Annual Meeting of Shareholders — May 17, 2012**

This proxy is solicited by the Board of Directors

The undersigned hereby (i) appoints GERALD B. BLOUCH, ROBERT K. GUDBRANSON and ANTHONY C. LAPLACA, and each of them, as Proxy holders and attorneys, with full power of substitution, to appear and vote all the Common Shares and Class B Common Shares of INVACARE CORPORATION (the "Company"), which the undersigned shall be entitled to vote at the Annual Meeting of Shareholders of the Company, to be held at the Lorain County Community College, Spitzer Conference Center, Grand Room, 1005 North Abbe Road, Elyria, Ohio on Thursday, May 17, 2012 at 10:00 A.M. (EDT) and at any adjournments thereof, hereby revoking any and all Proxies heretofore given, and (ii) authorizes and directs said Proxy holders to vote all the Common Shares and Class B Common Shares of the Company represented by this Proxy on the reverse side.

This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is given, this proxy will be voted "FOR" the election of the seven directors nominated by the Board of Directors, "FOR" Proposal 2 and "FOR" Proposal 3. If any other matters properly come before the meeting or any adjournment thereof, the persons named in this proxy will vote the shares represented by this proxy in their discretion.

Continued and to be signed on reverse side

YOUR VOTE IS IMPORTANT

Regardless of whether you plan to attend the Annual Meeting of Shareholders, you can be sure the shares are represented at the meeting by promptly returning your proxy or voting instruction card in the enclosed envelope.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:
Form 10-K and The Notice and Proxy Statement are available at www.invacare.com/annualreport.

M43573-P22522

**INVACARE CORPORATION
COMMON SHARES AND CLASS B COMMON SHARES
VOTING INSTRUCTION CARD
Annual Meeting of Shareholders - May 17, 2012**

This Card is solicited on behalf of the trustees of the Invacare Retirement Savings Plan

The undersigned hereby instructs the trustees of the Invacare Retirement Savings Plan to vote the Common Shares and Class B Common Shares of INVACARE CORPORATION (the "Company"), which the undersigned is entitled to vote as a participant in an employee benefit plan which may be funded by the Invacare Retirement Savings Plan at the Annual Meeting of Shareholders of the Company, to be held at the Lorain County Community College, Spitzer Conference Center, Grand Room, 1005 North Abbe Road, Elyria, Ohio on Thursday, May 17, 2012 at 10:00 A.M. (EDT) and at any adjournments thereof. The undersigned authorizes and directs the trustees of the Invacare Retirement Savings Plan to vote all the Common Shares and Class B Common Shares of the Company represented by this Card on the reverse side.

The shares represented by this card, when this card is properly executed, will be voted in the manner directed herein. If no such direction is given, said shares will be voted in the same proportions that all shares under the Invacare Retirement Savings Plan for which instructions were received will be voted. If any other matters properly come before the meeting or any adjournment thereof, the trustees will vote the shares represented by this card in their discretion.

Continued and to be signed on reverse side



Yes, you can.

Invacare Corporation
One Invacare Way
Elyria, Ohio 44035

April 9, 2012

To the Shareholders of

INVACARE CORPORATION:

This year's Annual Meeting of Shareholders will be held at 10:00 A.M. (EDT), on Thursday, May 17, 2012, at the Lorain County Community College, Spitzer Conference Center, Grand Room, 1005 North Abbe Road, Elyria, Ohio. We will be reporting on Invacare's activities and you will have an opportunity to ask questions about its operations.

We hope that you are planning to attend the annual meeting personally and we look forward to seeing you. **Whether or not you expect to attend in person, the return of the enclosed proxy as soon as possible would be greatly appreciated and will ensure that your shares will be represented at the annual meeting. If you do attend the annual meeting, you may, of course, withdraw your proxy should you wish to vote in person.**

On behalf of the Board of Directors and management of Invacare Corporation, I would like to thank you for your continued support and confidence.

Sincerely yours,

A handwritten signature in black ink, appearing to read "A. Malachi Mixon, III".

A. MALACHI MIXON, III
Chairman of the Board of Directors



Yes, you can.

Invacare Corporation

Notice of Annual Meeting of Shareholders To Be Held On May 17, 2012

The Annual Meeting of Shareholders of Invacare Corporation (the "Company") will be held at the Lorain County Community College, Spitzer Conference Center, Grand Room, 1005 North Abbe Road, Elyria, Ohio on Thursday, May 17, 2012, at 10:00 A.M. (EDT), for the following purposes:

1. To elect seven directors to the class whose one-year term will expire in 2013;
2. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for its 2012 fiscal year;
3. To hold an advisory vote to approve the compensation of the Company's named executive officers; and
4. To transact any other business as may properly come before the annual meeting.

Holders of common shares and Class B common shares of record as of the close of business on Friday, March 23, 2012 are entitled to vote at the annual meeting. It is important that your shares be represented at the annual meeting. For that reason, we ask that you promptly sign, date and mail the enclosed proxy card in the return envelope provided. Shareholders who attend the annual meeting may revoke their proxy and vote in person.

By Order of the Board of Directors,

Anthony C. LaPlaca
Secretary

April 9, 2012

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on May 17, 2012:

**The Proxy Statement and the 2011 Annual Report are also available
at www.invacare.com/annualreport.**



Yes, you can.

Invacare Corporation

**Proxy Statement
For the Annual Meeting of Shareholders
May 17, 2012**

Why am I receiving these materials?

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Invacare for use at the Annual Meeting of Shareholders to be held on May 17, 2012 and any adjournments or postponements that may occur. The time, place and purposes of the annual meeting are set forth in the Notice of Annual Meeting of Shareholders, which accompanies this proxy statement. This proxy statement is being mailed to shareholders on or about April 9, 2012.

Who is paying for this proxy solicitation?

The Company will pay the expense of soliciting proxies, including the cost of preparing, assembling and mailing the notice, proxy statement and proxy. In addition to the solicitation of proxies by mail, Invacare's directors, officers or employees, without additional compensation, may make solicitations personally and by telephone. The Company may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

Who is entitled to vote?

Only shareholders of record at the close of business on March 23, 2012, the record date for the meeting, are entitled to receive notice of and to vote at the annual meeting. On this record date, there were 30,735,171 common shares and 1,084,747 Class B common shares outstanding and entitled to vote.

How many votes do I have?

On each matter to be voted on, you have one vote for each outstanding common share you own as of March 23, 2012 and ten votes for each outstanding Class B common share you own as of March 23, 2012.

How do I vote?

If you are a shareholder of record, you can vote in person at the annual meeting or you can vote by signing and mailing in your proxy card in the enclosed envelope. If you are a shareholder of record, the proxy holders will vote your shares based on your directions.

If you sign and return your proxy card, but do not properly direct how your shares should be voted on a proposal, the proxy holders will vote "FOR" each of the director nominees named in proposal 1, "FOR" proposals 2 and 3, and will use their discretion on any other proposals and other matters that may be brought before the annual meeting.

If you hold common shares through a broker or nominee, you may vote in person at the annual meeting only if you have obtained a signed proxy from your broker or nominee giving you the right to vote your shares.

How do I vote my common shares held in the Invacare Retirement Savings Plan?

If you are a participant in the Invacare Retirement Savings Plan, the voting instruction card should be used to instruct the trustee for the Invacare Retirement Savings Plan as to how to vote the number of common shares that you are entitled to vote under the plan. If you do not timely instruct the trustee for the Invacare Retirement Savings Plan as to how to vote the shares credited to your account under the plan, your shares, together with all other uninstructed shares, will be voted in the same proportions that shares for which instructions were received will be voted.

What are the voting recommendations of the Board of Directors?

Our Board of Directors recommends that you vote:

- **“For”** the election of the seven nominated directors to the class whose one-year term will expire in 2013;
- **“For”** the ratification of the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for its 2012 fiscal year; and
- **“For”** the approval of the compensation of the named executive officers.

What vote is required to approve each proposal?

Except as otherwise provided by Invacare’s amended and restated Articles of Incorporation or Code of Regulations, or required by law, holders of common shares and Class B common shares will at all times vote on all matters, including the election of directors, together as one class. The holders of common shares and Class B common shares will vote together as one class on all three proposals described in this proxy statement. No holder of shares of any class has cumulative voting rights in the election of directors.

- Election of Directors (Proposal No. 1). The nominees receiving the greatest number of votes will be elected. A proxy card marked “Withhold Authority” with respect to the election of one or more directors will not be voted with respect to the director or directors indicated. Abstentions and broker non-votes will not be voted for or against or withheld from the election of directors and will not be counted for purposes of determining the number of votes cast in the election of directors. However, please note that our majority voting director resignation procedures under our Code of Regulations require any director nominee who receives a greater number of votes marked “Withhold Authority” than marked “For” his or her election in an uncontested election of directors to promptly tender his or her resignation to the Board following certification of the shareholder vote. Under our procedures, the Governance Committee, or another committee comprised entirely of independent directors or the Board of Directors, will, within 90 days following the certification of the shareholder vote, consider, and the Board will determine, whether to accept the resignation. The Board’s determination and explanation of its decision will be promptly disclosed in a press release or Form 8-K submitted to the SEC.
- Ratification of Independent Registered Public Accounting Firm (Proposal No. 2). Ratification of the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm requires the affirmative vote of the holders of a majority of the votes cast on the proposal. Abstentions will not be voted for or against the ratification of the appointment of Ernst & Young LLP and will not be counted in the number of votes cast on the proposal.

- Advisory Vote to Approve Executive Compensation (Proposal No. 3). Advisory approval of the compensation of our named executive officers requires the affirmative vote of the holders of a majority of the votes cast on the proposal. Abstentions and broker non-votes will not be voted for or against approval of our executive compensation and will not be counted in the number of votes cast on the proposal.

What constitutes a quorum?

A quorum of shareholders will be present at the annual meeting if at least a majority of the aggregate voting power of common shares and Class B common shares outstanding on the record date are represented, in person or by proxy, at the annual meeting. On the record date, 41,582,641 votes were represented by outstanding shares; therefore, shareholders representing at least 20,791,321 votes will be required to establish a quorum. Abstentions and broker non-votes will be counted for the purpose of determining the presence of a quorum.

Can I revoke or change my vote after I submit a proxy?

Yes. You can revoke your proxy or change your vote at any time before the proxy is exercised at the annual meeting. This can be done by either submitting another properly completed proxy card with a later date, sending a written notice to our Secretary, or by attending the annual meeting and voting in person. You should be aware that simply attending the annual meeting will not automatically revoke your previously submitted proxy; rather you must notify an Invacare representative at the annual meeting of your desire to revoke your proxy and vote in person.

Can I access the Notice of Annual Meeting, Proxy Statement and the 2011 Annual Report on the Internet?

The Notice of Annual Meeting, Proxy Statement and 2011 Annual Report are available on the Internet at www.invacare.com/annualreport. We also will provide a copy of any of these documents to any shareholder free of charge, upon request by writing to: Shareholder Relations Department, Invacare Corporation, One Invacare Way, P.O. Box 4028, Elyria, Ohio 44036-2125.

If you hold your shares in a bank or brokerage account, your bank or broker may also provide you copies of these documents electronically. Please check the information provided in the proxy materials mailed to you by your bank or broker regarding the availability of this service. Brokerage firms have the authority under the New York Stock Exchange rules to vote shares on certain "routine" matters when their customers do not provide voting instructions. However, on other matters, when the brokerage firm has not received voting instructions from its customers, the brokerage firm cannot vote the shares on that matter and a "broker non-vote" occurs. **Proposal 2 is a routine matter, but the other proposals in this proxy statement are non-routine matters. Please be sure to give specific voting instructions to your broker so that your vote can be counted.**

ELECTION OF DIRECTORS (Proposal No. 1)

At the 2010 Annual Meeting, Invacare's shareholders approved an amendment to the Code of Regulations to declassify the Board of Directors in stages beginning in 2011, as the directors' terms expire. At the 2012 Annual Meeting, seven directors will be elected to serve a one-year term until the annual meeting in 2013 or until their successors have been duly elected. Five directors elected in the class of directors whose terms expire at the 2013 Annual Meeting of Shareholders will serve the balance of their terms. As previously disclosed, James C. Boland has informed the Board of Directors that he will not stand for reelection and will retire from the Board upon the expiration of his current term at the 2012 Annual Meeting of Shareholders. Effective upon Mr. Boland's retirement, the Board of Directors has fixed the number of directors constituting the Board at twelve. Each of the nominees is presently a director of Invacare and has indicated his willingness to serve another term as a director if elected.

Below is certain biographical information regarding our directors and director nominees, as well as a discussion of the qualifications that led the Board of Directors to conclude that each director and director nominee should serve as a director of the Company. Each of the individuals listed below has a wealth of knowledge, experience and expertise developed over a lifetime of achievement. In the discussion below, we have not detailed all of the numerous factors considered by the Board, but rather have highlighted the primary qualifications that led the Board to conclude that each of the following individuals should serve as a director. The Board of Directors believes that the current Board composition reflects an appropriately diverse group of individuals with relevant knowledge and experience that greatly benefits the Company.

Nominees for Terms Expiring in 2013

Michael F. Delaney, 63, has been a director since 1986. From 1983 to October 2003, Mr. Delaney served as the Associate Director of Development of the Paralyzed Veterans of America, a national veterans' service organization in Washington, D.C. Since October 2003, Mr. Delaney served as Associate Director of Corporate Marketing of the Paralyzed Veterans of America until his retirement on July 31, 2009. From November 2009 to February 2010, Mr. Delaney provided consulting services to the Department of Defense in connection with its Congressionally Directed Medical Research Program.

The Board concluded that Mr. Delaney should serve as a director of the Company primarily due to his unique background and experience. Mr. Delaney utilizes a wheelchair and has worked tirelessly for decades on behalf of people with disabilities, provides invaluable insight and perspective to the Board with respect to the Company's products, their use, and possible attributes. He uses his background and training in development and marketing to assist the Company with effective approaches to marketing its products to consumers.

C. Martin Harris, M.D., 55, has been a director since 2003. Since 1996, Dr. Harris has been the Chief Information Officer and Chairman of the Information Technology Division of The Cleveland Clinic Foundation in Cleveland, Ohio and a Staff Physician for The Cleveland Clinic Hospital and The Cleveland Clinic Foundation Department of General Internal Medicine. Additionally, since 2000, he has been Executive Director of e-Cleveland Clinic, a series of e-health clinical programs offered over the internet. Dr. Harris serves on the board of HealthStream Inc. (NASDAQ), Nashville, Tennessee, which provides internet-based learning and research solutions for the training, information, and education needs of the healthcare industry in the United States and on the board of Thermo Fisher Scientific Inc. (NYSE), Waltham, Massachusetts, which provides analytical instruments, equipment, reagents and consumables, software and services for research, manufacturing, analysis, discovery and diagnostics. Dr. Harris was on the Board of Directors of Sewtillion Corporation, an Andover, Massachusetts healthcare software technology company which was sold to Microsoft Corporation in early 2010.

The Board concluded that Dr. Harris should serve as a director of the Company primarily due to his experience in the healthcare industry as a physician and leader of healthcare organizations and also his expertise in the use of information technology in the healthcare industry. Dr. Harris is nationally recognized for his leadership in developing and organizing electronic management of medical information, including electronic medical records. Through his work with organizations such as e-Cleveland Clinic and the National Health Information Infrastructure Task Force, Dr. Harris has gained experience which enables him to provide valuable input to the Board, and ultimately the Company, as to the latest developments and trends involving the use of information to enhance healthcare diagnoses, patient outcomes and cost efficiencies. In particular, he is able to assist the Board in staying abreast of developments in technological advances in the home medical equipment industry. Dr. Harris' understanding of information technology developments in the healthcare industry has proven to be instrumental to the Board's management of the Company's own strategy and information technology resources, particularly in connecting the Company's widespread international operations.

A. Malachi Mixon, III, 71, has been a director since 1979. Mr. Mixon served as Chief Executive Officer from 1979 through April 2010 and as President until 1996. He has served as Chairman of the Board since 1983. Mr. Mixon serves on the Board of Directors of The Sherwin-Williams Company (NYSE), Cleveland, Ohio, a manufacturer and distributor of coatings and related products, and Park-Ohio Holdings Corp (NASDAQ), Cleveland, Ohio, a provider of supply chain logistics services and a manufacturer of highly engineered products. Mr. Mixon also serves as Chairman Emeritus of the Board of Trustees of The Cleveland Clinic Foundation, Cleveland, Ohio, one of the world's leading academic medical centers. Mr. Mixon previously served on the Board of Directors of The Lamson & Sessions Co. (NYSE), Cleveland, Ohio, a diversified manufacturer and distributor of thermoplastic electrical, consumer, telecommunications and engineered sewer products, from 1990 until the sale of the company in November 2007.

The Board concluded that Mr. Mixon, a founder of Invacare, should serve as a director of the Company primarily due to his role as the leader of the Company since its inception and as a nationally recognized and influential medical equipment industry executive. The Board believes that having Mr. Mixon, who is intimately familiar with the Company's capabilities, customers, strategy, position in the industry and with developments within the industry, serving as a director provides the Board with invaluable Company and industry insight. Mr. Mixon has become a leading national spokesman for medical equipment manufacturers and distributors and one of the visionary forces driving strategy and change across the industry. Mr. Mixon's experience, influence in the industry and in government affairs, and deep knowledge of the Company and its industry provides the Board with the management perspective necessary to successfully oversee the Company and its strategy and business operations.

Gerald B. Blouch, 65, has been President and a director of Invacare since November 1996. Effective January 1, 2011, Mr. Blouch became Chief Executive Officer of Invacare, after serving as interim Chief Executive Officer from April 2010 through December 2010. Mr. Blouch served as Chief Operating Officer from December 1994 through December 2010. Previously, Mr. Blouch was President — Homecare Division from March 1994 to December 1994 and Senior Vice President — Homecare Division from September 1992 to March 1994. Mr. Blouch served as Chief Financial Officer of Invacare from May 1990 to May 1993 and Treasurer of Invacare from March 1991 to May 1993.

The Board concluded that Mr. Blouch should serve as a director of the Company primarily due to his role as Chief Executive Officer, and his more than twenty years of experience with the Company, which has given Mr. Blouch a deep knowledge and understanding of the Company and the financial and operational aspects of its business, as well as the competitive environment in which it operates. Mr. Blouch has demonstrated his leadership abilities and his commitment to the Company since he was appointed an executive of Invacare in 1990, and his intimate knowledge of all of the major functional areas of the Company is invaluable to the Board.

William M. Weber, 72, has been a director since 1988. Since August 2005, Mr. Weber has served as CEO of Air Enterprises L.L.C., which designs and manufactures custom high end air handling equipment for critical areas in the hospital, drug and educational markets. Mr. Weber also served as a director and Chairman of the Board of Air Enterprises L.L.C. until 2009. From 1994 to 2005, Mr. Weber was President of Roundcap L.L.C. and a principal of Roundwood Capital L.P., a partnership that invested in public and private companies. From 1968 to 1994, Mr. Weber was President of Weber, Wood, Medinger, Inc., Cleveland, Ohio, a commercial real estate brokerage and consulting firm.

The Board concluded that Mr. Weber should serve as a director of the Company primarily due to his lengthy experience in managing diverse private businesses, and his financial expertise, particularly in analyzing financial information across a wide variety of investment profiles. As a long time investor in the Company, Mr. Weber also has great knowledge of and familiarity with Invacare's business and operations. Mr. Weber's financial expertise is of particular value to the Board in evaluating and managing the Company's financial risks and internal controls through his role as Chair of the Audit Committee.

Charles S. Robb, 72, has been a director since 2010. Senator Robb served as Lt. Governor of Virginia from 1978 to 1982, as Virginia's 64th governor from 1982 to 1986, and as a United States Senator from 1989 to 2001. Since leaving the Senate, Senator Robb has been a Distinguished Professor of Law and Public Policy at George Mason University and has served as Chairman of the Board of Visitors at the United States Naval Academy and Co-Chairman of the President's Commission on Intelligence Capabilities of the United States Regarding Weapons of Mass Destruction. He has also been a member of the President's Intelligence Advisory Board, the Secretary of State's International Security Advisory Board and the FBI Director's Advisory Board, as well as the Iraq Study Group and several other national security advisory boards and commissions. He is currently Vice Chairman of the Board of Trustees of the MITRE Corporation, a not-for-profit organization that conducts federally funded research and development.

The Board concluded that Senator Robb should serve as a director of the Company primarily due to his extensive experience in both state and federal government and in international affairs. This experience is particularly important today with the current administration's reform of the healthcare system. As the former US Senator from, and former governor of, Virginia and the chairman and/or member of the various organizations listed above, Senator Robb brings a unique perspective to the Board in its evaluation of the Company's management and organization, and in its role and success during the ongoing evolution of the healthcare industry. Additionally, Senator Robb's international experience will be beneficial to the Board as it oversees the Company's global operations and entry into new markets.

Baiju R. Shah, 40, has been a director since 2011. Mr. Shah has been President and CEO of BioEnterprise Cleveland since 2004. Prior to that, Mr. Shah was a Senior Vice President of BioEnterprise from 2003 to 2004 and a Vice President from 2002 to 2003. BioEnterprise is a Cleveland-based business formation, recruitment and acceleration initiative designed to grow health care companies and commercialize biomedical technologies. In addition, Mr. Shah participates on several advisory boards including RBS Citizens/Charter One. Prior to BioEnterprise, Mr. Shah worked for McKinsey & Company, where he was a leader in its Growth and Business Building practice.

The Board concluded that Mr. Shah should serve as a director of the Company primarily due to his experience in the healthcare and biomedical industry gained through his leadership of BioEnterprise. The business insight gained through his work at BioEnterprise and at McKinsey & Company, in particular his demonstrated abilities in advancing initiatives to help companies grow and expand, provides Mr. Shah with a perspective on healthcare business and growth initiatives that is invaluable to the Board.

Directors Whose Terms Will Expire in 2013

James L. Jones, 68, has been a director since 2010. General Jones is currently President of Jones Group International, a global consultancy. General Jones served as National Security Advisor to United States President Barack Obama from January 2009 to November 2010. Prior to joining President Obama's administration as National Security Advisory, General Jones was a member of the Company's Board of Directors from March 2007 to January 2009. General Jones served as Supreme Allied Commander of NATO (North Atlantic Treaty Organization) and Commander of the United States European Command from January 2003 until December 2006. From July 1999 to January 2003, General Jones was the 32nd Commandant of the United States Marine Corps.

The Board concluded that General Jones should serve as a director of the Company primarily due to his extensive leadership experience, particularly in international and governmental affairs, developed through his long and distinguished career in the U.S. military and government service. General Jones' capabilities and insights into government and international affairs and management make him a uniquely valuable resource to the Board of Directors in overseeing and evaluating the Company's strategic direction.

Dan T. Moore, III, 72, has been a director since 1980. Mr. Moore has been President of Dan T. Moore Co. since 1970 and is Chairman of seven advanced materials manufacturing companies: Soundwich, Inc., Team Wendy LLC, Impact Armor Technologies LLC, NatGasCar LLC, Delaware Dynamics LLC, Polyfill LLC and Tennessee Iron Products. He is a director of Park-Ohio Holdings Corp (NASDAQ), Cleveland, Ohio, a provider of supply chain logistics services and a manufacturer of engineered products. Mr. Moore is also a Trustee of The Cleveland Clinic Foundation, vice chairman of Cleveland State University and serves as a vice president on the Cleveland Metroparks Board of Park Commissioners. Mr. Moore served as a director of Hawk Corporation, Cleveland, Ohio, a supplier of friction products for brakes, clutches, and transmissions used in aerospace, industrial and specialty applications from 1989 until its sale in December 2010.

The Board concluded that Mr. Moore should serve as a director of the Company primarily due to the leadership capabilities, business acumen and operations experience he has demonstrated over years of managing and serving as a director of numerous manufacturing companies. Mr. Moore is a recognized and successful entrepreneur and a founding investor of Invacare. His skills and experience, coupled with his familiarity with the Company and its operations through his long tenure as a director of the Company, is of particular value to the Board in setting corporate strategy and goals and in evaluating the Company's product and operational challenges and opportunities.

Joseph B. Richey, II, 75, has been a director since 1980 and, in September 1992, was named President-Invacare Technologies and Senior Vice President-Electronic and Design Engineering. Previously, Mr. Richey was Senior Vice President-Product Development from July 1984 to September 1992, and Senior Vice President and General Manager-North American Operations from September 1989 to September 1992. Mr. Richey is also a member of the Board of Trustees of Case Western Reserve University and The Cleveland Clinic Foundation. Mr. Richey previously served on the Board of Directors of Steris Corporation (NYSE), Mentor, Ohio, a developer of infection prevention and surgical products and services from 1987 to July 2009.

The Board concluded that Mr. Richey, a founder of Invacare and the driving force behind the Company's product development for over thirty years, should serve as a director of the Company primarily due to his integral role in the Company's innovation, research and development and product design and planning. Mr. Richey's experience and understanding of the Company's product development capabilities and opportunities provides valuable perspective to the Board in its evaluation of the Company's business operations and prospects, and in the innovation and improvement in the Company's ever-diversifying product lines.

Dale C. LaPorte, 70, has been a director since 2009. Mr. LaPorte served as Senior Vice President — Business Development and General Counsel of the Company from December 2005 to December 2008. Prior to joining the Company, Mr. LaPorte was a partner at Calfee, Halter & Griswold LLP, an Ohio-based law firm, from 1974 to 2005 and served as chairman of that firm from 2000 to 2004. Mr. LaPorte serves as a member of the Board of Trustees of PNC Mutual Funds and the board of directors of Morrison Products, Inc., a manufacturer of air moving equipment for original equipment manufacturers in the heating, ventilation, air conditioning and refrigeration industry.

The Board concluded that Mr. LaPorte should serve as a director of the Company primarily due to his lengthy experience as counsel to the Company, skills in project management, expertise in corporate governance and business development matters, as well as his business acumen and judgment. Mr. LaPorte's skills are a vital asset to the Board, particularly at a time when sound risk management and exemplary governance practices are essential.

Ellen O. Tauscher, 60, was elected as a director on February 9, 2012. Ms. Tauscher currently provides expert advice to the State Department on arms control, missile defense and civil nuclear cooperation. Previously, in March 2009, Ms. Tauscher was nominated by President Obama to serve as Under Secretary of State for Arms Control and International Security and served from her Senate confirmation in June 2009 to February 6, 2012. Prior to joining the State Department, Ms. Tauscher served from January 1997 to June 2009 as a member of the U.S. House of Representatives from California's 10th Congressional District. While a member of Congress, Ms. Tauscher served on the House Armed Services Committee, the House Transportation and Infrastructure Committee and most recently as Chairman of the House Armed Services Subcommittee on Strategic Forces. Prior to serving in Congress, Ms. Tauscher worked in investment banking and the financial industry in various roles for Bache Halsey Stuart Shields, Bear Stearns & Co., Drexel Burnham Lambert and as an officer of the American Stock Exchange. From 1977 to 1980, Ms. Tauscher was a member of the New York Stock Exchange representing Bache, Halsey Stuart Shields.

The Board concluded that Ms. Tauscher should serve as a director of the Company primarily due to her extensive experience in international and governmental affairs, developed through her outstanding career in the service of the U.S. State Department and as a member of Congress. Ms. Tauscher's government service, coupled with her experience in the financial industry, makes her a valuable resource to the Board in overseeing the Company's global strategy, strategic direction and operating performance.

Invacare's Board of Directors recommends that shareholders vote "FOR" the election of the seven directors to the class whose one-year term will expire in 2013.

**RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
(Proposal No. 2)**

The Audit Committee has appointed Ernst & Young LLP to continue as the Company's independent registered public accounting firm and to audit its financial statements for the year ended December 31, 2012. The Audit Committee and the Board of Directors are asking you to ratify this appointment. During the year ended December 31, 2011, Ernst & Young LLP served as the Company's principal auditors and provided tax and other services. See "Independent Registered Public Accounting Firm." Representatives of Ernst & Young LLP are expected to be present at the annual meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Invacare's Board of Directors unanimously recommends that shareholders vote "FOR" the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm.

**ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION
(Proposal No. 3)**

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in July 2010, (the "Dodd-Frank Act"), the Company's shareholders are entitled to vote at the Annual Meeting to approve the compensation of the named executive officers, as disclosed in this proxy statement pursuant to the Securities and Exchange Commission's compensation disclosure rules. Pursuant to the Dodd-Frank Act, the shareholder vote on executive compensation is an advisory vote only, and it is not binding on the Company or the Board of Directors.

At the 2011 Annual Meeting of Shareholders, the Company provided its shareholders with the opportunity to cast an advisory vote to approve the compensation of its named executive officers as disclosed in the proxy statement for the 2011 Annual Meeting, and the Company's shareholders overwhelmingly approved the proposal, with more than 98% of the votes cast on the proposal in favor of approval. At the 2011 annual meeting, the Company also asked its shareholders to indicate if the Company should hold an advisory vote on the compensation of its named executive officers every one, two or three years, with the Board of Directors recommending an annual advisory vote. As the Board of Directors views it as a good corporate governance practice, and because at the 2011 Annual Meeting more than 90% of the votes cast on the proposal were in favor of an annual advisory vote, the Company is again asking its shareholders to approve the compensation of its named executive officers as disclosed in this proxy statement in accordance with the SEC's rules.

This proposal, commonly known as a "say-on-pay" proposal, gives the shareholders the opportunity to express their views on the Company's named executive officers' compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of the Company's named executive officers and the philosophy, policies and practices described in this proxy statement. Accordingly, the Company will ask its shareholders to vote "FOR" the following resolution at the annual meeting:

"RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the named executive officers, as disclosed in the Company's Proxy Statement for the 2012 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the compensation discussion and analysis, the compensation tables and any related material disclosed in this proxy statement."

The say-on-pay vote is advisory, and therefore not binding on the Company, the Compensation and Management Development Committee or the Board of Directors. The Compensation and Management Development Committee values the opinions of the shareholders, and to the extent there is any significant vote against the named executive officer compensation as disclosed in this proxy statement, the Company will consider its shareholders' concerns, and the Compensation and Management Development Committee will evaluate whether any actions are necessary to address those concerns.

Invacare's Board of Directors unanimously recommends that shareholders vote "FOR" the approval of the compensation of the named executive officers, as disclosed in this proxy statement.

SHARE OWNERSHIP OF PRINCIPAL HOLDERS AND MANAGEMENT

Who are the largest holders of Invacare's outstanding common shares and what is their total voting power?

The following table shows, as of February 23, 2012, the beneficial share ownership of each person or group known by Invacare to beneficially own more than 5% of either class of common shares of Invacare:

Name and business address of beneficial owner	Common Shares Beneficially Owned		Class B Common Shares Beneficially Owned*		Percentage of Total Voting Power Beneficially Owned
	Number of Shares	Percentage of Outstanding Shares	Number of Shares	Percentage of Outstanding Shares	
A. Malachi Mixon, III One Invacare Way, Elyria, Ohio 44035(1)(2)	1,462,180	4.2%	703,912	64.9%	18.7%
Joseph B. Richey, II One Invacare Way, Elyria, Ohio 44035(3)	795,022	2.3	376,262	34.7	10.2
BlackRock, Inc. 40 E. 52nd Street New York, NY 10022(4)(5)	3,388,044	10.0	—	—	7.6
Heartland Advisors, Inc. 789 North Water Street Milwaukee, WI 53202(4)(6)	3,172,535	9.4	—	—	7.1
Dimensional Fund Advisors LP. Palisades West, Building One 6300 Bee Cave Road Austin, TX 78746(4)(7)	2,160,109	6.4	—	—	4.8
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355(4)(8)	2,100,721	6.2	—	—	4.7
Allianz Global Investors of America, L.P. 680 Newport Center Drive, Suite 250 Newport Beach, CA 92660(4)(9)	1,906,849	5.6	—	—	4.3

* All holders of Class B common shares are entitled to convert any or all of their Class B common shares to common shares at any time, on a share-for-share basis. In addition, Invacare may not issue any additional Class B common shares unless the issuance is in connection with share dividends on, or share splits of, Class B common shares.

- (1) The number of common shares beneficially owned by Mr. Mixon includes 878,675 common shares that may be acquired upon the exercise of stock options during the 60 days following February 23, 2012. For the purpose of calculating the percentage of outstanding common shares and voting power beneficially owned by Mr. Mixon, the common shares which he had the right to acquire during that period upon the exercise of stock options are considered to be outstanding. The number of common shares shown as beneficially owned by Mr. Mixon also includes (i) 18,956 common shares owned by the trustee for the Invacare Retirement Savings Plan, (ii) 13,669 common shares owned of record by Mr. Mixon's spouse, (iii) 12,288 common shares owned by the trustee for a 1997 grantor retained annuity trust created by Mr. Mixon, (iv) 12,289

common shares owned by the trustee for a 1997 grantor retained annuity trust created by Mr. Mixon's spouse, (v) 129,970 common shares owned by the trustee for a 2009 grantor retained annuity trust created by Mr. Mixon, and (vi) 129,970 common shares owned by the trustee for a 2009 grantor retained annuity trust created by Mr. Mixon's spouse. Mr. Mixon disclaims beneficial ownership of the shares held by his spouse and the grantor retained annuity trusts created by his spouse.

- (2) The number of Class B common shares shown as beneficially owned by Mr. Mixon includes (i) 123,500 Class B common shares owned by the trustee for a 2011 grantor retained annuity trust created by Mr. Mixon, and (ii) 123,500 Class B common shares owned by the trustee for a 2011 grantor retained annuity trust created by Mr. Mixon's spouse. Mr. Mixon disclaims beneficial ownership of the shares held by the grantor retained annuity trusts created by Mr. Mixon's spouse.
- (3) Includes 119,025 common shares, which may be acquired upon the exercise of stock options during the 60 days following February 23, 2012. For the purpose of calculating the percentage of outstanding common shares and voting power beneficially owned by Mr. Richey, the common shares which he had the right to acquire during that period upon the exercise of stock options are considered to be outstanding.
- (4) The number of common shares beneficially owned is based upon a Schedule 13G or 13G/A filed by the holder with the SEC to reflect share ownership as of December 31, 2011, provided that the ownership percentages have been calculated by the Company based on the Company's issued and outstanding shares as of February 23, 2012.
- (5) Based on a Schedule 13G/A filed on January 10, 2012, by BlackRock, Inc., which has sole voting and dispositive power over 3,388,044 of the shares.
- (6) Based on a Schedule 13G/A filed on January 9, 2012 by Heartland Advisors, Inc., which does not have sole voting power over 3,147,035 shares and has shared dispositive power over 3,172,535 shares.
- (7) Based on a Schedule 13G/A filed February 14, 2012, which reports that Dimensional Fund Advisors LP ("DFA") may be deemed to be the beneficial owner of 2,160,109 common shares as a result of acting as investment advisor to or manager of various companies, trusts and accounts (the "DFA Funds"). In its role as investment advisor or manager, DFA possesses sole voting power for 2,111,805 shares and sole dispositive power for 2,160,109 shares that are owned by the DFA Funds. DFA disclaims beneficial ownership of those common shares because they are owned by the DFA Funds.
- (8) Based on a Schedule 13G/A filed on February 8, 2012 by The Vanguard Group, Inc., which has sole voting power over 46,133 of the shares, sole dispositive power over 2,054,588 of the shares and shared dispositive power over 46,133 of the shares.
- (9) Based on a Schedule 13G/A filed February 13, 2012, which reports that Allianz Global Investors of America, L.P. is the parent holding company of Allianz Global Investors Management Partners LLC, Nicholas-Applegate Capital Management LLC, Oppenheimer Capital LLC and NFJ Investment Group LLC. Nicholas-Applegate Capital Management LLC has sole voting and dispositive power over no shares and NFJ Investment Group LLC has sole voting over 1,878,149 shares and dispositive power over 1,906,849 shares.

How many common shares do each of Invacare's directors and executive officers hold and what is their level of total voting power?

The following table sets forth, as of February 23, 2012, the beneficial share ownership of all directors, our five highest paid executive officers, and all directors and executive officers as a group:

Name of beneficial owner	Common Shares Beneficially Owned		Class B Common Shares Beneficially Owned**		Percentage of Total Voting Power Beneficially Owned
	Number of Shares	Percentage of Outstanding Shares	Number of Shares	Percentage of Outstanding Shares	
Gerald B. Blouch(3)	572,682	1.7%	—	—	1.3%
James C. Boland(3)	61,366	*	—	—	*
Michael F. Delaney(3)	43,609	*	—	—	*
Robert K. Gudbranson(3)	93,997	*	—	—	*
C. Martin Harris, M.D.(3)	37,630	*	—	—	*
James L. Jones (3)	8,200	*	—	—	*
Dale C. LaPorte(3)	37,019	*	—	—	*
A. Malachi Mixon, III(1)	1,462,180	4.2	703,912	64.9	18.7
Dan T. Moore, III(3)	128,130	*	—	—	*
Joseph B. Richey, II(2)	795,022	2.3	376,262	34.7	10.2
Charles S. Robb(3)	17,026	*	—	—	*
Baiju R. Shah(3)(4)	4,805	*	—	—	*
Louis F.J. Slangen(3)	171,689	*	—	—	*
Ellen O. Tauscher(3)(5)	—	*	—	—	*
William M. Weber(3)(6)	103,380	*	—	—	*
All executive officers and Directors as a group (16 persons)(3)	3,683,908	10.3	1,080,174	99.6	31.1

* Less than 1%.

** All holders of Class B common shares are entitled to convert any or all of their Class B common shares to common shares at any time, on a share-for-share basis. In addition, Invacare may not issue any additional Class B common shares unless the issuance is in connection with share dividends on, or share splits of, Class B common shares.

(1) See Footnote 1 and Footnote 2 to the preceding table.

(2) See Footnote 3 to the preceding table.

(3) The common shares beneficially owned by Invacare's executive officers and directors as a group include an aggregate of 1,827,458 common shares which may be acquired upon the exercise of stock options during the 60 days following February 23, 2012. For the purpose of calculating the percentage of outstanding common shares and voting power beneficially owned by each of Invacare's executive officers and directors, and all of them as a group, common shares which they had the right to acquire upon the exercise of stock options within 60 days of February 23, 2012 are considered to be outstanding. The number of common shares that may be acquired upon the exercise of such stock options for the noted individuals is as follows: Mr. Blouch, 355,150 shares; Mr. Boland, 38,242 shares; Mr. Delaney, 25,096 shares; Mr. Gudbranson, 64,975 shares; Dr. Harris, 29,049 shares; General Jones, 4,519; Mr. LaPorte, 5,893 shares; Mr. Mixon, 878,675 shares; Mr. Moore, 25,412 shares; Mr. Richey, 119,025 shares; Senator Robb, 10,545 shares; Mr. Shah, 1,124 shares; Mr. Slangen, 129,925 shares; Ms. Tauscher, 0 shares; and Mr. Weber, 31,053 shares.

(4) Baiju R. Shah was elected as a director of the Company effective May 19, 2011.

(5) Ellen O. Tauscher was elected as a director of the Company effective February 9, 2012.

(6) All shares are pledged in a margin account.

Section 16(a) Beneficial Ownership Reporting Compliance

The rules of the SEC require us to disclose late filings of reports of stock ownership, and changes in stock ownership, by our directors and executive officers. The Company believes that all of its officers and Directors complied with all filing requirements applicable to them with respect to transactions during the fiscal year ended December 31, 2011.

CORPORATE GOVERNANCE

How many times did the Board meet in 2011?

During the fiscal year ended December 31, 2011, the Board of Directors held four regular meetings, including an annual two-day strategic planning meeting, and seven special meetings. Each director attended at least 75% of the aggregate of (1) the total number of meetings of the Board of Directors held during the period he or she served as a director and (2) the total number of meetings held by committees of the Board on which he or she served. Board members are expected to attend Invacare's annual meeting of shareholders. Each director then serving on the Board attended last year's annual shareholders meeting.

The non-management directors meet in executive sessions after the end of each of the regularly scheduled Board meetings. Independent directors meet in executive sessions at least once per year. The Company's Lead Director, who is currently James C. Boland, presides over executive sessions.

What codes of ethics apply to directors, officers and employees?

We have adopted a Code of Business Conduct and Ethics that applies to all directors, officers and employees. We also have adopted a separate Financial Code of Ethics that applies to our Chief Executive Officer (our principal executive officer), our Chief Financial Officer (our principal financial officer and principal accounting officer) and our controller or persons performing similar functions. You can find both codes on our website at www.invacare.com by clicking on the Investor Relations tab and then the Corporate Governance link. We will post any amendments to the codes, as well as any waivers that are required to be disclosed pursuant to the rules of the Securities and Exchange Commission and the New York Stock Exchange, within four business days, on our website.

Has the Board adopted corporate governance guidelines?

The Board has adopted Corporate Governance Guidelines. The Corporate Governance Guidelines contain principles that, along with the charters of the standing committees of the Board of Directors, provide the framework for Invacare's corporate governance. Among other things, the Corporate Governance Guidelines establish principles relating to:

- the composition of the Board of Directors, including independence and other qualification requirements;
- responsibilities and functions of the Board of Directors, such as meeting, orientation and continuing education guidelines;
- responsibilities of the executive Chairman of the Board, the Chief Executive Officer and the Lead Director;
- the establishment and functioning of Board committees;
- executive sessions of non-management directors;
- succession planning;

- Board access to management, and evaluation of the Board and the Chief Executive Officer;
- communication and interaction by the Board with shareholders and other interested parties;
- share ownership guidelines for directors and executive officers;
- engagement by an independent committee of the Board with shareholder proponents following a majority vote on a shareholder proposal; and
- periodic self-assessment by the Board and each Board committee.

A copy of the Corporate Governance Guidelines can be found on Invacare's website at www.invacare.com by clicking on the link for Investor Relations.

Who are the current members of the different Board committees?

Director	Audit Committee	Nominating Committee	Compensation and Management Development Committee	Investment Committee	Governance Committee
Gerald B. Blouch					
James C. Boland +	*		**		**
Michael F. Delaney		*		*	
C. Martin Harris, M.D.		**			*
Dale C. LaPorte				**	
James L. Jones			*		
A. Malachi Mixon, III					
Dan T. Moore, III	*	*	*		
Joseph B. Richey, II					
Charles S. Robb				*	
William M. Weber	**				*
Bajju R. Shah				*	
Ellen O. Tauscher	*		*		

- * Member
- ** Chairperson
- + Lead Director

What are the principal functions of the Board committees?

The Board has an Audit Committee; a Nominating Committee; a Compensation and Management Development Committee; an Investment Committee; and a Governance Committee.

Audit Committee. The Audit Committee assists the Board in monitoring (i) the integrity of Invacare's financial statements, (ii) the independence, performance and qualifications of Invacare's internal and independent auditors, and (iii) Invacare's compliance with legal and regulatory requirements. The specific functions and responsibilities of the Audit Committee are set forth in the Audit Committee Charter adopted by the Board of Directors, a copy of which is available at www.invacare.com by clicking on the Investor Relations tab and then the Corporate Governance link. The Audit Committee met eight times during 2011.

Our Board has determined that each member of the Audit Committee satisfies the current independence standards of the New York Stock Exchange listing standards and Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended. The Board also has determined that each of James C. Boland, Dan T. Moore, III and William M. Weber qualifies as an “audit committee financial expert” as that term is defined in Item 407(d)(5) of Regulation S-K, and each of Messrs. Boland, Moore and Weber and Ms. Tauscher satisfies the New York Stock Exchange accounting and financial management expertise requirements. Mr. Boland currently serves on the audit committees of four publicly-traded companies. The Board has determined that Mr. Boland’s simultaneous service on the audit committees of four publicly-traded companies will not impair his ability to effectively serve on Invacare’s Audit Committee.

Nominating Committee. The Nominating Committee assists the Board in identifying and recommending individuals qualified to become directors and will consider all qualified nominees recommended by shareholders. Each of the current members of the Nominating Committee is independent within the meaning of the New York Stock Exchange listing standards and Invacare’s Corporate Governance Guidelines. The Board of Directors has adopted a charter for the Nominating Committee, which is available at www.invacare.com by clicking on the Investor Relations tab and then the Corporate Governance link. The Nominating Committee met two times during 2011.

Compensation and Management Development Committee. The Compensation and Management Development Committee assists the Board in developing and implementing (i) executive compensation programs that are fair and equitable and that are effective in the recruitment, retention and motivation of executive talent required to successfully meet Invacare’s strategic objectives and (ii) a management succession plan that meets Invacare’s present and future needs. See “Compensation Discussion and Analysis” below for additional information on the committee and its activities. Each of the current members of the Compensation and Management Development Committee is independent within the meaning of the New York Stock Exchange listing standards and Invacare’s Corporate Governance Guidelines. The Board of Directors has adopted a charter for the Compensation and Management Development Committee, which is available at www.invacare.com by clicking on the Investor Relations tab and then the Corporate Governance link. The Compensation and Management Development Committee met three times during 2011.

Investment Committee. The Investment Committee assists the Board in monitoring the performance and attributes of investment funds chosen for the Invacare Retirement Savings Plan and other plans designated by the Board or the Investment Committee. The Board of Directors has adopted a charter for the Investment Committee, which is available at www.invacare.com by clicking on the Investor Relations tab and then the Corporate Governance link. The Investment Committee met two times during 2011.

Governance Committee. The Governance Committee assists the Board on all matters relating to corporate governance of the Company, including, but not limited to, the development and implementation of the Company’s corporate governance policies and guidelines. Each of the current members of the Governance Committee is independent within the meaning of the New York Stock Exchange listing standards and Invacare’s Corporate Governance Guidelines. The Board of Directors has adopted a charter for the Governance Committee, which is available at www.invacare.com by clicking on the Investor Relations tab and then the Corporate Governance link. The Governance Committee met two times during 2011.

How does the Board manage potential risks?

Risk is inherent in any business and our management is responsible for the day-to-day management of risks that we face. The Board, on the other hand, has responsibility for the oversight of risk management. In its risk oversight role, the Board has the responsibility to evaluate the risk management process to ensure its adequacy and to seek assurances that it is implemented properly by management.

The Board believes that full and open communication between management and the Board of Directors is essential for effective risk management and oversight. At each meeting, the Board of Directors receives presentations from senior management on business operations, financial results and strategic matters, including a quarterly assessment of the sensitivity of the various business, financial, operational, information technology, compliance and human capital risks faced by the Company, and discusses our strategies, key challenges, and risks and opportunities. Relevant members of senior management attend significant portions of the Board's quarterly meetings, as well as many of the Board committee meetings, in order to address any questions or concerns raised by the Board on risk management-related and other matters.

The Board's committees assist the Board in fulfilling its oversight responsibilities in certain areas of risk. The Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to risk management in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements. Enterprise risk assessment reports are regularly provided by management and our internal auditors to the Audit Committee. The Compensation and Management Development Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs and succession planning for executive officers. The Governance Committee assists the Board in fulfilling its oversight responsibilities with respect to the management of risks associated with Board organization and structure, code of conduct, insider trading, conflict of interest policies and corporate governance. The Nominating Committee assists the Board in overseeing the membership and independence of the Board of Directors. While these committees are responsible for evaluating certain risks and overseeing the management of those risks, the entire Board is regularly informed about those risks and committee activities through committee reports.

Does the Board have a Lead Director?

The Company has an independent Lead Director who is responsible for coordinating the activities of the independent directors, including the following specific responsibilities:

- (i) advising the Chairman of the Board as to an appropriate schedule of Board meetings, seeking to ensure that the independent directors can perform their duties responsibly while not interfering with the flow of Company operations;
- (ii) providing the Chairman of the Board with input as to the preparation for the agendas for the Board and Committee meetings;
- (iii) advising the Chief Executive Officer (with input from the Chairman of the Board) as to the quality, quantity and timeliness of the flow of information from Company management that is necessary for the independent directors to effectively and responsibly perform their duties; although Company management is responsible for the preparation of materials for the Board, the Lead Director may specifically request the inclusion of certain material;
- (iv) interviewing, along with the Chairman of the Board and the chair of the Nominating Committee, all Board candidates, and making recommendations to the Nominating Committee and the Board;

(v) assisting the Board and Company officers in assuring compliance with and implementation of the Company's Corporate Governance Guidelines;

(vi) recommending revisions to the Corporate Governance Guidelines as appropriate;

(vii) coordinating and developing the agenda for and moderating executive sessions of the Board's independent directors; acting as principal liaison between the independent directors, the Chairman of the Board and/or the Chief Executive Officer on sensitive issues;

(viii) evaluating, along with the members of the Compensation and Management Development Committee, the performance of both the Chairman of the Board and the Chief Executive Officer; meeting with the Chairman of the Board and the Chief Executive Officer to discuss the Committee's evaluation of performance;

(ix) discussing with the Chairman of the Board, the Chief Executive Officer and the Governance Committee the membership of the various Board Committees, as well as selection of the Committee chairs;

(x) responding to the concerns of any directors, whether or not these concerns are discussed with the full Board;

(xi) with input from the Chairman of the Board, assisting the Governance Committee in its role in connection with the annual self-evaluation process of the Board and its committees;

(xii) acting as a resource for, and counsel to, the Chairman of the Board; and

(xiii) performing other responsibilities as delegated by the Board.

A description of the responsibilities of the Lead Director also is included as Exhibit C to Invacare's Corporate Governance Guidelines, which is available at www.invacare.com by clicking on the link for Investor Relations. James C. Boland serves as the Lead Director of the Board of Directors and will retire from the Board of Directors at the 2012 Annual Meeting. Upon Mr. Boland's retirement, the independent directors will appoint his successor as Lead Director.

Why are the positions of Chairman of the Board and Chief Executive Officer split?

Gerald B. Blouch was named Invacare's President and Chief Executive Officer effective January 1, 2011. Mr. Blouch succeeded A. Malachi Mixon, III as Chief Executive Officer, allowing Mr. Mixon to focus his efforts on overseeing the activities of the Board of Directors and the Company's government relations and research and product innovation as the Company's executive Chairman of the Board. The Board believes this structure is optimal for the Company because it allows Mr. Blouch, who previously served as President and Chief Operating Officer for many years, to focus on the Company's strategic issues and the day-to-day operation of the business, while enabling Mr. Mixon to focus on leadership of the Board of Directors while still leading the Company in areas where he is uniquely qualified to contribute. The Board believes that the separate roles of Chief Executive Officer and executive Chairman of the Board provide an effective leadership model that capitalizes on the skills, expertise and experience of both Mr. Mixon and Mr. Blouch. The Board's independent directors bring experience, oversight, and expertise from outside the Company and industry, while the executive Chairman of the Board and the Chief Executive Officer bring company and industry specific experience and expertise. One of the key responsibilities of the Board is to oversee and guide management's strategic direction and hold management accountable for the execution of strategy once it is developed. The Board believes the separate roles of Chief Executive Officer and executive Chairman of the Board, together with an independent Lead Director having the duties described above, is in the best interests of the shareholders because it strikes an appropriate balance for the Company; with the CEO and executive Chairman of the Board, there is effective leadership and a focus on strategic development and execution, while the Lead Director helps assure independent oversight and management.

How does the Board determine whether non-employee directors are independent?

To be considered independent under the New York Stock Exchange independence criteria under Section 303A (the “NYSE Standards”), the Board of Directors must determine that a director does not have a direct or indirect material relationship with Invacare. The Board of Directors has adopted the following guidelines (set forth in the Corporate Governance Guidelines) to assist it in making such determinations:

A director will be considered independent if he or she, at any time that is considered relevant under the NYSE Standards (subject to any applicable transition rules of the NYSE Standards):

- (i) has not been employed by Invacare or its affiliates;
- (ii) has not had an immediate family member who has been employed by Invacare or its affiliates as an executive officer;
- (iii) has not received, and has not had an immediate family member who has received, more than such annual amount of direct compensation from Invacare as may be considered relevant from time to time under the NYSE Standards, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such deferred compensation is not in any way contingent on continued service);
- (iv) has not been a partner of Invacare’s present internal or external auditor;
- (v) has not had an immediate family member who has been a partner of Invacare’s present internal or external auditor;
- (vi) has not had an immediate family member who has been a partner or employee of a present or former internal or external auditor of Invacare who worked on Invacare’s audit;
- (vii) has not been a partner or employee of a present or former internal or external auditor of Invacare who worked on Invacare’s audit;
- (viii) has not been employed, and has not had an immediate family member who has been employed, as an executive officer of another company where any of Invacare’s present executives serve on that company’s compensation committee; and
- (ix) has not been an executive officer or an employee of another company, and has not had an immediate family member who has been an executive officer of another company, that does business with Invacare and makes payments to, or receives payments from, Invacare for property or services in an amount that, in the most recent fiscal year, exceeds the greater of \$1 million or 2% of such other company’s consolidated gross revenues.

Additionally, the following commercial and charitable relationships will be considered immaterial relationships and a director will be considered independent if he or she does not have any of the relationships described in clauses (i) — (ix) above, and:

- (i) is not an executive officer of another company, and does not have an immediate family member who is an executive officer of another company, that is indebted to the Company, or to which Invacare is indebted, where the total amount of either company’s indebtedness to the other is more than 5% of the total consolidated assets of the other company and exceeds \$100,000 in the aggregate; and
- (ii) does not serve, and does not have an immediate family member who serves, as an officer, director or trustee of a foundation (other than Invacare’s foundation), university, charitable or other not for profit organization, and Invacare’s, or Invacare foundation’s, annual discretionary charitable contributions (any matching of employee charitable contributions will not be included in the amount of contributions for this purpose) to the organization, in the aggregate, are more than 5% percent of that organization’s total annual revenues (or charitable receipts in the event such organization does not generate revenues).

In the event that a director has a relationship of the type described in clauses (i) or (ii) in the immediately preceding paragraph that falls outside of the “safe harbor” thresholds set forth in such clauses (i) and (ii), or if the director had any such relationship during the prior three years that fell outside of such “safe harbor” thresholds, then in any such case, the Board of Directors annually shall determine whether the relationship is material or not, and therefore, whether the director would be independent or not. If any relationship does not meet the categorical standards of immateriality set forth in clauses (i) and (ii) in the immediately preceding paragraph, Invacare will explain in its next proxy statement the basis for any Board of Directors determination that such relationship is immaterial.

In addition, any director serving on the Audit Committee of Invacare may not be considered independent if he or she directly or indirectly receives any compensation from Invacare other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not in any way contingent on continued service).

The Board examined the transactions and relationships between Invacare and its affiliates and each of the directors, any of their immediate family members and their affiliates. Based on this review, the Board affirmatively determined that each of Messrs. Boland, Delaney, Jones, Moore, Robb, LaPorte and Weber, Dr. Harris and Ms. Tauscher is independent and does not have any direct or indirect material relationship with Invacare pursuant to the categorical standards set forth in Invacare's Corporate Governance Guidelines.

How are proposed director nominees identified, evaluated and recommended for nomination?

The Nominating Committee will seek candidates for an open director position by soliciting suggestions from Committee members, the executive Chairman of the Board, incumbent directors, senior management or others. The Committee also may retain a third-party executive search firm to identify candidates from time to time. Additionally, the Committee will consider any unsolicited recommendation for a potential candidate to the Board from Committee members, the Chairman of the Board, other Board members, management and shareholders. The Committee will accept shareholder recommendations regarding potential candidates for the Board, provided that shareholders send their recommendations to the Chairperson of the Nominating Committee, c/o Executive Offices, Invacare Corporation, One Invacare Way, Elyria, Ohio 44036, with the following information:

- The name and contact information for the candidate;
- A brief biographical description of the candidate, including his or her employment for at least the last five years, educational history, and a statement that describes the candidate's qualifications to serve as a director;
- A statement describing any relationship between the candidate and the nominating shareholder, and between the candidate and any employee, director, customer, supplier, vendor or competitor of Invacare; and
- The candidate's signed consent to be a candidate and to serve as a director if nominated and elected, including being named in Invacare's proxy statement.

Once the Nominating Committee has identified a prospective candidate, the Committee makes a determination whether to conduct a full evaluation of the candidate. This initial determination is based primarily on the Board's need to fill a vacancy or desire to expand the size of the Board, the likelihood that the candidate can meet the Nominating Committee's evaluation criteria set forth below, as well as compliance with all other legal and regulatory requirements. The Nominating Committee will rely on public information about a candidate, personal knowledge of any committee or Board member or member of management regarding the candidate, as well as any information submitted to the Committee by the person recommending a candidate for consideration. The Nominating Committee, after consultation with the Chairman of the Board, will decide whether additional consideration of the candidate is warranted.

If additional consideration is warranted, the Nominating Committee may request the candidate to complete a questionnaire that seeks additional information about the candidate's independence, qualifications, experience and other information that may assist the Committee in evaluating the candidate. The Committee may interview the candidate in person or by telephone and also may ask the candidate to meet with senior management. The Committee then evaluates the candidate against the standards and qualifications set out in the Nominating Committee's charter. While the Board does not maintain a policy regarding the diversity of its members, the Nominating Committee charter specifies that a director should have a range of experience and knowledge relevant to the Company, and that such relevant experience and knowledge may be gained through diverse or unique life experiences. The Nominating Committee and the Board believe that the current Board composition reflects a diverse group of individuals with relevant knowledge and experience that greatly benefits the Company. Additionally, the Nominating Committee shall consider other relevant factors as it deems appropriate (including independence issues and familial or related party relationships).

Before nominating an existing director for re-election at an annual meeting, the Committee will consider:

- The director's value to the Board; and
- Whether the director's re-election would be consistent with Invacare's governance guidelines.

After completing the Nominating Committee's evaluation of new candidates or existing directors whose terms are expiring, if the Committee believes the candidate would be a valuable addition to the Board or the existing director is a valued member of the Board, then the Nominating Committee will make a recommendation to the full Board that such candidate or existing director should be nominated by the Board. The Board will be responsible for making the final determination regarding prospective nominees after considering the recommendation of the Committee. These procedures were adhered to with respect to nominees for election at this meeting, who were unanimously recommended by the Nominating Committee and the entire Board of Directors.

How can shareholders and other interested parties communicate with the Board?

Shareholders and other interested parties may communicate their concerns directly to the entire Board or specifically to non-management directors of the Board. Such communications may be confidential or anonymous, if so designated, and may be submitted in writing to the following address: Shareholder Communication, c/o Executive Offices, Invacare Corporation, One Invacare Way, Elyria, Ohio 44036. The status of all outstanding concerns addressed to the entire Board or only to non-management directors will be reported to the Chairman of the Board or to the chair of the Governance Committee, respectively, on a quarterly basis.

Certain Relationships and Related Transactions

The Company has adopted a written policy for the review of transactions with related persons. The policy generally requires review, approval or ratification of transactions involving amounts exceeding \$120,000 in which the Company is a participant and in which a director, director-nominee, executive officer, or a significant shareholder of the Company, or an immediate family member of any of the foregoing persons, has a direct or indirect material interest. These transactions must be reported for review by the Governance Committee. Following review, the Governance Committee determines whether to approve or ratify these transactions, taking into account, among other factors it deems appropriate, whether they are on terms no less favorable to the Company than those available with other unaffiliated parties and the extent of the related person's interest in the transaction. The Chairman of the Governance Committee has the authority to approve or ratify any related party transaction in which the aggregate amount involved is expected to be less than \$1,000,000. The policy

provides for standing pre-approval of certain related party transactions, even if the amounts involved exceed \$120,000, including certain transactions involving: compensation paid to executive officers and directors of the Company; other companies or charitable organizations where the amounts involved do not exceed \$1,000,000 or 2% of the organization's total annual revenues or receipts; proportional benefits to all shareholders; rates or charges determined by competitive bids; services as a common or contract carrier or public utility; and banking-related services.

During 2011, Invacare purchased travel services from a third party private aircraft charter company. One of the aircraft available for use by the charter company is owned by an entity owned by Mr. Mixon. Invacare paid approximately \$670,000 to the charter company in 2011 for use of the aircraft owned by Mr. Mixon. Invacare has confirmed that the transactions were on terms no less favorable than those Invacare would expect to obtain from unrelated parties.

The relationship described above has been reviewed and ratified in accordance with the Company's policy for review of transactions with related persons.

AUDIT COMMITTEE AND RELATED MATTERS

The following Report of the Audit Committee does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent the Company specifically incorporates this Report by reference therein.

Report of the Audit Committee

The Audit Committee assists the Board of Directors in its oversight and monitoring of:

- the integrity of the Company's financial statements;
- the independence, performance and qualifications of the Company's internal auditors and independent registered public accounting firm; and
- the Company's compliance with legal and regulatory requirements.

The Audit Committee's activities are governed by a written charter adopted by the Board of Directors which is available on the Company's website (www.invacare.com) by clicking on the Investor Relations tab and then the Corporate Governance link.

Each member of the Audit Committee satisfies the independence requirements set forth in the New York Stock Exchange listing standards and Rule 10A-3 of the Securities Exchange Act of 1934, as amended.

Management has the primary responsibility for the Company's financial statements and the reporting process, including the system of internal and disclosure controls. Ernst & Young LLP, the Company's independent registered public accounting firm for 2011, audited the annual financial statements prepared by management and expressed an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States. Ernst & Young LLP also audited the Company's internal control over financial reporting as of December 31, 2011, and issued an opinion with respect to the Company's internal control over financial reporting as of December 31, 2011.

The Company's Vice President of Internal Audit, together with a nationally-recognized third party firm, conducts the Company's internal audit processes. During 2011, the Audit Committee met with the third party firm, the Vice President of Internal Audit and Ernst & Young LLP, with and without management present, to discuss their examinations, their continuing evaluation of the Company's internal and disclosure controls and the overall quality of the Company's internal procedures and controls over financial reporting.

As part of its oversight responsibilities described above, the Audit Committee met and held discussions with management, with Ernst & Young LLP and with its internal auditors relative to the Company's financial reporting. Management represented to the Audit Committee that the Company's financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Audit Committee reviewed and discussed the audited financial statements with management and Ernst & Young LLP, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of specific judgments and the clarity of disclosures in the financial statements. The Audit Committee also discussed with Ernst & Young LLP such other matters as are required to be discussed with the Audit Committee by Statement on Auditing Standards No. 61, as amended by Statement on Auditing Standards No. 90, (Communication with Audit Committees).

In addition, Ernst & Young LLP provided to the Audit Committee the written disclosures and letter required by PCAOB Ethics and Independence Rule 3526 (Communications With Audit Committees Concerning Independence), and by all relevant professional and regulatory standards, related to the auditors' independence. The Audit Committee discussed with Ernst & Young LLP its independence from the Company and its management and considered the compatibility of non-audit services with the independence of Ernst & Young LLP.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors has approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 for filing with the Securities and Exchange Commission.

The Audit Committee has appointed Ernst & Young LLP as the Company's independent registered public accounting firm for its 2012 fiscal year, and the Company is seeking ratification of such appointment at the 2012 Annual Meeting of Shareholders.

AUDIT COMMITTEE

William M. Weber, Chairman
James C. Boland
Dan T. Moore, III
Ellen O. Tauscher

Independent Registered Public Accounting Firm

The Audit Committee and the Board of Directors have selected Ernst & Young LLP to continue as the Company's independent registered public accounting firm and to audit the financial statements of Invacare for the fiscal year ending December 31, 2012. The Audit Committee is asking shareholders to ratify this appointment.

Fees for services rendered by Ernst & Young LLP were:

	<u>2011</u>	<u>2010</u>
Audit Fees	\$3,412,400	\$3,391,000
Audit-Related Fees	2,800	11,000
Tax Fees		
Tax Compliance Services	1,050,000	786,000
Tax Advisory Services	578,600	771,000
	<u>1,628,600</u>	<u>1,557,000</u>
All Other Fees	—	—
Total	<u>\$5,043,800</u>	<u>\$4,959,000</u>

Audit Fees. Fees for audit services include fees associated with the audit of the Company's annual financial statements and review of the Company's quarterly financial statements, including fees for statutory audits that are required domestically and internationally and fees related to the completion and delivery of the auditors' attestation report on internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act. Audit fees also include fees associated with providing consents and review of documents filed with the SEC, other services in connection with statutory and regulatory filings or engagements, as well as accounting consultations billed as audit consultations and other accounting and financial reporting consultation and research work necessary to comply with generally accepted auditing standards.

Audit-Related Fees. Fees for audit-related services principally include fees associated with accounting consultations, audits in connection with proposed or completed acquisitions and other accounting advisory assistance.

Tax Fees. Fees for tax services include fees associated with tax compliance, advice and planning services.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy that requires advance approval for all audit, audit-related, tax services, and other services performed by our independent registered public accounting firm. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that year, the Audit Committee must approve the permitted service before the independent registered public accounting firm is engaged to perform it. The Audit Committee has delegated to the Chairperson of the Audit Committee authority to approve certain permitted services, provided that the Chairperson reports any such decisions to the Audit Committee at its next scheduled meeting. During 2011, no services were provided to the Company by Ernst & Young LLP other than in accordance with the pre-approval policies and procedures described above.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

This Compensation Discussion and Analysis describes our compensation programs and how they apply to our executives, including:

- A. Malachi Mixon, III, executive Chairman of the Board;
- Gerald B. Blouch, President and Chief Executive Officer;
- Robert K. Gudbranson, Senior Vice President and Chief Financial Officer;
- Joseph B. Richey, II, President, Invacare Technologies and Senior Vice President, Electronics and Design Engineering; and
- Louis F.J. Slangen, Senior Vice President, Corporate Marketing and Chief Product Officer.

These five executives are referred to in this proxy statement as the “Named Executive Officers” and they are included in the Summary Compensation Table.

In 2011, Invacare continued its execution of a number of key business initiatives and, at the same time, responded to the uncertain healthcare industry landscape. At the beginning of the year, Mr. Blouch was named President and Chief Executive Officer (after serving in those capacities on an interim basis since April 2010), and Mr. Mixon was named Chairman of the Board of the Company, after having served for decades in a long and storied career as the Company’s Chief Executive Officer. Later in 2011, much of the Company’s management resources were focused on responding to regulatory compliance matters, in particular the request by the U.S. Food and Drug Administration (“FDA”) that the Company enter into a consent decree of injunction relating to the Company’s corporate facility and its wheelchair manufacturing facility in Elyria, Ohio.

Global economic conditions and uncertainty in the healthcare industry have posed challenges to the Company’s business over the last few years; however, the overall design of the compensation program has remained fairly constant over that time. The compensation program is designed to further the Company’s business goals, core values and shareholder interests by enabling the Company to attract and retain the talented executive leadership necessary for the growth and success of the Company’s business and motivating its executives to exert the maximum possible effort to further the interests of shareholders.

The major components of the Company’s executive compensation program are base salary, annual cash bonuses, long-term equity compensation through stock options and restricted stock, and other employee and executive benefits. The Compensation Committee uses market compensation information to ensure that the executive compensation program is competitive relative to companies with which Invacare competes for executive talent.

Several significant developments are reflected in the compensation reported for 2011 for the Named Executive Officers, including:

- The Company completed its first full year with Mr. Blouch in the roles of President and Chief Executive Officer and Mr. Mixon in the role of Chairman of the Board, with both of them being compensated under the new structures established by the Compensation Committee late in 2010;
- The Company’s 2011 adjusted earnings per share increased by 11.4% from 2010 and equaled the target performance goal established by the Compensation Committee under the Executive

Incentive Bonus Plan for 2011. In addition, the Company met its target performance goal of SKU complexity reduction in furtherance of its globalization initiative and achieved organic sales growth of 1.7%, which resulted in the executives earning approximately 71% of their target bonus amount attributable to that performance goal. As a result, the Named Executive Officers earned annual cash bonuses under the Executive Incentive Bonus Plan for 2011;

- Three of the five Named Executive Officers received merit salary-related awards in 2011 in recognition of their individual performance over the year. Mr. Gudbranson received a merit salary increase of 4% and an additional increase of 3.2% in order to maintain his salary level relative to market compensation. Messrs. Slangen and Richey were provided lump sum merit awards equal to 3% and 2%, respectively, of their salaries, in order to recognize their performance without increasing their respective annual base salary levels;
- In granting long-term equity compensation awards, the Compensation Committee continued its practice of awarding a mix of stock options and restricted stock weighted more heavily toward stock options, which the Compensation Committee views as performance-based, and which reinforce executives' focus on increasing shareholder value, while still addressing retention and dilution considerations; and
- In light of business challenges faced by the Company and as part of a broader Company expense reduction effort, the Compensation Committee, based on the recommendation of management, determined to reduce the discretionary quarterly contributions made by the Company into the Invacare Retirement Savings Plan and DC Plus Plan and to suspend the contributions by the Company and reduce the interest accrual rate under the SERP, all effective as of July 1, 2011.

Impact of Last Year's Say on Pay Vote. At the 2011 Annual Meeting, the Company's shareholders approved the compensation of the Company's Named Executive Officers, with more than 98% of the votes cast in favor of the proposal commonly known as "say on pay." Also, more than 90% of the votes cast with respect to the frequency of say on pay at the 2011 Annual Meeting indicated the shareholders' preference for an annual say on pay vote. Immediately following the 2011 Annual Meeting, the Board of Directors determined that future say on pay votes would be held annually until the next vote on the frequency of say on pay votes.

The Compensation Committee considered the results of the 2011 say on pay vote and believes that the approval of the proposal indicated that shareholders are supportive of the Company's executive compensation program and its philosophy and objectives. The Compensation Committee will continue to consider the views of the Company's shareholders among the many factors it takes into account in making executive compensation decisions.

Objectives of the Compensation Program

Invacare's compensation of key management is designed to further the Company's business goals, core values and shareholder interests by attracting and retaining the talented executive leadership necessary for the growth and success of the Company's business and motivating its executives to exert the maximum possible effort to further the interests of shareholders. To this end, the Company's executive compensation is intended to:

- reward its executives for sustained financial and operating performance and leadership excellence;
- align their interests with those of the Company's shareholders; and
- encourage them to remain with the Company for long and productive careers.

Design of the Compensation Program

The major components of the Company's executive compensation program, the primary purpose of each component and the form of compensation of each component are described in the following table.

Component	Primary Purpose	Form of Compensation
<i>Base Salary</i>	Provides base compensation for day-to-day performance of job responsibilities; recognizes individual skills, competencies, experience and tenure with the Company.	Fixed, short-term cash compensation.
<i>Annual Bonus</i>	Incentivizes and rewards performance over the year based on achieving aggressive annual performance goals.	Variable or performance-based, short-term cash compensation.
<i>Stock Options</i>	Encourages improvement in the long-term performance of the Company, particularly share price appreciation, thereby aligning interests of executives with the interests of shareholders.	Variable or performance-based, long-term equity compensation.
<i>Restricted Stock</i>	Attracts and retains executives and further aligns interests of executives with the interests of shareholders.	Fixed, long-term equity compensation.
<i>Other Employee and Executive Benefits</i>	Provides a broad-based executive compensation program for employee retention, retirement and health; provides management continuity in the event of an actual or threatened change in control.	Employee benefit plans, programs and arrangements generally available to all employees; executive retirement and savings programs; limited perquisites, executive life insurance program and executive long-term disability program; severance and change in control benefits.

The executives are compensated principally by using a combination of fixed and performance-based compensation and annual and long-term compensation, which are delivered in cash and equity-based awards. The Compensation Committee does not have a specific policy on the desired mix between fixed and variable, short and long-term, and cash and equity compensation.

The Compensation Committee uses compensation data from pay surveys and from its comparative group, which is referred to as "market compensation" in this section, as well as input from the Compensation Committee's independent compensation consultant, from each of the Chairman, the CEO and the Senior Vice President of Human Resources, to assist it in determining whether Invacare's compensation is competitive and reasonable. While the Compensation Committee considers market compensation practices, it strives to incorporate flexibility in the Company's compensation programs and in the assessment process in order to respond to and adjust for, if appropriate, the evolving business environment, including market conditions which may be beyond management's control.

Compensation Decisions in 2011

The Compensation Committee's decisions are based on its assessment of each executive's performance during the year against a variety of factors which may include corporate and personal goals, leadership qualities, operational performance, business responsibilities, career with the Company, current compensation arrangements and long-term potential to enhance shareholder value. Among the factors which may be considered are key financial measurements, strategic objectives, product improvement and innovation, individual achievements, organizational leadership and high integrity. In annually setting an executive's target compensation, the Company does not necessarily adhere to rigid formulas or react immediately to short-term changes in business performance.

Beginning January 1, 2011, Mr. Blouch was named Invacare's President and Chief Executive Officer, and Mr. Mixon assumed the role of Chairman of the Board. In his role as Chairman of the Board, Mr. Mixon is an executive officer of the Company who leads the Company's government relations activities and oversees the Company's research and product innovation strategies. Mr. Mixon also is responsible for overseeing and directing the activities of the Board of Directors. Mr. Blouch's primary role is to plan, formulate and coordinate the development and execution of the Company's strategy, policies, goals and objectives. Mr. Mixon, a founder of Invacare, and Mr. Blouch both have long experience with the Company, which has given each of them a deep knowledge and understanding of the Company and the financial and operational aspects of its business, as well as the competitive environment in which it operates.

In light of these changes, the Compensation Committee implemented new executive compensation programs for Mr. Mixon and Mr. Blouch for 2011 which reflect their new roles and responsibilities. The Compensation Committee retained the independent compensation consultant to identify the compensation paid to executive Chairs and to Chief Executive Officers at companies which have a separate executive Chairman and CEO that are comparable in size to Invacare. The independent compensation consultant identified a group of 46 relevant companies (which group is different than the comparative group used annually by the Compensation Committee in its review of Named Executive Officer compensation) and found that the executive Chairs at those companies typically received a base salary, participated in the company's annual cash bonus incentive plan and were eligible for long-term incentive compensation awards, usually in the form of stock options and restricted stock, and that the executive Chairs' total compensation was generally less than that of the companies' Chief Executive Officer. The Compensation Committee sought to implement compensation programs for Mr. Mixon and Mr. Blouch that would (1) be competitive with market compensation and reflective of each executive's tenure with the Company, experience and skills, the new responsibilities assumed by Mr. Blouch as CEO and the continued responsibilities and role of Mr. Mixon as Chairman and (2) over a multi-year period, result in increased total compensation for Mr. Blouch and reduced total compensation for Mr. Mixon so that their respective compensation levels relative to one another become consistent with market compensation for executive Chairs relative to Chief Executive Officers.

For each of the major components of the Company's executive compensation program, the following table summarizes the Company's target level of compensation relative to market compensation and the Company's actual level of compensation relative to market compensation for 2011.

Component	Target Level	Actual Level for 2011
<i>Base Salary</i>	50th percentile of market compensation, with more experienced executives between the 50th and 75th percentiles of market compensation.	CEO and CFO at 50th percentile; other Named Executive Officers at 75th percentile.

Component	Target Level	Actual Level for 2011
<i>Annual Bonus</i>	75th percentile of market compensation.	All Named Executive Officers at 75th percentile.
<i>Total Cash Compensation (Base Salary + Annual Bonus)</i>	75th percentile of market compensation.	CEO and CFO at 50th percentile; other Named Executive Officers at 75th percentile.
<i>Equity Compensation Awards (Stock Options + Restricted Stock)</i>	At or slightly below 50th percentile of market compensation.	All Named Executive Officers below 50th percentile.

Base Salary. Base salary provides executives with a base level of income. The Company establishes salary levels reflective of the executive's skills, competencies, experience and individual performance. As a result, changes in salary focus primarily on an assessment of the executive's performance in relation to the executive's responsibilities. In addition, the Compensation Committee reviews market compensation data, which provides a comparison of the executive's salary level relative to the salary levels of the executive's peers.

In establishing 2011 salary levels for the Named Executive Officers, the Compensation Committee reviewed market compensation data, as well as recommendations from Messrs. Mixon and Blouch regarding Messrs. Richey, Gudbranson and Slangen. The Compensation Committee also considered:

- how each executive performed in relation to the executive's responsibilities during the previous year;
- each executive's potential future contributions to the Company; and
- each executive's particular talents, unique skills, experience, length of service to the Company and depth of industry knowledge.

For 2011, the Compensation Committee reduced Mr. Mixon's base salary by 23% and increased Mr. Blouch's base salary by 22% in connection with the new roles and responsibilities that they each assumed. The Compensation Committee intends, over a multi-year period, to further modify Mr. Mixon's compensation in order to achieve a base salary level at or around the 50th percentile of market compensation. The Compensation Committee determined that Messrs. Gudbranson, Richey and Slangen should receive merit salary-related awards in recognition of their individual performance over the prior year. In addition, the Compensation Committee's review of market compensation data indicated that the salary levels of Messrs. Richey and Slangen were above the market median, in large part due to their long tenure with the Company, and that Mr. Gudbranson's salary level was below the market median. Accordingly, the Compensation Committee approved a salary increase of 7.2% for Mr. Gudbranson, comprised of a 4% merit increase and a 3.2% increase to maintain his salary level relative to market compensation. After considering, in particular, their length of service, their salary levels relative to market compensation and the recommendation of the independent compensation consultant, the Compensation Committee approved lump sum cash merit awards in lieu of salary increases to Messrs. Slangen and Richey equal to 3% and 2%, respectively, of salary, in order maintain their respective total cash compensation levels relative to their peers in the market compensation data without increasing their salaries. The lump sum amounts are reported in the Bonus column of the Summary Compensation Table.

Annual Cash Bonus. The Company provides each executive with an opportunity to earn an annual cash bonus under the Company's shareholder-approved Executive Incentive Bonus Plan. All of the Company's executives participate in the bonus plan. The annual bonus plan is intended to provide an opportunity and incentive to compensate the executives for achieving challenging annual performance goals that are indicative of overall Company performance.

Each year, the Compensation Committee reviews and approves annual bonus plan performance goals. For 2011, the Compensation Committee approved potential payouts under the bonus plan, of which 40% were based on adjusted earnings per share targets, 30% were based on organic sales growth targets and 30% were based on SKU complexity reduction targets relating to the Company's globalization business initiative. The Compensation Committee and senior management believe that adjusted earnings per share represents important bottom-line financial results that investors use to evaluate the Company's performance, that can directly influence the Company's stock price, and that provides a clear measurement of the Company's core earnings. They also believe that organic sales growth is an important indicator of the Company's future earnings potential and that SKU reduction is a critical step in achieving the Company's globalization plans by reducing complexity, each of which the Company expects will help promote long-term shareholder value. A "SKU" is a "stock keeping unit," which is used to identify the various products and components the Company sells. More SKUs lead to more complicated production processes, as more supplies, designs, inventory and tracking resources are required. Reducing the number of SKUs in use simplifies production, leading to greater efficiencies that should enhance profitability. In light of these factors, the Compensation Committee determined that, of the various financial measurements that could be used, adjusted earnings per share, organic sales growth and SKU reduction were the most appropriate metrics for measuring the Company's operating performance for 2011 for purposes of the Executive Incentive Bonus Plan, and that significant improvements in those metrics should result in the executive receiving commensurate bonus rewards.

In determining appropriate targets for 2011 adjusted earnings per share, organic sales growth and SKU reduction, the Compensation Committee reviewed and discussed several items, including previous years' results, the Company's forecasted annual operating plan, the globalization strategy and the recommendations of senior management. The Compensation Committee sought to establish performance goals which would:

- reflect a meaningful improvement in overall business performance over the previous year;
- be challenging, but achievable; and
- if achieved, support paying executives total cash compensation targeted at the 75th percentile of market compensation.

The table below shows, for each of the Company's three performance goals, (1) the applicable threshold, target and maximum performance level, (2) the percentage of the weighted portion of the executive's target bonus amount that would be earned at the corresponding performance level and (3) the actual performance level achieved for 2011.

Performance Level	Adjusted Earnings Per Share(1) Weight: 40% of Bonus		Organic Net Sales Weight: 30% of Bonus		% SKU Reduction Weight: 30% of Bonus	
	Performance Goal (\$)	% of Target Bonus Earned	Performance Goal (\$ in millions)	% of Target Bonus Earned	Performance Goal	% of Target Bonus Earned
<Threshold	<1.85	0%	<1,722.1	0%	<20%	0%
Threshold(2)	1.85	2.5	1,722.1	50	<20	0
Target	2.05	100	1,791.0	100	20	100
Maximum	≥2.20	150	≥1,825.4	150	≥30	150
2011 Result	2.05	100	1,751.7	71.25(3)	20	100

Overall Funding Level (% of Target) 91.38%

(1) Adjusted earnings per share is net earnings, excluding the impact of restructuring charges, amortization of the convertible debt discount recorded in interest, asset write-downs related to goodwill and intangibles, loss on debt extinguishment including debt finance charges and fees,

one time tax benefit as a result of a tax settlement in Germany in 2011 and changes in tax valuation allowances, divided by adjusted weighted average shares outstanding — assuming dilution, excluding the dilutive impact of convertible debt.

- (2) The threshold amount for adjusted earnings per share for 2011 equals a one cent per share improvement over actual 2010 results. The threshold amount for organic net sales equals actual 2010 results. The bonus plan provides that if earnings per share performance for 2011 is equal to or below the performance achieved for 2010, no amounts would be paid under the bonus plan, even with respect to those portions of the target bonus amount relating to organic sales growth and SKU reduction.
- (3) Calculated on a straight-line basis between threshold and target amounts.

The Compensation Committee believes these were demanding goals, the achievement of which would represent significant improvement in the Company's performance:

- the target and maximum adjusted earnings per share levels are equivalent to a 11% and 20% increase, respectively, over 2010 actual results, and a 17% and 26% increase, respectively, over the target and maximum adjusted earnings per share levels established for 2010; and
- the target and maximum organic sales levels are equivalent to a 4% and 6% increase, respectively, over 2010 actual results.

The Compensation Committee determines target and maximum bonus levels for each executive when the executive first becomes eligible to participate in the Executive Incentive Bonus Plan. The Compensation Committee then annually reviews target and maximum annual bonus levels for each executive as a percentage of the executive's salary. Total annual cash compensation for Messrs. Blouch and Gudbranson is targeted at or near the market median, as both of them have been in their current roles for a relatively short period of time. The other Named Executive Officers have been in their respective roles for relatively long periods of time and, in recognition of the experience and deep industry knowledge that each of those executives brings to their respective roles, the Compensation Committee targets total annual cash compensation opportunity for each of them at or near the 75th percentile of market compensation. Taking into account the same factors discussed above with respect to base salary, the Compensation Committee also considers whether the executive's individual performance and level of responsibilities warrant a change in the bonus target percentage from the previous level. The Compensation Committee does not take into account awards earned under other reward programs in determining annual bonus opportunities.

In establishing the 2011 target bonuses for each of the Named Executive Officers, the Compensation Committee reviewed the target amounts as a percentage of salary that had been established for Messrs. Mixon and Blouch in late 2010 and that had been used for each of the other executives in prior years and determined to make no change. While their respective percentages were unchanged, the target dollar amounts for Mr. Mixon decreased by 23% and increased by 29% for Mr. Blouch, in connection with the changes in their respective roles and responsibilities in 2011. The following table shows the 2011 threshold, target, maximum and actual cash bonus levels, as a percentage of salary, for each Named Executive Officer based upon the Company achieving threshold, target and maximum performance goals, and upon the actual results achieved by the Company for 2011.

<u>Named Executive Officer</u>	Incentive Amount as a Percentage of Salary			
	<u>Threshold</u>	<u>Target</u>	<u>Maximum</u>	<u>Actual</u>
Mr. Mixon	2.5%	100%	150.0%	91.38%
Mr. Blouch	2.5	100	150.0	91.38
Mr. Gudbranson	1.88	75	112.5	68.54
Mr. Richey	1.88	75	112.5	68.54
Mr. Slangen	1.88	75	112.5	68.54

The bonus amounts paid to each Named Executive Officer for 2011 were based solely on the calculation of the Company's performance relative to the performance goals established under the bonus plan and application of the individual bonus targets described above, and were not based on any subjective analysis or exercise of discretion by the Compensation Committee.

In December 2011, the FDA proposed to the Company a consent decree of injunction relating to inspectional observations at the Company's corporate facility and its wheelchair manufacturing facility in Elyria, Ohio, after which the Company's stock price declined substantially. Notwithstanding this event, the Company was able to achieve targeted levels of performance for adjusted earnings per share and SKU reduction, and organic sales growth at a level that resulted in the executives earning approximately 71% of their target bonus amount attributable to that performance goal. Accordingly, bonus amounts were paid under the 2011 bonus plan in accordance with the structure of the plan established by the Compensation Committee in early 2011. The Compensation Committee believes that making those payouts upon the achievement of stated objectives, even when an extraordinary event affects the Company, is important to maintaining the retention value of the Company's compensation program. The Compensation Committee also believes that the achievement of goals set out under the plan in 2011 will enhance shareholder value over time, and that the executives should be rewarded for achieving those goals.

Long-Term Equity Compensation Awards. The Company's long-term equity compensation program in 2011 provided grants of stock options and restricted stock under the Company's 2003 Performance Plan. The Compensation Committee approved a long-term equity compensation program for 2011 with values weighted 60% in stock options, which the Compensation Committee views as performance-based compensation, and 40% in restricted stock. The mix of equity awards is intended to provide an appropriate balance of increasing shareholder value, addressing executive retention and managing shareholder dilution and compensation expense.

In making equity awards in 2011, the Compensation Committee reviewed information provided by its independent compensation consultant regarding the median market value of long-term compensation awards. Minimum and maximum grant guidelines for each Named Executive Officer were developed around target grants equal to or slightly below the market median according to each executive's salary and target cash compensation level, organizational level, reporting relationships and job responsibilities to maintain internal equity in the grants among all equity award recipients and to provide the Company with some latitude to recognize individual performance and the recipient's role in contributing to the creation of long-term shareholder value. The assumed values for stock option grants are based on the Company's stock price at the time of grant and are determined using the Black-Scholes option valuation model, the same model used by the Company to determine its accounting cost with respect to the options.

The Compensation Committee then considered each Named Executive Officer's performance utilizing the same factors considered in setting the executive's base salary levels, the capacity remaining available for grants under the 2003 Performance Plan and the relevant market overhang and the tax deductibility of the awards. The Compensation Committee also considered the recommendations of the Chairman and of the CEO with respect to awards to other Named Executive Officers, and the recommendations of the Chairman regarding awards to the CEO. No particular weight was assigned to any one of these areas. Outstanding long-term equity awards granted in prior years and held by an executive generally are not considered when the Compensation Committee makes its determinations regarding new grants of long-term equity compensation.

The long-term equity compensation granted in 2011 to the Named Executive Officers resulted in annual grants of stock options and restricted stock at combined values within the targeted range for each of these individuals. Awards granted in 2011 to each of the Named Executive Officers are set forth in the Grants of Plan-Based Awards for Fiscal Year 2011 Table.

Stock Options. The stock options granted in 2011 were issued under the 2003 Performance Plan as non-qualified options with an exercise price equal to the Company's closing price on the New York Stock Exchange on the date of grant. The stock options become exercisable ratably over a four-year period to support retention, and they expire after ten years to reward long-term stock price appreciation. The Compensation Committee views the stock options as being performance-based compensation, as the recipient recognizes value in the stock option only to the extent that the Company's stock price appreciates over the price of the Company's stock on the date of grant.

Restricted Stock. The restricted stock granted in 2011 was issued at no cost to the recipient and vests ratably over four years to strengthen the retention value of the award. In order to enhance their retention value, the terms of the restricted stock allow the holder, subject to certain restrictions, to surrender a portion of the vested shares to the Company to cover any minimum tax withholding obligation. The grants of restricted stock provide that the holders of that restricted stock will be entitled to receive cash dividends declared and paid by the Company on the Company's outstanding common shares only to the extent that the restricted stock is vested at the time of the dividend.

The Summary Compensation Table shows the aggregate grant date fair value of the stock options and restricted stock awarded to each of the Named Executive Officers over the past three years. While, in accordance with SEC rules, the grant date fair value of those awards is included in the total compensation reported in the Summary Compensation Table for the Named Executive Officers, those amounts are not necessarily indicative of the actual value of the awards to the recipients. The following table shows, for each Named Executive Officer, the equity awards received by the executive during the past three years, the combined grant date fair value of those awards, the estimated value to the executive of those awards as of a recent date and a comparison of the two values expressed as a percentage of the grant date fair value. In each case, the estimated value to the executive is significantly lower than the grant date fair value as a result of the relative decline in the Company's stock price over the same period.

Named Executive Officer	Year	Share Price on Date of Grant(1)	Number of Shares Underlying Awards		Combined Fair Value on Date of Grant(2)	Estimated Current Value(3)	Estimated Current Value % of Fair Value on Date of Grant
			Stock Options	Restricted Stock			
Mr. Mixon	2011	\$24.45	61,300	16,200	\$ 991,926	\$280,098	28%
	2010	25.24	99,000	27,200	1,467,638	470,288	32
	2009	20.48	146,500	44,540	1,942,074	770,097	40
Mr. Blouch	2011	24.45	99,700	26,400	1,614,564	456,456	28
	2010	25.24	50,000	11,600	687,284	200,564	29
	2009	20.48	55,500	17,440	747,336	301,538	40
Mr. Gudbranson . .	2011	24.45	22,000	5,800	355,650	100,282	28
	2010	25.24	22,000	6,100	327,544	105,469	32
	2009	20.48	30,500	8,900	396,687	153,881	39
Mr. Richey	2011	24.45	11,200	3,000	182,214	51,870	28
	2010	25.24	12,000	3,300	177,972	57,057	32
	2009	20.48	16,500	4,800	214,299	82,992	39
Mr. Slangen	2011	24.45	11,200	3,000	182,214	51,870	28
	2010	25.24	12,000	3,300	177,972	57,057	32
	2009	20.48	16,500	5,360	225,768	92,674	41

- (1) Closing price per share of the Company's common shares on the New York Stock Exchange on the date of grant.
- (2) Aggregate grant date fair value of the stock options and restricted stock, calculated in accordance with ASC 718, *Compensation — Stock Compensation*.
- (3) Estimated value of stock options and restricted stock to the executive as of February 23, 2012, calculated based on the closing price per share of \$17.29 of the Company's common shares on

the New York Stock Exchange on February 23, 2012. Since all stock options referenced in this table have an exercise price per share in excess of \$17.29, all such stock options are assumed to have a value of zero for purposes of this comparison.

Other Arrangements

The Compensation Committee believes that the benefits summarized below are vital to the attraction and retention of talented executives and, thus, to the long-term success of the Company.

Deferred Compensation and Savings Plans. The Company maintains the plans described below to provide executives with the opportunity to address long-term financial and retirement planning with a degree of certainty and provide financial stability in the event the executives are impacted by unforeseeable factors that are beyond their control.

The Company maintains the Invacare Retirement Savings Plan, a qualified 401(k) defined contribution plan, for its employees, to which the Company has the discretion to make matching and quarterly contributions on behalf of the employees, including each of the Named Executive Officers. The amounts of the contributions made by the Company on behalf of each Named Executive Officer to the Invacare Retirement Savings Plan are set forth in a footnote to the Summary Compensation Table, which contributions are consistent with the benefits provided to all other participants in the plan up to the regulatory limits imposed on the plan for highly compensated employees.

The Company provides its highly compensated employees, including the Named Executive Officers, with the opportunity to participate in the Deferred Compensation Plus Plan ("DC Plus Plan"), a non-qualified contributory savings plan, which allows the executives to defer compensation above the amount permitted to be contributed to the Invacare Retirement Savings Plan. Thus, the DC Plus Plan provides the executives with the opportunity to save additional pre-tax funds for retirement up to the amount that the executive otherwise would have been able to save under the Invacare Retirement Savings Plan but for the regulatory limits imposed on that plan for highly compensated employees. In addition to individual deferrals, the Company has the discretion to provide matching contributions and additional quarterly contributions for participating executives which are similar in percentage to the Company contributions made to employees who participate in the Invacare Retirement Savings Plan. The amounts of the contributions made by the Company on behalf of each Named Executive Officer to the DC Plus Plan are set forth in the Non-Qualified Deferred Compensation Table and a footnote to the Summary Compensation Table. The terms of the DC Plus Plan are further described following the Non-Qualified Deferred Compensation for Fiscal Year 2011 Table.

The Company also provides a Supplemental Executive Retirement Plan, or "SERP," in which the Named Executive Officers participate, to supplement other savings plans offered by the Company and to provide replacement compensation for the executive in retirement. The purpose of this plan is to provide for basic life and income security needs and recognize career contributions. The change in the present value of the accumulated benefit obligation to each Named Executive Officer is set forth in the Summary Compensation Table. The present value of the aggregate accumulated benefit obligation to each Named Executive Officer under the SERP is included in the Pension Benefits for Fiscal Year 2011 Table, and the terms of the SERP are further described following that table.

In light of business challenges faced by the Company and as part of a broader Company expense reduction effort, the Compensation Committee, based on the recommendation of management, determined in 2011 to (1) reduce the discretionary quarterly contributions by the Company for all participants in the Invacare Retirement Savings Plan and DC Plus Plan from 4% to 1% of total cash compensation and (2) suspend the contributions by the Company for all participants in the SERP and reduce the interest accrual rate under the SERP from 6% to zero, all effective as of July 1, 2011 (resulting in a net 50% reduction in SERP contributions by the Company for 2011). The suspension and reductions will remain in effect indefinitely.

Perquisites. Consistent with prior years, the Company provided its Named Executive Officers certain limited perquisites in 2011, which the Compensation Committee believes are reasonable, commensurate with the types of benefits and perquisites provided to similarly situated executives within other companies of comparable size and useful in attracting and retaining executives. They are not tied to individual or Company performance. These perquisites include the payment of premiums on specified excess liability insurance, an annual physical exam and health screening, and the availability of the Company's sporting event tickets for personal use, but do not include any gross-ups by the Company for associated tax liability. Perquisites are reported in the Summary Compensation Table.

Other Benefits. The Company offers certain other benefits to its executives in order to remain competitive with market benefit plan compensation, as described below.

The Named Executive Officers participate in the Invacare Executive Disability Income Plan. The plan, together with the coverage provided under the long-term disability plan provided by the Company to all of its employees, provides the executives with total disability coverage of up to 70% of the executive's annual salary up to a maximum of \$25,000 per month for long-term disability coverage. The Company is self-insured for long-term disability coverage for Mr. Mixon. In addition, if the Company is unable to secure enough coverage to pay the full \$25,000 per month benefit for Messrs. Blouch, Gudbranson, Richey and Slangen, then the Company would self-insure any shortfall in coverage to ensure that those executives receive their full benefit. The Company also maintains a death benefit only life insurance plan in which Messrs. Blouch, Gudbranson, Richey and Slangen participate, which is described in Other Potential Post-Employment Compensation. In addition, the Company also provides other benefits such as medical, dental and life insurance to each Named Executive Officer in a flexible benefits plan, which also is provided to all other eligible U.S. based employees of the Company.

In March 2000, in recognition of his long service and contributions to the success of the Company, the Compensation Committee established a Chairman and CEO Retirement Program for Mr. Mixon, which is described in Other Potential Post-Employment Compensation. In addition, Mr. Mixon has been granted a right of first refusal to assume the Company's rights and obligations with respect to the corporate suites and tickets it leases or has rights to at Cleveland-area professional sports arenas in the event that the Company determines not to renew one or more of the leases or the seat rights.

Severance Benefits. The Company has entered into agreements with Messrs. Blouch, Gudbranson, Richey and Slangen that provide for the payment of certain severance benefits upon terminations of employment other than terminations following a change of control of the Company. These agreements provide some level of income continuity should an executive's employment be terminated without cause by the Company or by the executive for good reason. These agreements are further described under Other Potential Post-Employment Compensation.

Change in Control Benefits. Each Named Executive Officer also has entered into an agreement with the Company that provides for certain benefits generally payable in the event of a termination following a change in control of the Company. The Company believes that these agreements help retain executives and provide for management continuity in the event of an actual or threatened change in control. They also help to ensure that the interests of executives remain aligned with shareholders' interests during a time when their continued employment may be in jeopardy. Finally, they provide some level of income continuity should an executive's employment be terminated without cause. The agreements provide for the payment and provision of certain benefits to the executives if there is a change in control of the Company and for additional benefits if there is a termination of the executive's employment with the surviving entity within three years after the change in control. These agreements are further described under Other Potential Post-Employment Compensation.

Policies, Guidelines and Practices Related to Compensation

Role of the Compensation Committee. The Compensation Committee is comprised of independent directors and is responsible for the approval and administration of the Company's existing and proposed executive compensation plans. You may learn more about the responsibilities of the Compensation Committee by reading the Compensation Committee's charter, which is available on the Company's website at www.invacare.com by clicking on the "Investor Relations" tab and then the "Corporate Governance" link. Additional information about the Compensation Committee is also included in this proxy statement under the caption "Corporate Governance — What are the principal functions of the Board committees?"

Role of the Compensation Committee's Independent Compensation Consultant. During 2011, the Compensation Committee retained and was advised by Pay Governance LLC, as an outside independent compensation consultant with respect to executive compensation matters. This engagement was a continuation of the Compensation Committee's work with Pay Governance LLC in 2010.

The independent compensation consultant's primary role is to analyze the competitiveness of, and provide recommendations to the Compensation Committee and management on, the structure and amounts of each element of the annual compensation to be paid to the Company's executives. During 2011, the independent compensation consultant participated in two of the Compensation Committee's meetings. The independent compensation consultant's services included ongoing review, comment, consulting support, advice and/or recommendations related to:

- selected draft and final materials provided to the members of the Compensation Committee in connection with Compensation Committee meetings during 2011;
- compensation for the Chairman, the CEO and the other Named Executive Officers, including comparative and peer group information;
- annual and long-term incentive opportunities;
- policies and data related to governance and disclosure of executive compensation;
- conducting a risk assessment of the Company's compensation policies and practices for its employees; and
- emerging trends in executive compensation.

Pay Governance LLC does not provide the Company with any other consulting or other services outside of those associated with advising the Compensation Committee on the Company's executive compensation programs. In making its decision to retain the independent compensation consultant for 2011, the Compensation Committee considered the level of the consultant's fees, the expertise and quality of services it has provided to Invacare in the past and the anticipated ability of the consultant to provide objective and independent assistance and advice to the Compensation Committee and to Company management.

Role of Executive Officers. The Chairman of the Board, the President and Chief Executive Officer and the Senior Vice President of Human Resources participate in meetings of the Compensation Committee to provide insight into the performance of individual executives and the impact of their respective contributions to the Company's overall performance and to make recommendations as to the structure and implementation of elements of executive compensation. The Chairman of the Board and the CEO assess the performance of each of the Company's other Named Executive Officers, and each of them provides recommendations to the Compensation Committee as to a proposed structure and targeted amounts of salary, cash bonus awards and equity incentive awards for such executive officers. The Chairman of the Board assesses the performance of the CEO.

In preparing these recommendations, the Chairman of the Board and the CEO review market compensation data provided by the independent compensation consultant and recommendations of the Senior Vice President of Human Resources. Prior to Compensation Committee meetings, these officers meet with the Chairman of the Compensation Committee to preview and discuss their recommendations and respond to questions. The Chairman of the Board and the CEO do not submit recommendations with respect to their own compensation. Neither the Chairman of the Board nor the CEO is present when the Compensation Committee meets to review and discuss the performance of and compensation for those executives.

The Chairman of the Board and the CEO also provide the Compensation Committee with recommendations, and participate in discussions with the Compensation Committee regarding suggested performance targets associated with the Company's annual cash bonus program. After the end of the year, the Chairman of the Board and the CEO meet with the Compensation Committee to review overall company performance relative to performance targets.

Market Compensation — Survey Data and Comparative Information. In order to gauge the competitiveness of Invacare's executive compensation levels and help ensure that the Company is positioned to attract and retain qualified executives in the face of competitive pressures, the Compensation Committee retains the independent compensation consultant to identify annually the compensation paid to executives who are comparable to Invacare's executives. This information is referred to in this section as "market compensation." The market compensation is derived from a combination of survey data and comparative information from a group of health care equipment and supply companies, as described below.

Survey Data. The independent compensation consultant annually reviews survey data from nationally recognized compensation and human resources consulting firms and identifies the compensation levels with respect to annual base salaries, cash bonus awards and long-term incentive awards for each executive position paid by multi-national, diversified manufacturing companies with revenues ranging from \$1.8 billion to \$3 billion. The Compensation Committee bases its compensation decisions, in part, on survey data relating to compensation levels at companies with revenues similar to the Company's revenue for the most recently completed year. Survey data relating to compensation levels at companies with higher revenues than the Company are used to provide the Compensation Committee with perspective on how the compensation program could change as revenue grows. The independent compensation consultant uses regression analysis to adjust for differences in company size in determining competitive compensation levels for a company with revenue similar to the Company's. This analysis assists the independent compensation consultant in translating data from companies within the surveys into information that can be more directly compared to the compensation levels for a company more comparable in size to Invacare. The companies represented in the survey data include more companies than those represented in the peer group in the stock performance graph included in the Company's 2011 annual report, which reflects the Company's view that a broad range of companies of comparable size compete with Invacare for senior executive talent.

Comparative Information. In addition to survey data, the independent compensation consultant also annually prepares comparative information regarding annual base salaries, cash bonus awards and long-term incentive awards for the named executive officers of a peer group of 21 companies. All of the peer group companies are in the health care equipment and supply industry, which the Compensation Committee considers to be its primary market for executive talent, particularly for executives in key operations positions. In addition, peers are selected based on revenue, market capitalization and number of employees, and generally have revenue and market capitalization ranging from \$1 billion to \$4 billion and a number of employees ranging from 3,000 to 12,000. While Invacare's annual revenue and number of employees approximated the medians of the companies in the group, its market capitalization was below the median due to the relative decline in the Company's stock price.

Beckman Coulter, Inc.	Hill-Rom Holdings, Inc.	ResMed Inc.
Bio-Rad Laboratories, Inc.	Hologic, Inc.	St. Jude Medical, Inc.
C.R. Bard, Inc.	Idexx Laboratories, Inc.	STERIS Corporation
CONMED Corporation	Kinetic Concepts, Inc.	Teleflex Incorporated
The Cooper Companies, Inc.	Lincare Holdings Inc.	Varian Medical Systems, Inc.
DENTSPLY International Inc.	Patterson Companies, Inc.	West Pharmaceutical Services, Inc.
Edwards Lifesciences Corp.	PSS World Medical, Inc.	Zimmer Holdings, Inc.

The companies in this group are regularly reviewed and changed from time to time to account for acquisitions, mergers and other business-related changes. The 2011 group of companies is unchanged from the group used in 2010, except for the removal of Advanced Medical Optics, Inc. from the group due to an acquisition.

Executive Compensation Adjustment and Recapture Policy. If the Board of Directors or any appropriate Board committee has determined that any fraud or intentional misconduct by a participant in the Executive Incentive Bonus Plan was a significant contributing factor to the Company having to restate all or a portion of its financial statement(s), the Board or committee may take such actions as it deems necessary, in its discretion, to remedy the misconduct and prevent its recurrence. In determining what remedies to pursue, the Board or committee will take into account all relevant factors, including whether the restatement was the result of fraud or intentional misconduct. Under the bonus plan, the Board may, to the extent permitted by applicable law, in appropriate cases, require reimbursement of any bonus or incentive compensation paid to the participant for any fiscal period commencing on or after January 1, 2008 if and to the extent that (a) the amount of incentive compensation was calculated based upon the achievement of certain financial results that were subsequently reduced due to a restatement, (b) the participant engaged in any fraud or intentional misconduct that significantly contributed to the need for the restatement, and (c) the amount of the bonus or incentive compensation that would have been awarded to the participant had the financial results been properly reported would have been lower than the amount actually awarded. In addition, the Board may dismiss the participant, authorize legal action, or take such other action to enforce the participant's obligations to the Company as it may deem appropriate in view of all the facts surrounding the particular case.

The Board of Directors, at the recommendation of the Compensation Committee, adopted a policy providing the Board of Directors with the discretion to recover any equity compensation awarded to a participant on or after January 1, 2008 if the Board of Directors or any appropriate committee has determined that any fraud or intentional misconduct by the participant was a significant contributing factor to the Company having to restate all or a portion of its financial statement(s).

Equity Grant Practices. As has been its practice, the Compensation Committee expects to make annual grant determinations in August or September of each year, following the expected release of earnings for the second fiscal quarter in late July or early August, without regard to whether the Company otherwise is in possession of material non-public information.

Equity-based grants also are made occasionally during the course of the year to new hires or to current employees in connection with a promotion. The terms of outstanding stock options or restricted stock also may be amended by the Compensation Committee as part of a termination or retirement package offered to a departing employee. Any two of the President and CEO, the Chief Financial Officer and the Senior Vice President of Human Resources may, subject to the approval and ratification of the Compensation Committee, grant stock options or restricted stock to an employee, other than an executive officer, in connection with an offer of employment or promotion, and they may amend any outstanding stock option or restricted stock grant made to an employee, other than an

executive officer, in connection with a termination or retirement package, which amendments may include acceleration of vesting or extension of the employee's exercise rights up to the final termination date of the stock option or final vesting date of the restricted stock.

Equity Run Rate. In determining the total number of stock options and shares of restricted stock to be awarded each year, the Compensation Committee attempts to strike a reasonable balance between the benefits achieved by providing incentives to a wide range of key employees of the Company and the shareholder dilution that results from an equity incentive plan. While the Compensation Committee has not set a formal limit on the number of awards which may be granted in any year, over the past five years, the average annual "run rate" of equity awards granted by the Company was 2.3%. For these purposes, "run rate" is defined as the number of equity awards granted in a particular year compared to the total number of outstanding shares. As of December 31, 2011, the Company's outstanding equity awards were 14.0% of total shares outstanding while shares available for future awards under the 2003 Performance Plan amounted to another 6.0% of total shares outstanding. The Compensation Committee believes that the percentage of equity awards outstanding is higher than desired but is principally attributable to the length of the vesting period for equity awards (four years) and the exercise prices of a substantial portion of the outstanding stock options being above the Company's stock price over the last few years, which has generally resulted in fewer stock options being exercised. As of December 31, 2011, there were 4,455,365 stock options outstanding under the 2003 Performance Plan and its predecessor plans of which 19,308 or 0.4% were exercisable at prices less than the market price of Invacare common shares on that date. In order to reduce the amount of shareholder dilution attributable to grants of equity-based incentives, since 2005, the Compensation Committee has granted top level executives a significant component of restricted stock in lieu of a potentially greater number of stock options that might otherwise have been granted to this same group.

Tax Matters. Section 162(m) of the Internal Revenue Code generally provides that certain compensation in excess of \$1 million per year paid to a public company's chief executive officer and any of its four other highest paid executive officers is not deductible to the company unless the compensation qualifies for an exception. Section 162(m) provides an exception to the deductibility limit for "performance-based compensation" if certain procedural requirements, including shareholder approval of the material terms of the performance goal, are satisfied.

To the extent practicable in view of its compensation philosophy, the Company seeks to structure its executive compensation to satisfy the requirements for the performance-based compensation exception under Section 162(m). Nevertheless, based upon the Company's current compensation structure, the Compensation Committee believes that it is in the best interests of the Company and its shareholders for the Compensation Committee to retain flexibility in awarding discretionary incentive compensation that may not qualify for the exception for performance-based compensation. The Compensation Committee will continue to review and evaluate, as necessary, the impact of Section 162(m) on the Company and intends to make a determination with respect to this issue on an annual basis.

The Compensation Committee also considers the impact of Section 409A of the Internal Revenue Code, and the Company generally seeks to structure its compensation arrangements with its employees to comply with or qualify for an exemption from Section 409A to avoid possible adverse tax consequences that may result from noncompliance.

Stock Ownership Guidelines. The Company maintains stock ownership guidelines for its directors, Named Executive Officers and other executives for the purpose of aligning the interests of directors and key executives with those of the shareholders of the Company. The guidelines also reinforce the primary reason for offering long-term compensation awards. Moreover, it holds those executives most responsible for creating shareholder value more accountable than other employees.

Under the current guidelines of the stock ownership program, executives are expected to own shares equal in value to the following levels:

- Chairman of the Board — five times base salary
- President and CEO — five times base salary
- CFO — two times base salary
- Senior Vice Presidents — two times base salary

The number of shares required to be held by each executive is established by multiplying the applicable executive's salary by the applicable multiple and dividing by the Company's average daily stock price for the previous year. The number of shares required to be held by each non-employee director is 7,500 shares. "Stock ownership" is defined to include shares held directly or indirectly by the director or executive, all unvested restricted stock held by the director or executive and 30% of the shares underlying unexercised stock options held by the director or executive that are "in the money" by at least 20%. For purposes of this policy, ownership of the Company's Class B common shares is treated as ownership of common shares. Directors and executive officers are expected to reach their respective ownership levels under the stock ownership guidelines over five (5) years from their date of hire or promotion, and maintain that level of stock ownership afterward. All of the directors and Named Executive Officers have either met the guidelines or are pursuing plans to meet the guidelines.

Derivatives Trading. As part of its policy relating to the trading of Invacare securities by Company insiders, the Company prohibits an insider from trading in any interest or position relating to the future price of the Company securities, such as a put, call or short sale.

Risk Assessment

The Compensation Committee, with the assistance of the independent compensation consultant, conducted a risk assessment of the Company's compensation policies and practices for its employees, including those related to the executive compensation programs discussed above. The Compensation Committee, in conducting the assessment, analyzed associated risks and considered mitigating factors. Based upon the assessment, the Compensation Committee believes that the Company's compensation policies and practices do not encourage excessive or unnecessary risk-taking and are not reasonably likely to have a material adverse effect on the Company.

Report of the Compensation and Management Development Committee on Executive Compensation

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with the Company's management. Based on that review and discussion, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K and in the Company's definitive proxy statement prepared in connection with its 2012 Annual Meeting of Shareholders.

COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE

James C. Boland, Chairperson
James L. Jones
Dan T. Moore, III
Ellen O. Tauscher

The above Report of the Compensation and Management Development Committee does not constitute soliciting material and should not be deemed filed with the Commission or subject to Regulation 14A or 14C (other than as provided in Item 407 of Regulation S-K) or to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically requests that the information in this Report be treated as soliciting material or specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act. If this Report is incorporated by reference into the Company's Annual Report on Form 10-K, such disclosure will be furnished in such Annual Report on Form 10-K and will not be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act as a result of furnishing the disclosure in this manner.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee was at any time during 2011 or at any other time an officer or employee of the Company or any of its subsidiaries. James C. Boland, James L. Jones and Dan T. Moore, III were the non-employee directors who served on the Compensation Committee during 2011. Ellen O. Tauscher was appointed to the Compensation Committee effective upon her appointment to the Board of Directors on February 9, 2012.

Summary Compensation Table

The following table presents the total compensation to the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer and the two other most highly compensated executive officers of the Company in 2011, 2010 and 2009 (the "Named Executive Officers").

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)(2)	Stock Awards (\$)(3)	Option Awards (\$)(4)	Non-Equity Incentive Plan Compensation (\$)(5)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(6)	All Other Compensation (\$)(7)	Total (\$)
A. Malachi Mixon, III	2011	850,000	—	396,090	595,876	776,730	315,854	161,175(8)	3,095,725
Chairman of the Board	2010	1,106,000	33,200	686,528	781,110	1,437,800	664,413	174,329(8)	4,883,380
and Former Chief Executive Officer	2009	1,106,000	—	912,279	1,029,895	1,327,200	333,162	135,365(8)	4,843,901
Gerald B. Blouch	2011	850,000	—	645,480	969,149	776,730	301,289	110,992(9)	3,653,640
President and Chief Executive Officer	2010	694,000	287,800	292,784	394,500	857,090	575,221	103,572(9)	3,204,967
	2009	694,000	—	357,171	390,165	791,160	235,821	95,885(9)	2,564,202
Robert K. Gudbranson	2011	400,000	—	141,810	213,854	274,160	68,196	52,146(10)	1,150,166
Chief Financial Officer	2010	364,300	—	153,964	173,580	355,193	129,502	51,942(10)	1,228,481
	2009	338,500	—	182,272	214,415	304,650	226,215	45,972(10)	1,312,024
Joseph B. Richey, II	2011	435,000	8,700	73,350	108,871	298,149	45,579	38,721(11)	1,008,370
President — Invacare Technologies and Senior Vice President — Electronics and Design Engineering	2010	435,000	8,700	83,292	94,680	424,125	104,316	41,146(11)	1,191,259
	2009	435,000	—	98,304	115,995	391,500	49,892	38,029(11)	1,128,720
Louis F.J. Slangen	2011	398,000	12,000	73,350	108,871	272,789	103,510	64,001(12)	1,032,521
Senior Vice President — Corporate Marketing and Chief Product Officer	2010	398,000	11,900	83,292	94,680	388,050	361,643	58,146(12)	1,395,711
	2009	398,000	—	109,773	115,995	358,200	148,735	53,915(12)	1,184,618

- (1) Of the amounts disclosed in this column, the following Named Executive Officers deferred the following portions of such amounts into the DC Plus Plan during 2011: (i) Mr. Mixon: \$25,500; (ii) Mr. Blouch: \$25,500; (iii) Mr. Gudbranson: \$0; (iv) Mr. Richey: \$0; and (v) Mr. Slangen: \$12,300; during 2010: (i) Mr. Mixon: \$113,920; (ii) Mr. Blouch: \$27,654; (iii) Mr. Gudbranson: \$0; (iv) Mr. Richey: \$0; and (v) Mr. Slangen: \$12,297; and during 2009: (i) Mr. Mixon: \$55,300; (ii) Mr. Blouch: \$27,760; (iii) Mr. Gudbranson: \$0; (iv) Mr. Richey: \$0; and (v) Mr. Slangen: \$11,940.
- (2) The amounts disclosed in this column for Messrs. Richey and Slangen represent merit cash awards for 2011 and 2010 paid in lieu of merit salary increases.
- (3) The values reported in this column represent the aggregate grant date fair value, calculated in accordance with ASC 718, *Compensation — Stock Compensation*, of all restricted stock awarded to each officer during the fiscal year. For a summary of the terms of these awards, see the Grants of Plan-Based Awards Table that follows. For a description of the assumptions made in computing the values reported in this column, see Shareholders' Equity Transactions in the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
- (4) The values reported in this column represent the aggregate grant date fair value, calculated in accordance with ASC 718, *Compensation — Stock Compensation*, of all stock options awarded to each officer during the fiscal year. For a summary of the terms of these awards, see the Grants of Plan-Based Awards Table that follows. For a description of the assumptions made in computing the values reported in this column, see Shareholders' Equity Transactions in the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

- (5) The amounts for 2011 in this column represent compensation payable under the Executive Incentive Bonus Plan. Of the amounts disclosed in this column, the following Named Executive Officers deferred the following portions of such amounts into the DC Plus Plan during 2011: (i) Mr. Mixon: \$143,780; (ii) Mr. Blouch: \$27,513; (iii) Mr. Gudbranson: \$0; (iv) Mr. Richey: \$0; and (v) Mr. Slangen: \$11,642; and during 2010: (i) Mr. Mixon: \$66,360; (ii) Mr. Blouch: \$0; (iii) Mr. Gudbranson: \$0; (iv) Mr. Richey: \$0; and (v) Mr. Slangen: \$10,746; and during 2009: (i) Mr. Mixon: \$0; (ii) Mr. Blouch: \$0; (iii) Mr. Gudbranson: \$0; (iv) Mr. Richey: \$0; and (v) Mr. Slangen: \$0. For a description of the 2011 bonus opportunities established by the Compensation Committee under the Executive Incentive Bonus Plan, see footnote (3) to the Grants of Plan-Based Awards For Fiscal Year 2011 Table that follows.
- (6) The amounts reported in this column represent the amounts accrued as expense by the Company in 2011, 2010 and 2009 in accordance with the requirements of ASC 715, *Compensation — Retirement Benefits*, as they relate to the change in present value of the accumulated benefit obligation to the named executives under the SERP. No above market or preferential earnings on nonqualified deferred compensation were earned by any officer in 2011, 2010 or 2009. As a result of the changes to the SERP adopted at the beginning of 2009, the amounts in this column for 2011, 2010 and 2009 represent the amounts contributed to the SERP by the Company on behalf of the Named Executive Officer during such fiscal year. For a further description of the terms of the SERP, see Supplemental Executive Retirement Plan following the Pension Benefits for Fiscal Year 2011 Table. For a description of the changes made relating to the Company's contributions to the SERP during 2011, see Compensation Discussion and Analysis.
- (7) Compensation reported in this column includes (i) the value of dividends earned on outstanding restricted stock awards; (ii) the value of Company contributions made in 2011, 2010 and 2009 on behalf of the officer to the Invacare Retirement Savings Plan and the DC Plus Plan; (iii) the value of premiums paid by the Company under the Company's Executive Disability Income Plan (or, in the case of Mr. Mixon, the value of the self-insured coverage provided by the Company to Mr. Mixon under the plan); and (iv) the incremental cost to the Company of perquisites provided by the Company, which include: the payment of premiums on excess liability insurance, an annual physical exam and health screening, and the availability of corporate sporting event tickets for personal use. Perquisites are valued on the basis of the aggregate incremental cost to the Company of providing the perquisite to the applicable officer. The value of personal use of corporate suites or tickets is the price shown on the ticket for the event and does not include annual fees or charges attributable to suite rental or ticket availability.
- (8) Other compensation for Mr. Mixon includes (i) in 2011, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$114,767 contributed by the Company to the DC Plus Plan; (ii) in 2010, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$101,871 contributed by the Company to the DC Plus Plan; and (ii) in 2009, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$78,243 contributed by the Company to the DC Plus Plan.
- (9) Other compensation for Mr. Blouch includes (i) in 2011, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$73,007 contributed by the Company to the DC Plus Plan; (ii) in 2010, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$60,253 contributed by the Company to the DC Plus Plan; and (ii) in 2009, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$47,854 contributed by the Company to the DC Plus Plan.

- (10) Other compensation for Mr. Gudbranson includes (i) in 2011, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$17,472 contributed by the Company to the DC Plus Plan; (ii) in 2010, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$16,958 contributed by the Company to the DC Plus Plan; and (iii) in 2009, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$10,713 contributed by the Company to the DC Plus Plan.
- (11) Other compensation for Mr. Richey includes (i) in 2011, \$9,800 contributed by the Company to the Invacare Retirement Savings Plan and \$21,651 contributed by the Company to the DC Plus Plan; (ii) in 2010, \$9,800 contributed by the Company to the Invacare Retirement Savings Plan and \$23,608 contributed by the Company to the DC Plus Plan; and (iii) in 2009, \$9,800 contributed by the Company to the Invacare Retirement Savings Plan and \$20,650 contributed by the Company to the DC Plus Plan.
- (12) Other compensation for Mr. Slangen includes (i) in 2011, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$28,759 contributed by the Company to the DC Plus Plan; (ii) in 2010, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$23,284 contributed by the Company to the DC Plus Plan; and (iii) in 2009, \$14,700 contributed by the Company to the Invacare Retirement Savings Plan and \$17,961 contributed by the Company to the DC Plus Plan.

Grants of Plan-Based Awards For Fiscal Year 2011

The following table shows, for the Named Executive Officers, plan-based awards to those officers during 2011, including restricted stock awards and stock option grants, as well as other incentive plan awards.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$/Sh)
		Threshold (\$)	Target (\$)	Maximum (\$)				
A. Malachi Mixon, III	8/18/11				16,200(1)		24.45	
	8/18/11					61,300(2)	24.45	
	3/9/11(3)	21,250	850,000	1,275,000			9.72	
Gerald B. Blouch	8/18/11				26,400(1)		24.45	
	8/18/11					99,700(2)	24.45	
	3/9/11(3)	21,250	850,000	1,275,000			9.72	
Robert K. Gudbranson	8/18/11				5,800(1)		24.45	
	8/18/11					22,000(2)	24.45	
	3/9/11(3)	7,500	300,000	450,000			9.72	
Joseph B. Richey, II	8/18/11				3,000(1)		24.45	
	8/18/11					11,200(2)	24.45	
	3/9/11(3)	8,156	326,250	489,375			9.72	
Louis F.J. Slangen	8/18/11				3,000(1)		24.45	
	8/18/11					11,200(2)	24.45	
	3/9/11(3)	7,463	298,500	447,750			9.72	

- (1) Restricted shares granted pursuant to the Invacare Corporation 2003 Performance Plan (the "2003 Plan"). These shares vest in 25% increments over four years, commencing November 15, 2012.

- (2) Stock options to purchase common shares of the Company granted under the 2003 Plan. These options become exercisable in 25% increments over four years, commencing September 30, 2012 and expire on August 18, 2021.
- (3) On March 9, 2011, the Compensation Committee established performance goals under the Executive Incentive Bonus Plan for the purpose of providing financial incentives for 2011 to certain key employees, including all of the officers included in the above table. See the Annual Cash Bonus discussion in Compensation Discussion and Analysis above for a description of the terms of these awards.

Restricted Stock and Stock Options

Each of the stock option grants and restricted stock awards set forth in the above table was awarded under the 2003 Plan. Under the 2003 Plan, the stock option and restricted stock award agreements entered into in connection with the awards, the Compensation Committee may make certain adjustments to the awards and the awards may be terminated or amended, as further described below.

Adjustments. In the event of a recapitalization, stock dividend, stock split, reverse stock split, distribution to shareholders (other than cash dividends), or similar transaction, the Compensation Committee can adjust, in any manner that it deems equitable, the number and class of shares that may be issued under the 2003 Plan and the number and class of shares, and the exercise price, applicable to outstanding awards.

Termination of Awards. The Compensation Committee may cancel any awards if, without the Company's prior written consent, the participant (1) within 18 months after the date such participant terminates employment with the Company, renders services for an organization, or engages in a business, that is (in the judgment of the Compensation Committee) in competition with the Company, or (2) discloses to anyone outside of Invacare, or uses for any purpose other than Invacare's business, any confidential information relating to the Company. In addition, the Compensation Committee may, subject to certain conditions in the 2003 Plan and in its discretion, require the participant to return the economic value of any award that the participant realized or obtained prior to and after such participant engaged in any of the above activities.

Amendment of Awards. The Compensation Committee may, in its discretion, amend the terms of any award under the 2003 Plan, including to waive, in whole or in part, any restrictions or conditions applicable to, or to accelerate the vesting of, any award. This authority is subject to certain restrictions. In particular, the Compensation Committee may not amend an award in a manner that impairs the rights of any participant without his or her consent, or to reprice any stock options or stock appreciation rights at a lower exercise price, unless in accordance with an adjustment in the context of certain transactions described above.

In addition, in the event of a change in control of the Company, as defined in the 2003 Plan, unless the Board of Directors determines otherwise, (1) all outstanding stock options and any outstanding stock appreciation rights will become fully exercisable, and (2) all restrictions and conditions applicable to restricted stock and other awards exercisable for common shares of the Company will be deemed to have been satisfied. Any other determination by the Board of Directors that is made after the occurrence of the change in control will not be effective unless a majority of the Directors then in office are "continuing directors" and the determination is approved by a majority of the "continuing directors" for this purpose (or is approved by a committee comprised solely of such "continuing directors"). "Continuing directors" are Directors who were in office prior to the change in control or were recommended or elected to succeed "continuing directors" by a majority of the "continuing directors" then in office (or by a committee comprised solely of such "continuing directors" then in office).

If the Board of Directors or any appropriate committee has determined that any fraud or intentional misconduct by a participant in the 2003 Plan was a significant contributing factor to the Company having to restate all or a portion of its financial statement(s), the Board or committee may take, in its discretion, such actions as it deems necessary to remedy the misconduct and prevent its recurrence. In determining what remedies to pursue, the Board or committee will take into account all relevant factors, including whether the restatement was the result of fraud or intentional misconduct. The Board may, to the extent permitted by applicable law, in all appropriate cases, require forfeiture of any equity compensation awarded to the participant for any fiscal period commencing on or after January 1, 2008 if and to the extent that (1) the amount awarded was calculated, or the vesting of the award was, based upon the achievement of certain financial results that were subsequently reduced due to a restatement, (2) the participant engaged in any fraud or intentional misconduct that significantly contributed to the need for the restatement, and (3) the amount or vesting of the equity compensation award that would have been awarded to the participant had the financial results been properly reported would have been lower than the amount actually awarded. In addition, the Board may terminate the participant's employment, authorize legal action, or take such other action to enforce the participant's obligations to the Company as the Board may deem appropriate in view of all the facts surrounding the particular case.

Executive Incentive Bonus Plan

The Executive Incentive Bonus Plan was unanimously approved and adopted by the Compensation Committee as of March 2, 2005, was approved and adopted by the shareholders of the Company on May 25, 2005, and was reapproved by the shareholders of the Company on May 20, 2010 at the 2010 Annual Meeting. See the Compensation Discussion and Analysis for a discussion of awards under the Executive Incentive Bonus Plan during 2011.

Purpose. The Executive Incentive Bonus Plan is intended to provide an incentive to the Company's executive officers to improve the Company's operating results and to enable the Company to recruit and retain key officers by making the Company's overall compensation program competitive with compensation programs of other companies with which the Company competes for executive talent.

Administration. The plan is administered by the Compensation Committee, which generally has the authority to determine the manner in which the Executive Incentive Bonus Plan will operate, to interpret the provisions of the plan and to make all determinations under the plan.

Eligibility and Participation. All officers of the Company are eligible to be selected to participate in the Executive Incentive Bonus Plan. The Compensation Committee has the discretion to select those officers who will participate in the plan in any given year. A participant must be employed by the Company on the payment date in order to receive an award under the Executive Incentive Bonus Plan, unless the officer's employment terminated prior to the payment date as a result of death, disability, or retirement, or unless the Compensation Committee determines otherwise. For 2011, the Compensation Committee determined that the eligible participants under the plan included Messrs. Mixon, Blouch, Gudbranson, Richey and Slangen, as well as the Company's Senior Vice President, General Counsel and Secretary, the Senior Vice President of Human Resources and the Senior Vice President of Global Commercial Operations.

Awards under the Executive Incentive Bonus Plan. Awards under the plan are designed to ensure that the compensation of the Company's officers is commensurate with their responsibilities and contribution to the success of the Company based on market levels indicated by compensation data obtained from time to time by the Company or the independent compensation consultant engaged by the Compensation Committee. For each calendar year or other predetermined performance period, the Compensation Committee will establish a target bonus for each eligible officer, payable if specified performance goals are satisfied for such performance period.

Performance Goals. The performance goal for each performance period will provide for a targeted level or levels of performance using one or more of the following predetermined measurements: stock price, net sales, income from operations, earnings before income tax, earnings per share, cost controls, return on assets, and return on net assets employed. For 2011, the bonus award was based upon satisfaction of three targets: (i) an adjusted earnings per share target, (ii) an organic sales growth target, and (iii) a SKU complexity reduction target, as further described in the footnotes to the Grants of Plan-Based Awards For Fiscal Year 2011 Table and in Compensation Discussion and Analysis.

The performance goal for a performance period is established in writing by the Compensation Committee on or before the latest date permissible to enable the bonus award to qualify as "performance based compensation" under Section 162(m) of the Internal Revenue Code. During this same time period, the Compensation Committee may adjust or modify the calculation of a performance goal for the performance period in order to prevent the dilution or enlargement of the rights of participants (1) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development; (2) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles or business conditions; and (3) in view of the Compensation Committee's assessment of the Company's business strategy, performance of comparable organizations, economic and business conditions, and any other circumstances deemed relevant by the Compensation Committee. The Compensation Committee may establish various levels of bonus depending upon relative performance toward a performance goal.

The target bonus payable to any officer for a performance period is a specified percentage of the officer's base salary for the performance period, but in no event will the bonus payable to any officer for a performance period exceed \$5,000,000. This maximum bonus amount was set in part to permit the Executive Incentive Bonus Plan to accommodate continued growth of the Company and also to comply with the requirements of Section 162(m) of the Internal Revenue Code. The Board of Directors believes that this limit will provide the Compensation Committee with sufficient flexibility to reward exceptional contributions toward the Company's success.

In the event of a change in control of the Company, the amount payable to each eligible participant in the plan at the time of such change in control would be equal to the greater of (1) the target bonus that would have been paid if the performance goal for the calendar year in which the change in control occurs had been achieved, or (2) the bonus that would have been paid to the participant if the performance goal that was actually achieved during the portion of the calendar year which occurs prior to the change in control is annualized for the entire calendar year.

If the Board of Directors or any appropriate committee has determined that any fraud or intentional misconduct by a participant in the Executive Incentive Bonus Plan was a significant contributing factor to the Company having to restate all or a portion of its financial statement(s), the Board or committee may take, in its discretion, such actions as it deems necessary to remedy the misconduct and prevent its recurrence. In determining what remedies to pursue, the Board or committee will take into account all relevant factors, including whether the restatement was the result of fraud or intentional misconduct. The Board may, to the extent permitted by applicable law, in all appropriate cases, require reimbursement of any bonus or incentive compensation paid to the participant for any fiscal period commencing on or after January 1, 2008 if and to the extent that (1) the amount of incentive compensation was calculated based upon the achievement of certain financial results that were subsequently reduced due to a restatement, (2) the participant engaged in any fraud or intentional misconduct that significantly contributed to the need for the restatement, and (3) the amount of the bonus or incentive compensation that would have been awarded to the participant had the financial results been properly reported would have been lower than the amount actually awarded. In addition,

the Board may terminate the participant's employment, authorize legal action, or take such other action to enforce the participant's obligations to the Company as the Board may deem appropriate in view of all the facts surrounding the particular case.

Amendment and Termination. The Company reserves the right, exercisable by the Compensation Committee, to amend the Executive Incentive Bonus Plan at any time and in any respect, or to terminate the plan in whole or in part at any time and for any reason. Amendments will be subject to the approval of the Company's shareholders in such manner and with such frequency as is required under Section 162(m) of the Internal Revenue Code.

Outstanding Equity Awards at December 31, 2011

The following table shows, for the Named Executive Officers, outstanding equity awards held by such officers at December 31, 2011.

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
A. Malachi Mixon, III	122,400			36.40	8/21/12				
	137,900			37.70	8/20/13				
	142,000			44.30	8/24/14				
	120,800			41.87	9/8/15				
	88,100			22.66	8/23/16				
	88,100			23.71	8/22/17				
						10,650(1)	162,839		
	81,375	27,125(2)		25.79	8/20/18				
						22,270(3)	340,508		
	73,250	73,250(4)		20.48	8/19/19				
					20,400(5)	311,916			
24,750	74,250(6)		25.24	8/18/20					
					16,200(7)	247,698			
	61,300(8)		24.45	9/2/21					
Gerald B. Blouch	55,000			36.40	8/21/12				
	58,700			37.70	8/20/13				
	56,300			44.30	8/24/14				
	45,400			41.87	9/8/15				
	35,500			22.66	8/23/16				
	35,500			23.71	8/22/17				
						3,725(1)	56,955		
	28,500	9,500(2)		25.79	8/20/18				
						8,720(3)	133,329		
	27,750	27,750(4)		20.48	8/19/19				
					8,700(5)	133,023			
12,500	37,500(6)		25.24	8/18/20					
					26,400(7)	403,656			
	99,700(8)		24.45	9/2/21					
Robert K. Gudbranson	20,625	6,875(9)		22.38	4/1/18				
	16,725	5,575(2)		25.79	8/20/18				
						625(10)	9,556		
						2,200(1)	33,638		
	15,250	15,250(4)		20.48	8/19/19				
						4,450(3)	68,041		
	5,500	16,500(6)		25.24	8/18/20				
		22,000(8)		24.45	9/2/21				
					4,575(5)	69,952			
					5,800(7)	88,682			

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Joseph B. Richey, II	17,000			36.40	8/21/12				
	15,400			37.70	8/20/13				
	25,900			44.30	8/24/14				
	22,400			41.87	9/8/15				
	9,000			22.66	8/23/16				
	9,000			23.71	8/22/17				
	9,075	3,025(2)		25.79	8/20/18	1,200(1)	18,348		
	8,250	8,250(4)		20.48	8/19/19	2,400(3)	36,696		
Louis F.J. Slangen	8,250	8,250(4)		20.48	8/19/19	2,475(5)	37,843		
	3,000	9,000(6)		25.24	8/18/20	3,000(7)	45,870		
		11,200(8)		24.45	9/2/21				
	21,800			36.40	8/21/12				
	21,500			37.70	8/20/13				
	25,900			44.30	8/24/14				
	22,400			41.87	9/8/15				
	9,000			22.66	8/23/16				
9,000			23.71	8/22/17					
	9,075	3,025(2)		25.79	8/20/18	1,200(1)	18,348		
	8,250	8,250(4)		20.48	8/19/19	2,680(3)	40,977		
	8,250	8,250(4)		20.48	8/19/19	2,475(5)	37,843		
	3,000	9,000(6)		25.24	8/18/20	3,000(7)	45,870		
		11,200(8)		24.45	9/2/21				

- (1) These restricted shares vest on November 15, 2012.
- (2) These stock options become exercisable in 25% increments over four years commencing September 30, 2009.
- (3) These restricted shares vest in 25% increments over four years commencing November 15, 2010.
- (4) These stock options become exercisable in 25% increments over four years commencing September 30, 2010.
- (5) These restricted shares vest in 25% increments over four years commencing November 15, 2011.
- (6) These stock options become exercisable in 25% increments over four years commencing September 30, 2011.
- (7) These restricted shares vest in 25% increments over four years commencing November 15, 2012.
- (8) These stock options become exercisable in 25% increments over four years commencing September 30, 2012.
- (9) These stock options become exercisable in 25% increments over four years commencing March 31, 2009.
- (10) These restricted shares vest in 25% increments over four years commencing May 15, 2009.

Option Exercises and Stock Vested During Fiscal Year 2011

The following table shows, for the Named Executive Officers, information regarding each exercise of a stock option and each vesting of restricted stock during 2011.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
A. Malachi Mixon, III	—	—	8,800	186,560
			10,650	225,780
			11,135	236,062
			6,800	144,160
Gerald B. Blouch	—	—	3,550	75,260
			3,725	78,970
			4,360	92,432
			2,900	61,480
Robert K. Gudbranson	—	—	625	20,619
			2,200	46,640
			2,225	47,170
			1,525	32,330
Joseph B. Richey, II	—	—	900	19,080
			1,200	25,440
			1,200	25,440
			825	17,490
Louis F.J. Slangen	—	—	900	19,080
			1,200	25,440
			1,340	28,408
			825	17,490

Pension Benefits for Fiscal Year 2011

The following table presents certain information for each of the Named Executive Officers with respect to the SERP.

Name	Plan Name(1)	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)(2)	Payments During Last Fiscal Year (\$)(3)
A. Malachi Mixon, III	SERP	31	11,173,014(4)	—
Gerald B. Blouch	SERP	20	5,710,871	7,004
Robert K. Gudbranson	SERP	8(5)	736,065	2,500
Joseph B. Richey, II	SERP	27	1,673,180	—
Louis F.J. Slangen	SERP	24	2,569,402	1,909

- (1) The SERP is the Company's original Supplemental Executive Retirement Plan, as amended and restated into a cash balance plan which is intended to work in tandem with the original plan to operate effectively as one plan, as further described below under Supplemental Executive Retirement Plan (collectively, the "SERP").

- (2) This column presents the actuarial present value of each officer's accumulated benefit under the SERP, computed as of the same pension plan measurement date used for financial statement reporting purposes. For purposes of this calculation, (i) Named Executive Officers are assumed to have worked until the normal retirement age as defined in the SERP, which is the attainment of age 65 and (ii) Messrs. Mixon and Richey are assumed to have retired at December 31, 2011, at ages 71 and 75, respectively.
- (3) Payments during the last fiscal year are equal to taxable distributions made from the executive's account balance under the plan to cover his or her FICA tax obligations due on the vested accrued benefit obligations as of December 31, 2011, and the related income tax on such distributions.
- (4) In recognition of Mr. Mixon's successful completion of management succession planning and his past contributions to the Company, in 2000, the Compensation Committee waived the "Company contribution offset" to his SERP balance.
- (5) In consideration of his rejoining the Company in 2008, Mr. Gudbranson was credited with five years of service under the SERP.

Supplemental Executive Retirement Plan

In 1995, the Company established the Supplemental Executive Retirement Plan for certain executive officers to supplement other savings plans offered by the Company so as to provide a specific level of replacement compensation for retirement. In order to comply with Section 409A of the Code, the Supplemental Executive Retirement Plan has been amended and restated, effective as of December 31, 2008, as the Invacare Corporation Cash Balance Supplemental Executive Retirement Plan, which is referred to in this proxy statement as the "SERP."

Prior to amendment, the SERP provided for an annual benefit equal to 50% of a participant's annual base salary and target bonus on the April 1 immediately preceding or coincident with the date of termination. The benefit was reduced if the participant had less than 15 years of service with the Company. As amended, the SERP provides a benefit stated as a hypothetical account balance. Current participants, who were participants in the SERP prior to amendment, receive annual credits in the amount and for a maximum number of years as specified in their participation agreements. For such participants, the annual credits, together with annual interest credits, were structured with the intent to result in a benefit at normal retirement age that is substantially equivalent to the benefit that would have been provided at normal retirement age under the SERP prior to amendment. Future participants would receive annual credits that are a specified percentage (ranging from 8% to 35%, based on age at date of entry) of their annual base salary and target bonus for each year of employment, plus annual interest credits. The annual credits for such participants would not be made for any year in which the participant's account balance at June 30 is equal to or greater than 3.65 times that year's base salary and target bonus. Effective July 1, 2011, the Compensation Committee suspended the contributions by the Company to the SERP (see Compensation Discussion and Analysis).

Normal retirement age is age 65 or attainment of age 62 with 15 years of service with the Company. Annual interest credits at the established interest crediting rate will continue as long as the participant retains an account under the SERP. The interest crediting rate was initially set at 6% per year, compounded annually, and may be changed from time to time by the Compensation Committee. Effective July 1, 2011, the Compensation Committee reduced the interest crediting rate to 0% (see Compensation Discussion and Analysis). A participant will vest in his benefit in 20% increments over 5 years; however, payment of a participant's benefit generally will be made no earlier than normal retirement age, even if a participant terminates employment with a vested benefit prior to reaching normal retirement age. Also, retirement benefits generally are delayed until at least the later of the seventh month or the January after termination of employment. Upon entry into the SERP, a participant can make an election to receive his benefit, when it is ultimately paid, either in the form of a lump sum payment or in annual installments over a period not to exceed 25 years.

Notwithstanding the foregoing, if a participant's employment is terminated within two years following a "change in control" (as such term is defined in the SERP), the participant's account will become fully vested. In addition, his or her account will be credited with such additional amount as is necessary to bring the balance of the account to an amount equal to 3.65 times the greater of base salary plus target bonus for the year of termination or the preceding year, discounted from normal retirement age to the date of termination of employment (if earlier) at the interest crediting rate compounded annually. Payment of the benefit to such participant shall be made six months after termination of employment. Furthermore, if a participant dies prior to distribution of his or her benefits, a lump sum payment of the greater of his account balance or his base salary and target bonus at the time of death will be paid to his beneficiary within 30 days after death. If a participant's employment is terminated by reason of "disability" (as defined in the SERP), the participant will be entitled to an enhanced retirement benefit of not less than 3.65 times base salary plus target bonus, prorated for less than 15 years of service.

The SERP is a nonqualified plan and, thus, the benefits accrued under this plan would be subject to the claims of the Company's general creditors if the Company were to file for bankruptcy. The benefits will be paid (1) from an irrevocable grantor trust which has been partially funded from the Company's general funds and/or (2) directly from the Company's general funds.

Nonqualified Deferred Compensation for Fiscal Year 2011

The following table presents information for each of the Named Executive Officers regarding contributions, earnings, withdrawals and balances under the DC Plus Plan.

Name	Executive Contributions in 2011 (\$)(1)	Company Contributions in 2011 (\$)(2)	Aggregate Earnings in 2011 (\$)(3)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at December 31, 2011 (\$)(4)
A. Malachi Mixon, III	169,280	114,767	(2,389)	—	1,350,022
Gerald B. Blouch	53,013	73,007	27,581	—	1,382,171
Robert K. Gudbranson	—	17,472	10(8)	—	45,145
Joseph B. Richey, II	—	21,651	(2,078)	—	140,400
Louis F.J. Slangen	23,942	28,759	(5,731)	—	1,873,430

- (1) The amounts reported in this column represent the portion of the officer's salary and/or bonus, as reported in the "Salary" and "Non-Equity Incentive Plan Compensation" columns of the Summary Compensation Table, that was deferred into the plan.
- (2) The amounts reported in this column have been included with respect to each officer in the "All Other Compensation" column of the Summary Compensation Table above, as described in footnotes (7), (8), (9), (10), (11) and (12) to that table.
- (3) No portion of the amounts reported in this column that represent accrued interest has been included in the "Change in Pension Value and Nonqualified Deferred Compensation Earnings" column of the Summary Compensation Table, since none of the amounts reported in this column represent above-market or preferential interest or earnings accrued on the applicable plan. Please see the discussion below under DC Plus Plan for a description of how earnings under the plan are calculated.
- (4) Other than Company contributions (and the earnings thereon) made by the Company on behalf of each Named Executive Officer, the account balances shown in this column are solely attributable to deferrals by the Named Executive Officers of previously earned compensation and the earnings on these amounts.

DC Plus Plan

The DC Plus Plan is a non-qualified contributory savings plan for highly compensated employees. The program is offered to allow participants to defer compensation above the amount allowed in the Invacare Retirement Savings Plan, the Company's qualified retirement plan, and to provide participants with additional pre-tax savings opportunities. The DC Plus Plan is the successor to a prior non-qualified plan, the 401(k) Plus Plan. In 2004, the Company froze what was originally established as the 401(k) Plus Plan and prohibited further deferrals and contributions to that plan for compensation earned after December 31, 2004. It then adopted the DC Plus Plan, effective January 1, 2005, in order to address the requirements of Section 409A of the Code. All benefits of the participants earned and vested in the 401(k) Plus Plan as of December 31, 2004 remain preserved under and subject to the existing plan provisions. These plans are referred to in this proxy statement collectively as the "DC Plus Plan."

The DC Plus Plan allows participants to defer all or any portion of their annual cash bonus compensation and up to 50% of their salary into the plan. The Company has the discretion to provide matching contribution credits on amounts deferred, in accordance with the matching contribution percentage formula provided under the Retirement Savings Plan. The Company also has the discretion to provide for quarterly contribution credits on amounts of compensation in excess of the qualified plan compensation limit, in accordance with the quarterly contribution formula under the Retirement Savings Plan. For 2011, if the participant deferred at least 3% of compensation to the DC Plus Plan, the match was 2% of compensation deferred under the DC Plus Plan. During the first half of 2011, quarterly contributions were 4% of compensation in excess of the qualified plan compensation limit, without regard to the amount of deferrals made under the DC Plus Plan; however, effective July 1, 2011, the quarterly contribution rate was reduced to 1% (see Compensation Discussion and Analysis). Effective January 1, 2011, the DC Plus Plan was amended to permit the Company to enter into agreements with individual executives to provide for special discretionary contributions to be made on behalf of the executive in the amount specified in the agreement, which contributions would be made in lieu of the executive's participation in the SERP.

Participants may allocate contributions among an array of funds representing a full range of risk/return profiles, including Company common shares reflected in phantom share units. Employee deferrals and contributions by the Company for the benefit of each employee are credited with earnings, gains or losses based on the performance of investment funds selected by the employee. Earnings under the DC Plus Plan in 2011 were based on the following funds, which had the following annual returns in 2011: Fidelity VIP Money Market SVC, 0.03%; PIMCO VIT Total Return Admin, 3.61%; PIMCO VIT Real Return Admin, 11.67%; T Rowe Price Equity Income I, -0.73%; Fidelity VIP Index 500 Initial, 2.04%; T. Rowe Price Blue Chip Growth, 1.52%; Janus Aspen Perkins Mid Cap Value Instl, -2.64%; Morgan Stanley UIF Mid Cap Growth I, -7.12%; Royce Capital Small Cap, -3.28%; Alger American Small Cap Growth, -3.18%; MFS VIT II International Value Initial, -1.52%; American Fund IS International 2, -13.96%; and Invacare common shares, -49.22%. This array of funds is comparable to the array of funds offered for investment under the Invacare Retirement Savings Plan. Participants do not have any direct interest in or ownership of the funds. Participants' contributions are always 100% vested and employer contributions vest according to a five year graduated scale.

Distributions under the DC Plus Plan may be made only upon termination of the participant's employment, death, or hardship, or at the time specified by the participant at the time of deferral in accordance with the terms of the plan. In contrast, amounts held under the original 401(k) Plus Plan may still be distributed at any time at the election of the participant, subject to the forfeiture by the participant of 5% of the amount distributed. All distributions under the DC Plus Plan are in the form of cash. Distributions due to termination of employment are made within 90 days after termination of employment (or the seventh month after termination of employment in the case of key employees (as that term is defined in the Code)). Distributions are paid in the form of a lump sum, except that a participant may elect to have payment made in annual installments over a period of up to 15 years if

termination occurs after retirement age (age 55 with 10 years of service) and the account is over a minimum amount. Elections to participate in the DC Plus Plan must be made by the employee in accordance with the requirements of the plan and applicable law.

Other Potential Post-Employment Compensation

Severance and Change of Control Benefits

Upon termination of employment for certain reasons (other than a termination following a change of control of the Company) severance benefits may be paid to the Named Executive Officers. The severance benefits payable to Mr. Blouch are addressed in his Severance Protection Agreement, discussed below, and the severance benefits payable to Messrs. Gudbranson, Richey and Slangen are addressed in the description of each of their respective letter agreements below. Mr. Mixon is not covered under a general severance agreement, but is entitled to receive benefits under a change of control agreement (discussed below under Change of Control Agreements) like all of the other Named Executive Officers and under a Chairman Retirement Program (discussed below under Chairman Retirement Program).

Severance Protection Agreement

In 2002, the Company entered into a Severance Protection Agreement with Mr. Blouch. Under the terms of the agreement, if Mr. Blouch's employment is terminated by reason of death or disability, by the Company for cause (as defined in the agreement) or by Mr. Blouch other than for good reason (as defined in the agreement), he or his estate is entitled to receive payment of any compensation and benefits accrued but unpaid at the time of such termination. If Mr. Blouch's employment is terminated by the Company other than for cause or by Mr. Blouch for good reason (but not due to death or disability), he then is entitled to receive the following benefits:

- compensation equal to three times the amount of his then applicable annual base salary, to be paid in a lump sum no later than six months and a day following termination or, if earlier, by the 15th day of the third month following the calendar year in which termination occurred ("Short-term Date");
- 75% of his target bonus for the year in which employment ends, to be paid in a lump sum no later than the Short-term Date;
- any then-outstanding stock option grant or stock award shall immediately vest in full as of the date of termination of employment; and
- the exercise period of any unexercised stock option shall be extended until two years after the date of termination of employment (unless the option expires earlier by its terms). In addition, Mr. Blouch may exercise all options by means of a cashless exercise program, so long as (a) the program is permitted under applicable law, and (b) the Company is not required to recognize additional compensation expense as a result of the exercise.

In accordance with the terms described above, assuming that Mr. Blouch's employment with the Company was terminated by the Company other than for cause or by Mr. Blouch for good reason (but not due to death or disability) as of December 31, 2011, the amounts and/or values of the benefits he would be entitled to receive are as follows: (1) \$2,550,000 in respect of three times his applicable base salary; (2) \$637,500 in respect of 75% of his applicable target bonus; and (3) \$726,963 in respect of the present value of acceleration of vesting of outstanding unvested stock option grants and restricted stock awards and of the extension of the exercise periods of outstanding unexercised stock options, for a total of \$3,914,463. The agreement also provides that, if applicable, Mr. Blouch would be entitled to a lump sum payment as necessary to "gross up," on an after-tax basis, Mr. Blouch's compensation for all excise taxes and any penalties and interest imposed by Section 4999 of the Code.

The agreement contains provisions which restrict Mr. Blouch's ability to engage in any business that is competitive with the Company's business, or to solicit Company employees, customers or suppliers for a period of two years following the date of termination of his employment or two years after the last payment due to Mr. Blouch pursuant to the severance provisions described above, whichever is later. The agreement also contains provisions requiring Mr. Blouch to maintain the confidentiality of non-public Company information during and after his employment and to assign to the Company any rights that he may have in any intellectual property developed in the course of his employment. The agreement will automatically terminate upon a change in control (as defined in the agreement).

Other Severance Arrangements

The Company has entered into letter agreements with each of Messrs. Gudbranson, Richey and Slangen which provide that, upon a termination of employment other than by the Company for cause, each executive will be entitled to continuation of his then-applicable base salary for one year, to receive a pro rata portion of his target bonus for the year in which his employment ends based on the date of termination, and to continuation of health insurance benefits until the earlier of the end of the severance period or such time as he obtains employment that provides such coverage.

In accordance with the terms described above, assuming that the employment of each of Messrs. Gudbranson, Richey and Slangen was terminated by the Company other than for cause as of December 31, 2011, and assuming that these individuals were not entitled to benefits under their change of control agreements, the amounts and/or values of the benefits they each would be entitled to receive are as follows: (1) Mr. Gudbranson would be entitled to \$400,000 in respect of the continuation of his current base salary for one year, \$300,000 in respect of his target bonus for the year and \$13,693 in respect of the continuation of his current health insurance benefits for one year, for a total of \$713,693; (2) Mr. Richey would be entitled to \$435,000 in respect of the continuation of his current base salary for one year, \$326,250 in respect of his target bonus for the year and \$4,587 in respect of the continuation of his current health insurance benefits for one year, for a total of \$765,837; and (3) Mr. Slangen would be entitled to \$398,000 in respect of the continuation of his current base salary for one year, \$298,500 in respect of his target bonus for the year and \$13,164 in respect of the continuation of his current health insurance benefits for one year, for a total of \$709,664.

The Company also has entered into a technical information and non-competition agreement with each of Messrs. Gudbranson, Richey and Slangen which contain provisions requiring each executive to maintain the confidentiality of non-public Company information during and after his employment and to assign to the Company any rights that he may have in any intellectual property developed in the course of his employment. The agreements also contain provisions which restrict each executive's ability to engage in any business that is competitive with the Company's business, or to solicit Company employees, customers or suppliers for a period of two years following the date of termination of his employment; provided that, if the executive is unable to obtain employment consistent with his training and education solely because of the non-competition provisions of the agreement, the provisions will be effective only for so long as the Company makes monthly payments to the executive equal to his monthly base salary at the time of termination of his employment with the Company (including payment of premiums for health and life insurance as generally provided to the Company's employees).

Change of Control Agreements

The Company has entered into change of control agreements with its executive officers, including each of the Named Executive Officers. The agreements continue through December 31 of each year and are automatically extended in one-year increments unless the Company gives prior notice of

termination at least one year in advance. These agreements are intended to ensure the continuity of management and the continued dedication of the executives during any period of uncertainty caused by the possible threat of a takeover. Except for the payments described in the next paragraph, Invacare's change of control agreements are so-called "double trigger" agreements in that they do not provide for benefits unless there is both a change of control of the Company and an executive is terminated without cause (as defined in the agreement) or resigns for good reason (as defined in the agreement) within three years after the change of control.

In the event that there is a change of control of the Company (as defined in the agreement), then on the first anniversary of the change of control, each covered executive (a) who is still employed by the Company, (b) whose employment was involuntarily terminated after the Change in Control for any reason other than cause (as defined in the agreement), death or disability, or (c) who terminated employment for good reason (as defined in the agreement) is entitled to receive a payment equal to the sum of (x) the highest annual base salary paid by the Company to the executive since the effective date of the agreement; and (y) the higher of the executive's target bonus in the year in which the change of control occurs or the target bonus in the preceding year (such sum being hereinafter referred to as "Base Compensation"). Assuming a change of control of the Company as of December 31, 2011, if each of the Named Executive Officers was entitled to the payment equal to his Base Compensation described in this paragraph, he would be entitled to receive the following: (1) Mr. Mixon: \$1,700,000; (2) Mr. Blouch: \$1,700,000; (3) Mr. Gudbranson: \$700,000; (4) Mr. Richey: \$761,250; and (5) Mr. Slangen: \$696,500.

In addition, if the executive is terminated without cause (as defined in the agreement) or resigns for good reason (as defined in the agreement) at any time during the three year period following a change of control under the conditions set forth in the agreements, the executive will receive, in addition to accrued but unpaid salary, bonus and vacation pay, the following:

- a lump sum amount equal to two times the executive's Base Compensation;
- a lump sum amount equal to three times the greatest contribution made by the Company to each of the Invacare Retirement Savings Plan and the DC Plus Plan on behalf of the executive for any year in the three years prior to the change of control, as well as a lump sum payment equal to the unvested portion of the executive's account under the Invacare Retirement Savings Plan;
- a lump sum amount equal to the sum of the contributions and interest that were scheduled to be added to the executive's account under the SERP during the three year period immediately following the date of termination of employment if the executive had continued to be employed by the Company for three years after termination of employment, as reflected in the executive's participation agreement under the SERP;
- continuing coverage under the Company's health, life and disability insurance programs (including those available only to executives and those generally available to employees of the Company) for three years after termination of employment; and
- a lump sum payment as necessary to "gross up," on an after-tax basis, the executive's compensation for all excise taxes and any penalties and interest imposed by Sections 4999 and 409A of the Code.

The Company's equity compensation plans, the 401(k) Plus Plan and the DC Plus Plan provide for the following upon a change in control:

- accelerated vesting of all outstanding unvested stock options, so that all options become exercisable in full;
- accelerated vesting of all outstanding restricted stock; and
- immediate vesting of the executive's rights under the 401(k) Plus Plan and the DC Plus Plan.

The change in control agreements also provide for these benefits if the executive is terminated without cause or resigns for good reason within three years after the change in control. Accordingly, the executive would receive the accelerated vesting of these benefits under the change in control agreements upon a qualifying termination of employment if they were not otherwise provided for under the plans at the time of the change of control, as a result of the Board determining not to accelerate vesting or due to an amendment in the terms of the plans. The change in control agreements further provide that all vested options will continue to be exercisable for two years after termination (unless the option earlier expires by its terms). Finally, the change in control agreements generally provide that the agreements will automatically terminate upon a termination of employment prior to a change in control. However, if an executive is involuntarily terminated or terminates employment for good reason (as defined in the agreement) within the six months before, and primarily in anticipation of, a change in control, then effective as of the date of the change in control, the executive will be vested in and entitled to receive the same benefits to which he would have been entitled to if his termination of employment had occurred after the change in control.

The table below reflects the approximate amounts that would be payable to each Named Executive Officer under the individual change of control agreements assuming that the change of control occurred at December 31, 2011 and that such executive's employment was terminated in a manner triggering payment of the above benefits, including a gross-up for certain taxes in the event that any payments made in connection with a change in control would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, and assuming that no payments would be subject to excise tax or penalties imposed by Section 409A of the Internal Revenue Code.

Name	Lump Sum Severance Amount(1)	Continuing Benefit Plan Coverage(2)	Early Vesting of Stock Options(3)	Early Vesting of Restricted Stock(3)	DBO Plan Coverage(4)	Estimated Tax Gross Up(5)	Total
A. Malachi Mixon, III	\$6,158,782	\$73,164	\$—	\$223,985	\$ —	\$ —	\$ 6,455,931
Gerald B. Blouch	7,226,357	64,731	—	182,501	1,700,000	3,268,910	12,442,499
Robert K. Gudbranson	2,662,504	64,344	—	58,562	700,000	1,226,293	4,711,703
Joseph B. Richey, II	2,484,365	20,100	—	31,026	761,250	942,483	4,239,224
Louis F. J. Slangen	2,452,085	63,984	—	31,760	696,500	1,068,278	4,312,607

- (1) This amount is comprised of (i) a lump sum amount equal to the executive's retention payment (which is equal to his Base Compensation) plus an additional amount which, together, equal three times the executive's Base Compensation (which is \$5,100,000 for Mr. Mixon, \$5,100,000 for Mr. Blouch, \$2,100,000 for Mr. Gudbranson, \$2,283,750 for Mr. Richey and \$2,089,500 for Mr. Slangen); (ii) a lump sum amount equal to three times the greatest contribution made by the Company on behalf of the executive for any year in the three years prior to the change of control to (A) the Invacare Retirement Savings Plan (which is \$44,100 for Messrs. Mixon, Blouch, Slangen and Gudbranson, and \$29,400 for Mr. Richey), (B) the DC Plus Plan (which is \$344,301 for Mr. Mixon, \$219,021 for Mr. Blouch, \$52,416 for Mr. Gudbranson, \$70,824 for Mr. Richey and \$86,277 for Mr. Slangen), and (iii) a lump sum amount equal to the sum of the contributions and credited interest which were scheduled to be added to the executive's account under the SERP during the three year period following the change of control if the executive had continued in the employ of the Company through the third anniversary of the change of control (which is \$670,381 for Mr. Mixon, \$1,863,236 for Mr. Blouch, \$465,988 for Mr. Gudbranson, \$100,391 for Mr. Richey and \$232,208 for Mr. Slangen).
- (2) This amount represents the present value of continuing coverage under the Company's health, life and disability insurance programs (including those available only to executives and those generally available to employees of the Company) for three years following the date of termination.
- (3) These awards would become vested and the amount shown represents the present value of the acceleration of vesting under Section 4999 of the Internal Revenue Code.

- (4) The amounts in this column are amounts that would be payable to beneficiaries of the Named Executive Officers under the Company's Death Benefit Only Plan if the executive subsequently died following a termination of his employment after a change of control on December 31, 2011. See Retirement and Other Post-Termination Benefits — Death Benefit Only Plan below.
- (5) The estimated tax gross-up is calculated assuming that a change of control of the Company and termination of the executive's employment occurred at December 31, 2011 and assuming that none of the payments made pursuant to the change of control agreements were made in consideration of past services.

Retirement and Other Post-Termination Benefits

The Company maintains other plans and arrangements with its Named Executive Officers which provide for post-employment benefits upon the retirement or death of the executives, as further described below.

Retirement Plans

The Company's Named Executive Officers are eligible to participate in the SERP and the DC Plus Plan. The SERP and the present value of the accumulated benefits of each Named Executive Officer under the SERP are described elsewhere in this proxy statement under the Pension Benefits Table. The DC Plus Plan and the aggregate account balance of each Named Executive Officer under the plan are described elsewhere in this proxy statement under the Non-Qualified Deferred Compensation Table.

Death Benefit Only Plan

The Company maintains a Death Benefit Only Plan ("DBO Plan") for its senior executives other than the executive Chairman of the Board. By participating in the DBO Plan, an executive agrees to limit his or her coverage under the Company's other group life insurance plans to a maximum of \$50,000. Under the DBO Plan, subject to certain limitations, if a participant dies while employed by the Company, his or her designated beneficiary shall receive a benefit equal to three times the executive's highest annual base salary plus target bonus as in effect on the April 1st preceding or coincident with his or her death. If a participant dies after attaining age 65 or after his or her employment with the Company is otherwise terminated following a change of control of the Company, a payment equal to his highest annual base salary plus target bonus as in effect on the April 1st preceding or coincident with such event will be payable on behalf of the participant. The Company may, in its discretion, pay an additional amount in order to "gross up" the participant for some or all of the income taxes that may result from the benefits described above. With respect to each Named Executive Officer, if the executive had died on December 31, 2011, the following amounts would have been payable on an after-tax basis under the DBO Plan: (1) \$5,100,000 to the beneficiaries of Mr. Blouch; (2) \$2,283,750 to the beneficiaries of Mr. Richey (who is over age 65); (3) \$2,089,500 to the beneficiaries of Mr. Slangen; and (4) \$2,100,000 to the beneficiaries of Mr. Gudbranson. Upon a change of control of the Company, the Company's obligations under the DBO Plan will be binding on any successor to the Company and the foregoing benefits would be payable to a participant under the DBO Plan in accordance with the terms described above upon the death of the participant following the change of control.

Chairman Retirement Program

In March 2000, the Company established a retirement program for Mr. Mixon. Under the program, upon his retirement, Mr. Mixon is to be provided with a spending account of \$200,000 per year for each of the five years following retirement for reimbursement of office and clerical support, financial and legal planning and other reasonable expenses incurred in an ongoing role as consultant to the Company. If, at the end of any year, any amounts remain in such account, the remaining amounts are

to be paid to Mr. Mixon or his beneficiaries. The program further provides that, for each of the five years following his retirement, Mr. Mixon will be reimbursed for the cost of private or first class airfare of up to a maximum of \$30,000 per year, the cost of home security expenses of up to \$2,000 per year and the annual premium cost for medical insurance for Mr. Mixon and his spouse that is substantially similar to that maintained by the Company on his behalf prior to his retirement. In addition, during the five years after his retirement, Mr. Mixon will continue to be eligible to participate, at the Company's cost, in such personal umbrella insurance coverage and medical check-up benefit plans as may be maintained by the Company for its senior executives. The program will terminate on the earlier of the fifth anniversary of Mr. Mixon's retirement from the Company or a change of control of the Company as defined under the Change of Control Agreements described above. The Company estimates that, assuming that Mr. Mixon retired from the Company at December 31, 2011, the total amount payable to Mr. Mixon in connection with the foregoing benefits over the five-year period following retirement would be equal to approximately \$1,255,240.

Compensation of Directors

Non-employee directors were paid a \$60,000 annual retainer in 2011. The Company's Lead Director received an additional annual retainer of \$15,000 in 2011. In 2011, the Chairman of the Audit Committee and the Chairman of the Compensation and Management Development Committee each received an additional annual retainer of \$15,000, and the Chairmen of the Investment, Governance and Nominating Committees each received an additional annual retainer of \$10,000. To the extent any director was required to attend in excess of 24 Board or committee meetings in a year, the director was paid a fee equal to \$1,500 for each meeting in excess of 24 he or she attended. Certain independent directors who served on certain Special Committees formed in 2011 were paid \$1,500 per meeting attended, and the Chair of one such Special Committee was paid \$2,000 per meeting attended. Upon joining the Board of Directors, a newly-elected director receives a one-time grant of stock options to purchase a number of shares equal to \$150,000 divided by the market price of Invacare common shares on the date of grant, vesting over a four-year term. In September 2011, each non-employee director was granted a restricted stock award of 3,681 shares.

With respect to their 2011 compensation, directors are eligible to defer compensation payable by the Company for their services as a director into discounted stock options granted under the 2003 Plan, exercisable at 75% of market value on the date of grant. Of the amounts reflected in the "Fees Earned or Paid in Cash" column in the table below, Mr. Delaney deferred \$6,000, General Jones deferred \$24,000, Senator Robb deferred \$60,000 and Mr. Weber deferred \$37,500 of their 2011 compensation and, as a result, each was issued stock options on December 22, 2010 with an exercise price per share discounted 25% from the closing price per share of the Company's common shares as quoted on the New York Stock Exchange on that date.

2011 Director Compensation Table

Name	Fees Earned or Paid in Cash (\$)	Stock Awards \$(1)	Option Awards \$(2)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
James C. Boland	125,500(3)	90,000	— (4)	—	—	40(21)	215,540
Michael F. Delaney	60,000(5)	90,000	— (6)	—	—	—	150,000
C. Martin Harris, M.D.	72,167(7)	90,000	— (8)	—	—	125(21)	162,292
Dale C. LaPorte	69,167(9)	90,000	— (10)	—	—	—	159,167
Dan T. Moore, III	64,500(11)	90,000	— (12)	—	—	40(21)	154,540
William M. Weber	79,500(13)	90,000	— (14)	—	—	777(21)	170,277
James L. Jones	75,000(15)	90,000	— (16)	—	—	—	165,000
Charles S. Robb	79,500(17)	90,000	— (18)	—	—	—	169,500
Baiju R. Shah	40,000(19)	90,000	36,682(20)	—	—	—	166,682

- (1) The values reported in this column represent the dollar amount of expense, calculated in accordance with ASC 718, *Compensation — Stock Compensation*, to be recognized for financial statement purposes over the respective vesting periods with respect to all restricted stock awarded to each director during 2011. For a summary of the terms of these awards, see the discussion following the Grants of Plan-Based Awards Table. For a description of the assumptions made in computing the values reported in this column, see “Shareholders’ Equity Transactions” in the Notes to Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
- (2) The values reported in this column represent the dollar amount of expense, calculated in accordance with ASC 718, *Compensation — Stock Compensation*, to be recognized for financial statement purposes over the respective vesting periods with respect to all stock options awarded to each director during 2011. For a summary of the terms of these awards, see the discussion following the Grants of Plan-Based Awards Table. For a description of the assumptions made in computing the values reported in this column, see “Shareholders’ Equity Transactions” in the Notes to Consolidated Financial Statements contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
- (3) The fees to Mr. Boland include a \$60,000 retainer, a \$15,000 additional retainer for his service as Lead Director, a \$15,000 additional retainer for his service as Chairman of the Compensation and Management Development Committee, a \$10,000 additional retainer for his service as Chairman of the Governance Committee and \$25,500 in fees for attendance at 16 Special Committee meetings in 2011.
- (4) As of the end of the fiscal year, Mr. Boland held options to buy 45,343 common shares of the Company under the Invacare Corporation 1994 Performance Plan and the Invacare Corporation 2003 Performance Plan. All options were granted between January 31, 2002 and December 11, 2009, at exercise prices between \$10.695 to \$47.01 per share, expired or will expire between January 31, 2012 and August 20, 2018, and became or will become exercisable between March 31, 2003 and January 1, 2013.
- (5) Mr. Delaney deferred certain of his 2011 director fees, as further described above.
- (6) As of the end of the fiscal year, Mr. Delaney held options to buy 27,826 common shares of the Company under the Invacare Corporation 1994 Performance Plan and the Invacare Corporation 2003 Performance Plan. All options were granted between January 31, 2002 and December 22, 2010, at exercise prices between \$10.695 to \$47.01 per share, expired or will expire between January 31, 2012 and August 20, 2018, and became or will become exercisable between March 31, 2003 and January 1, 2014.

- (7) The fees to Dr. Harris include a \$60,000 retainer, an additional \$9,167 retainer for his service as Chairman of the Nominating Committee for 11 months of the year and \$3,000 in fees for attendance at two Special Committee meetings in 2011.
- (8) As of the end of the fiscal year, Dr. Harris held options to buy 30,779 common shares of the Company under the Invacare Corporation 1994 Performance Plan and the Invacare Corporation 2003 Performance Plan. All options were granted between February 6, 2003 and August 20, 2008 at exercise prices between \$23.71 to \$47.01 per share, will expire between February 6, 2013 and August 20, 2018, and became or will become exercisable between January 24, 2004 and September 30, 2012.
- (9) The fees to Mr. LaPorte include a \$60,000 retainer and an additional \$9,167 retainer for his service as Chairman of the Investment Committee for 11 months of the year.
- (10) As of the end of the fiscal year, Mr. LaPorte held options to buy 7,858 common shares of the Company under the Invacare Corporation 2003 Performance Plan. All options were granted on February 12, 2009 at an exercise price of \$19.09 per share, will expire on February 13, 2019, and will become exercisable between March 31, 2010 and March 31, 2013.
- (11) The fees to Mr. Moore include a \$60,000 retainer and \$4,500 in fees for attendance at three Special Committee meetings in 2011.
- (12) As of the end of the fiscal year, Mr. Moore held options to buy 28,142 common shares of the Company under the Invacare Corporation 1994 Performance Plan and the Invacare Corporation 2003 Performance Plan. All options were granted between January 31, 2002 and August 20, 2008, at exercise prices between \$23.71 to \$47.01 per share, expired or will expire between January 31, 2012 and August 20, 2018, and became or will become exercisable between March 31, 2003 and September 30, 2012.
- (13) The fees to Mr. Weber include a \$60,000 retainer, a \$15,000 additional retainer for his service as Chairman of the Audit Committee and \$4,500 in fees for attendance at three Special Committee meetings in 2011. Mr. Weber deferred certain of his 2011 director fees, as further described above.
- (14) As of the end of the fiscal year, Mr. Weber held options to buy 33,783 common shares of the Company under the Invacare Corporation 1994 Performance Plan and the Invacare Corporation 2003 Performance Plan. All options were granted between January 31, 2002 and December 22, 2010, at exercise prices between \$10.695 to \$47.01 per share, expired or will expire between January 31, 2012 and August 20, 2018, and became or will become exercisable between March 31, 2003 and January 1, 2015.
- (15) The fees to General Jones include a \$60,000 retainer and \$15,000 in fees for attendance at 10 Special Committee meetings in 2011. General Jones deferred certain of his 2011 director fees, as further described above.
- (16) As of the end of the fiscal year, General Jones held options to buy 8,563 common shares of the Company under the Invacare Corporation 2003 Performance Plan. All options were granted between December 1, 2010 and December 22, 2010, at exercise prices between \$22.7025 to \$27.82 per share, will expire between December 31, 2014 and December 1, 2020, and will become exercisable between September 30, 2011 and January 1, 2016.
- (17) The fees to Senator Robb include a \$60,000 retainer and \$19,500 in fees for attendance at 13 Special Committee meetings in 2011. Senator Robb deferred all of his 2011 director fees, as further described above.
- (18) As of the end of the fiscal year, Senator Robb held options to buy 13,161 common shares of the Company under the Invacare Corporation 2003 Performance Plan. All options were granted between March 1, 2010 and December 22, 2010, at exercise prices between \$22.7025 to \$28.67 per share, will expire between December 31, 2015 and March 1, 2020, and will become exercisable between March 31, 2011 and January 1, 2015.

- (19) Mr. Shah was appointed to the Board of Directors effective May 19, 2011. The fees to Mr. Shah represent a prorated portion of his annual retainer for service during 2011.
- (20) As of the end of the fiscal year, Mr. Shah held options to buy 4,496 common shares of the Company under the Invacare Corporation 2003 Performance Plan. All options were granted on May 19, 2011 at an exercise price of \$33.36 per share, will expire on May 19, 2021, and will become exercisable between March 31, 2012 and March 31, 2015.
- (21) Other compensation includes personal use of corporate suites or tickets to sporting events. See the discussion in footnote 7 to the Summary Compensation Table for a description of the Company's methodology for determining the incremental cost of this perquisite.

Equity Compensation Plan Information

The following table provides information as of December 31, 2011 about our common shares that may be issued upon the exercise of options, warrants and rights granted under all of our existing equity compensation plans, including the Invacare Corporation 2003 Performance Plan, the Invacare Corporation 1994 Performance Plan and the Invacare Corporation 1992 Non-Employee Directors Stock Option Plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	4,455,365	\$28.99	1,914,574(1)
Equity compensation plans not approved by security holders	3,506(2)	—	—
Total	<u>4,458,871</u>	<u>\$28.99</u>	<u>1,914,574</u>

- (1) Represents shares available under the Invacare Corporation 2003 Performance Plan. The Invacare Corporation 2003 Performance Plan allows for the granting of no more than 200,000 shares at an exercise price of not less than 75% of the market value on the date the option is granted. All other option grants must be made at not less than the market value on the date the option is granted.
- (2) Represents phantom share units in the 401(k) Plus Plan and the DC Plus Plan, which are allocated to participants' accounts at their discretion as their investment choice.

OTHER MATTERS

The Board of Directors does not know of any matters to be presented at the annual meeting other than those stated in the Notice of Annual Meeting of Shareholders. However, if other matters properly come before the annual meeting, it is the intention of the persons named in the accompanying proxy to vote based on their best judgment on any other matters unless instructed to do otherwise.

Any shareholder who wishes to submit a proposal for inclusion in the proxy material to be distributed by Invacare in connection with its annual meeting of shareholders to be held in 2013 must do so no later than December 11, 2012. To be eligible for inclusion in our 2013 proxy material, proposals must conform to the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended.

If a shareholder intends to present a proposal at Invacare's 2013 annual meeting without inclusion of that proposal in our 2013 proxy materials, the shareholder must give written notice of such proposal no less than 60 days nor more than 90 days prior to the first anniversary of the 2012 annual meeting, in accordance with the Code of Regulations, as amended. Unless we receive a notice of a shareholder proposal to be brought before the 2013 annual meeting by February 23, 2013, Invacare's proxy holders may vote all proxies in their discretion with respect to any shareholder proposal properly brought before such annual meeting.

Upon the receipt of a written request from any shareholder, Invacare will mail, at no charge to the shareholder, a copy of Invacare's 2011 Annual Report on Form 10-K, including the financial statements and schedules required to be filed with the Securities and Exchange Commission, for Invacare's most recent fiscal year. Written requests for any Reports should be directed to:

*Shareholder Relations Department
Invacare Corporation
One Invacare Way, P.O. Box 4028
Elyria, Ohio 44036-2125*

You are urged to sign and return your proxy promptly in the enclosed return envelope to make certain your shares will be voted at the annual meeting.

By Order of the Board of Directors,

ANTHONY C. LAPLACA
Secretary