INVACARE CORP
Form 10-K
March 10, 2017

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

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FORM 10-K

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ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
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

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

| Ohio | 95-2680965 |
|---|---|
| (State or other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification Number) |

One Invacare Way, Elyria, Ohio 44035
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (440) 329-6000

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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 |

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes ¨ No ý
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 ý
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 ý 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 ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section229.405) 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 ý

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 ý

As of June 30, 2016, the aggregate market value of the 30,679,199 Common Shares of the Registrant held by non-affiliates was $372,138,684 and the aggregate market value of the 729,309 Class B Common Shares of the Registrant held by non-affiliates was $8,846,518. 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, 2016, which was $12.13. For purposes of this information, the 1,060,880 Common Shares and 0 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 March 7, 2017, 31,679,927 Common Shares and 729,309 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 2017 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, 2016.

INVACARE CORPORATION
2016 ANNUAL REPORT ON FORM 10-K CONTENTS

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PART I

Item 1. Business.

GENERAL

Invacare Corporation is a leading manufacturer and distributor in its markets for medical equipment used in non-acute care settings. At its core, the company designs, manufactures and distributes medical devices that help people to move, breathe, rest and perform essential hygiene. The company provides medical device solutions for congenital (e.g., cerebral palsy, muscular dystrophy, spina bifida), acquired (e.g., stroke, spinal cord injury, traumatic brain injury, post-acute recovery, pressure ulcers) and degenerative (e.g., ALS, multiple sclerosis, chronic obstructive pulmonary disease (COPD), elderly, bariatric) ailments. The company's products are important parts of care for people with a wide range of challenges, from those who are active and heading to work or school each day and may need additional mobility or respiratory support, to those who are cared for in residential care settings, at home and in rehabilitation centers. The company sells its products principally to home medical equipment providers with retail and e-commerce channels, residential care operators, distributors and government health services in North America, Europe and Asia/Pacific. Invacare’s products are sold through its worldwide distribution network by its sales force, independent manufacturers’ representatives, and distributors.

Invacare is committed to providing medical products that deliver the best clinical value, which promote recovery and active lifestyles for people requiring non-acute care. Yes, You Can.® continues to be the company's global tagline as it is indicative of the "can do" attitude of many of the people who use the company's products. In everything it does, the company strives to leave its stakeholders with its brand promise - Making Life's Experiences Possible.™

The company is a corporation organized under the laws of the State of Ohio in 1971. When the company was first established as a stand-alone enterprise in December 1979, it had $19.5 million in net sales and a limited product line of basic wheelchairs and patient aids. Over the course of time, the company made approximately fifty acquisitions and, after some recent divestitures to harmonize its portfolio, Invacare's net sales in 2016 were approximately $1.0 billion. Based upon the company’s distribution channels, breadth of product line and net sales, Invacare is a leading company in many of the following medical equipment categories: custom power and manual wheelchairs; recreational adaptive sports products; non-acute bed systems; patient transfer and bathing equipment; and supplementary respiratory therapy devices.

The company’s executive offices are located at One Invacare Way, Elyria, Ohio 44035 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 POST ACUTE EQUIPMENT INDUSTRY

The post acute medical equipment market includes health care products, physical rehabilitation products, and other non-disposable products used for therapy and the long-term patient care. As pressure on healthcare spending continues to escalate, the company believes that increased delivery of care outside acute settings will be a significant area of growth as a means to alleviate healthcare cost pressures. In addition, technological advances have made medical equipment increasingly capable for use outside acute care settings. Current hospital procedures often allow for earlier patient discharge, thereby lowering cost while lengthening recuperation periods outside of the traditional institutional setting. Payors and providers are looking for ways to reduce spending in the costliest settings, and to reduce patient exposure in acute settings that can lead to serious co-morbidities. These incentives are accelerating the discharge of patients earlier and hastening the transfer of patients to less costly facilities designed to excel at providing less acute care. Patients often prefer treatment in less institutional settings and are migrating to out-patient and ambulatory care

centers and home, where possible.

With healthcare costs continuing to increase, the interests of patients and healthcare providers are converging to focus on the most cost-effective delivery of the best care. As payors become more judicious in their spending on healthcare, companies that provide better care or demonstrate better clinical outcomes will have an advantage. With its diverse product portfolio, clinical solutions, global scale and focus on the non-acute care setting, the company believes it is well positioned to serve this growing market.

North America Market

The United States' population is growing and aging. The World Population Aging 2015 report predicts that by 2030, 26 percent of the U.S. population will be age 60 or older, and that demographic will continue to expand through at least 2050. While institutional care will likely remain an important part of the U.S. healthcare system, the company believes care settings other than

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traditional hospitals will be chosen to provide increasing acuity care. This same demographic trend has placed greater demand on Medicaid and Medicare, which has led to substantial reductions in reimbursements for basic healthcare equipment and the shift in the provision of certain types of healthcare from acute settings to lower costs settings, including long-term acute care facilities, skilled nursing facilities and the home. Initiatives by the United States government, such as the creation of Accountable Care Organizations, can align incentives for healthcare providers and potentially lower the trajectory of rising healthcare costs and improve outcomes. The company is well positioned to benefit from this trend as it markets its products through four channels: home healthcare providers; rehabilitation providers; long-term care facilities; and government agencies.

The Canadian health care system is a publicly funded model that provides coverage to all citizens. The provinces and territories administer and deliver most of Canada's health care services, and all health insurance plans are expected to meet the national principles of the Canada Health Act. The objective of this Act is to provide consumer-centered support and funding to residents who have long-term physical disabilities and to give access to personalized assistive devices appropriate for the individual’s basic needs. Each provincial and territorial health insurance plan differs in terms of the reimbursement policies and product specifications. This allows healthcare services to be adjusted to regional needs. Invacare sells across Canada taking into consideration the differences in each region.

Europe Market

While the healthcare equipment market in each country in Europe has distinct characteristics, many of the factors driving demand and affecting reimbursement are consistent with those in North America: population aging; more patients with chronic illnesses; preference to increasingly deliver healthcare outside hospitals; and the use of technology to increase productivity and reduce ancillary costs. Each country has variations in product specifications, regulatory requirements, distribution needs and reimbursement policies, and these differences require the company to tailor its approach to each local market. The company's core strategy is to address these markets with global product platforms that are localized with country-specific adjustments as necessary. This is especially the case for power wheelchairs, manual wheelchairs, and respiratory products. Customers in all European markets typically make product selections based upon quality, features, alignment with local reimbursement requirements, and customer service.

Asia/Pacific Market

The company's Asia/Pacific segment is comprised of revenues from products sold into Australia, New Zealand, China, Japan, Korea, India and Southeast Asia. Invacare's Asia/Pacific businesses sell through six distribution channels. Mobility and seating products are sold via a dealer network with almost all sales directly government-funded. Homecare products are sold via a dealer network that sells products to the consumer market. Long-term care products are sold via a dealer network and directly to care facilities. The company operates a rental business in New Zealand supporting the three largest providers in New Zealand’s North Island. Sales to other parts of Asia are sold via distributors and agents based in Japan, Korea, India and Southeast Asia. Invacare China sells almost exclusively via distributors and dealers focused in Shanghai, Beijing and Guangzhou.

Reimbursement

In most markets, the company does not make significant sales directly to end-users. In some cases, the company sells directly to a government payor, for example, in the United States, the United Kingdom and certain Scandinavian countries. In other cases, the company’s customers purchase products to have available for sale to or use by end-users. These customers then work with end-users to determine what equipment may be needed to address the end-user’s medical needs. Products are then provided to the end-user, and the company’s customer may seek reimbursement on behalf of the consumer or sell the products, as appropriate. Product mix, pricing and payment terms vary by market. The company believes its market position and technical expertise will allow it to respond to ongoing changes in demand and reimbursement.

PRODUCT CATEGORIES

The company manufactures and distributes products in three key product categories:

Mobility and Seating

- Power Wheelchairs. Invacare designs, manufactures and distributes complex power wheelchairs for individuals who require powered mobility. The range includes products that can be highly customized to meet an individual user's needs, as well as products that are inherently versatile and meet a broad range of requirements. Center-wheel drive power wheelchair lines are marketed under the Invacare® TDX® brand name as well as the Motion Concepts® ROVI® X3 Power Base. The TDX line of power wheelchairs offers a combination of power, stability and maneuverability including the

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Invacare® SureStep® suspension with Stability Lock and available G-Trac™ Technology. Seating systems offer elevate, power tilt and recline features. The company also offers rear-wheel drive power wheelchair technology through the Invacare® Storm Series®. The company has several subsidiaries that specialize in complementary technology to enhance the utility of wheelchairs for unique and complex physiological needs. For example, Adaptive Switch Labs (ASL) manufactures alternative electronic control systems that enable wheelchair and environmental control via sip/puff or head position inputs. Motion Concepts designs and produces custom powered seating modules and positioning systems. Alber sells innovative power add-on devices that enable manual wheelchair users to have optional electric power to augment manual propulsion and enable caretakers to more easily maneuver manual wheelchairs. In addition, Dynamic Controls (DCL) makes sophisticated control electronics that enable wheelchair control, remote programming and diagnostics. The company continues to be a leader in this market with unique intellectual property in wheelchair suspension, alternative controls, and electronics.

- Custom Manual Wheelchairs. Invacare designs, manufactures and markets a range of custom manual wheelchairs and recreational products for independent everyday use, outdoor recreation, casual and competitive sports, such as basketball, racing and tennis. These products are marketed under the Invacare® and Invacare® Top End® brand names. The company also has a premiere line of lightweight aesthetically stylish custom manual wheelchairs designed and manufactured in Switzerland under the Küschall® brand. These custom manual wheelchairs provide a wide range of mobility solutions for everyday activities. The company's competitive advantages include a wide range of features and functionality and the ability to build purposeful custom wheelchairs, as well as wheelchairs that collapse to fit into very small spaces for ease of transportability.
- Seating and Positioning Products. At the core of care for seated end-users is the need for proper seating and positioning. Invacare designs, manufactures and markets some of the industry's best custom seat systems, seat cushions, back supports and accessories to enable care givers to optimize the posture of their clients in mobility products. The Invacare® Seating and Positioning series provides seating solutions for less complex needs. The Invacare® Matrx® Series offers versatile modular seating components with unique proprietary designs and materials that optimize pressure management and help ensure long-term proper posture. The company's PinDot® series provides custom molded seat modules that can accommodate the most unique anatomic needs and can be adapted to fit with a wide range of mobility products. This high-level of customization and ability to rapidly produce custom products is highly specialized in the market, and is valued by therapists who need timely solutions for their clients' most complex clinical needs.

Lifestyle Products

- Pressure Relieving Sleep Surfaces. Invacare manufactures and distributes a complete line of therapeutic pressure relieving overlays and mattress systems for the prevention and treatment of pressure ulcers. The Invacare® Softform and microAIR® brand names feature a broad range of pressure relieving foam mattresses or powered mattresses 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; who may have fragile skin or be susceptible to skin breakdown; and who spend long periods in bed.
- Safe Resident Handling. Invacare manufactures and distributes products needed to assist in transferring individuals from surface to surface (e.g., bed to chair). Designed for use in the home or in institutional settings, these products include ceiling and floor lifts, sit-to-stand devices and a comprehensive line of slings.
- Beds. Invacare manufactures and distributes a wide variety of manual, semi-electric and fully-electric beds for both residential care and home use under the Invacare® brand name. Also available are bariatric beds and accompanying accessories to serve the special needs of bariatric patients. Bed accessories include bedside rails, mattresses, overbed tables and trapeze bars. The company's bed systems introduced the split-spring bed design, which is easier for HME providers to deliver, assemble and clean. Invacare's beds also feature patented universal bed-ends, where the headboard and footboard may be used interchangeably. This enables customers to more efficiently deploy their inventory.

- Manual Wheelchairs. Invacare designs, manufactures and distributes a complete line of manual wheelchairs. The company's manual wheelchairs are sold for use in the home and in institutional settings. Consumers include people who are chronically or temporarily disabled and require basic mobility with little or no frame modification and may propel themselves or be moved by a caregiver. The company’s manual wheelchairs are marketed under the Invacare® brand name. Examples include the 9000 and Tracer® wheelchair product lines.
- Personal Care. Invacare distributes a full line of personal care products, including ambulatory aids such as rollators, walkers, and wheeled walkers. Also available are bathing safety aids such as tub transfer benches and shower chairs, as well as patient care products, such as commodes and other toileting aids. In some markets where payors value durable long-lasting devices, especially outside of the U.S., personal care products continue to be an important part of the Lifestyles business. In certain markets, and in the U.S. in particular, this product area is being focused on residential care.

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Respiratory Therapy Products

The company designs and manufactures products that concentrate oxygen for consumers who need supplemental oxygen for breathing. Invacare® oxygen products meet a wide variety of needs, including stationary systems for use while at home and portable systems for mobile use. Historically, oxygen therapy was provided through delivery of large tanks of liquid oxygen or the routine delivery of tanks of compressed oxygen to patients. Industry trends continue to displace modes of oxygen therapy that involve delivery, which is costlier to provide and less convenient for patients who need to coordinate the exchange of oxygen containers. Published industry data suggests a large portion of the costs associated with home oxygen therapy are directly associated with delivery-related activities required to meet the ambulatory oxygen therapy needs of patients. Invacare's newer modalities of oxygen supply replace these costlier and constraining delivery-based forms of care.

- Stationary Oxygen Concentrators. Invacare oxygen concentrators are manufactured under the Perfecto2™, Perfecto2 V™ and Platinum™ brand names and are available in five-, nine-, and ten-liter models. All Invacare stationary concentrators are designed to provide patients with durable equipment that reliably concentrate oxygen at home or in a healthcare setting. Stationary oxygen concentrators are typically used by people needing nocturnal oxygen, or those who have advanced-stage lung diseases and whose lifestyles keep them largely at home.
- Oxygen Refilling Devices. The Invacare® HomeFill® Oxygen System allows oxygen patients to fill their own portable oxygen cylinders from an oxygen concentrator within the home and therefore have very convenient portable sources of supply in addition to oxygen supply while at home. As a result, medical equipment providers can virtually eliminate time-consuming and costly service calls associated with cylinder and/or liquid oxygen deliveries while at the same time enhancing the lifestyle of the patient.
- Portable Oxygen Concentrators. The fastest growing modality of providing supplementary oxygen is the battery-powered portable category. Invacare's new Platinum Mobile™ Oxygen Concentrator has among the most competitive features in the three-liter category. This newly launched product supplements the Invacare® SOLO2® and XPO2™ transportable oxygen concentrators available in Europe, which offer pulse dose and continuous flow oxygen in volumes up to three liters per minute.

GEOGRAPHIC SEGMENTS

Europe

The company's Europe segment operates as an integrated unit across the European, Middle Eastern and African markets with sales and operations throughout Europe. The Europe segment is coordinated with other global business units for new product development, supply chain resources and additional corporate resources. This segment primarily includes: mobility and seating; lifestyle; and respiratory therapy product lines. The company manufactures power wheelchair products, wheelchair power add-ons and hygiene products in different facilities in Germany. Manual wheelchair products are manufactured in Switzerland, Sweden, and France. The company manufactures beds in Portugal and Sweden for various markets. Invacare manufactures therapeutic support surfaces, and seating and positioning products in the U.K. Respiratory products, such as oxygen concentrators and Invacare® HomeFill® systems, are imported. The Europe segment comprised 51.6%, 47.0% and 48.1% of the net sales from continuing operations in 2016, 2015 and 2014, respectively.

North America

North America includes the following segments in the United States and Canada:

- North America/Home Medical Equipment (North America/HME) - This segment primarily includes: mobility and seating, lifestyle and respiratory therapy product lines. Products are sold through rehabilitation providers, home

healthcare providers, and government provider agencies, such as the Veterans Administration. This segment included Garden City Medical Inc. ("GCM") which was sold on September 30, 2016. This segment comprised 38.0%, 41.5% and 40.0% of the net sales from continuing operations in 2016, 2015 and 2014, respectively.

Institutional Products Group (IPG) - This segment sells healthcare furnishings including long-term care beds, case goods, safe patient handling equipment, and other equipment and accessories for long-term care customers. This segment also provides interior design services for nursing homes and assisted living facilities involved in renovation and new construction. IPG also included Dynamic Medical System, LLC, and Invacare Outcomes Management, LLC (collectively "the rentals businesses") which were divested on July 2, 2015. This segment comprised 6.1%, 7.6% and 8.1% of net sales from continuing operations in 2016, 2015 and 2014, respectively.

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Asia/Pacific

The company's Asia/Pacific segment consist of Invacare Australia, Invacare New Zealand and Dynamic Controls. The company distributes a range of medical equipment including mobility and seating, lifestyle and respiratory therapy products to homecare and long-term care markets in Australia and New Zealand. Dynamic Controls is a manufacturer of electronic operating components used in power wheelchairs, scooters, respiratory and other products used in Invacare products and in products sold by other companies. This segment comprised 4.3%, 3.9% and 3.8% of the net sales from continuing operations in 2016, 2015 and 2014, respectively.

Discontinued Operations

Invacare also manufactured and sold stationary standing assistive devices for use in patient rehabilitation through its Altimate Medical, Inc., subsidiary that was divested on August 29, 2014. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Discontinued Operations.

Divested Operations

On September 30, 2016, the company divested GCM which sourced and distributed primarily lifestyle products under the brand ProBasics™ by PMI. GCM was part of the North America/HME segment of the company.

Invacare divested the rentals businesses on July 2, 2015, which were included in the IPG segment. Prior to the disposition of these rentals businesses, IPG had rented long-term care medical equipment and accessory products through these rentals businesses.

The company determined that the sale of GCM and the rentals businesses did not meet the criteria for classification as discontinued operations and therefore results from these businesses remain in their respective segments unless otherwise noted.

For financial information regarding reportable segments, including revenues from external customers, products, segment profitability, assets and other information by segments, see Business Segments in the Notes to the Consolidated Financial Statements of this Annual Report on Form 10-K.

WARRANTY

Generally, the company's products are covered by warranties against defects in material and workmanship from the date of sale to the customer for various periods depending on the product. Certain components carry a lifetime warranty.

COMPETITION

North America and Asia/Pacific

The durable medical equipment market is highly competitive, and Invacare products face significant competition from other well-established manufacturers and distributors. 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. In addition, as reimbursement pressures persist in the U.S. market, some customers are beginning to directly source select lifestyle products to secure a low-cost advantage. The company believes that successfully increasing market share is dependent on providing value to the customer based on the quality, performance, durability, and clinical benefits of the

company's products, 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.

Europe

As a result of the different reimbursement mechanisms per country and varied competitive distribution practices across Europe, the principal competition varies from one country to another. In 2016, some consolidation resulted in country-specific or limited regional competitors becoming regional affiliates of global competitors. In the areas of beds, hygiene, walking aids and safe patient handling, country-specific competitors remain strong and more localized.

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MARKETING AND DISTRIBUTION

North America

In the United States, Invacare products are marketed primarily to clinical specialists in rehabilitation centers, long-term care facilities, government agencies and residential care settings. The company markets to these medical professionals, who refer their patients to HME providers to obtain specific types of the company’s medical equipment. The company sells its products to these providers.

In 2016, the North America sales force continued shifting from being a generalist sales force with separate smaller subsidiary sales teams, to become an integrated sales team focused in two primary areas. These two primary groups of specialized sales professionals each focus on clinically complex products to either support customer needs in complex rehabilitation or post-acute care. In 2016, over 40% of the North America sales force was hired and trained with this focus in mind, and virtually 100% of the sales representatives began working in a materially new way, with new customer call points, new products, new focus and a significant emphasis on patient-centric care and improved outcomes for complex clinical needs.

The IPG sales and marketing organization consists of outside sales representatives and independent representative agencies supported by a marketing group that generates awareness and demand at skilled nursing facilities for Invacare products and services. IPG also provides interior design services and products for nursing homes and assisted living facilities involved with renovation and new construction.

The company contributes extensively to editorial coverage in trade publications concerning the products the company manufactures. Company representatives attend numerous trade shows and conferences on a national and regional basis in which Invacare products are displayed to providers, health care professionals, managed care professionals and consumers. The company also drives awareness of its brand through its website, as well as with online communities of people who may use its products.

The company raises consumer awareness of its products through its 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 female and male racers, hand-cyclists and wheelchair tennis players in the world. In 2016, the company fitted and provided highly customized sports devices to elite global athletes who competed in their respective national teams in the 2016 Paralympic Games. In addition, the company continued its support of disabled veterans through its continuous sponsorship of the 37th National Veterans Wheelchair Games, the largest annual wheelchair sporting event in the world, and of the Invictus Games, a global sporting event to inspire recovery in veterans from all over 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.

The company's products are distributed through a network of facilities and directly from some manufacturing sites to optimize cost and delivery performance.

Europe

The company’s European operations primarily conduct manufacturing, marketing and distribution functions in Western Europe and coordinate export sales activities through local distributors for markets in the Middle East and Africa. The company has a sales force of employees and distributors. In markets where the company has its own sales force, product sales are made to dealers of medical equipment or directly to government agencies. Marketing functions are staffed by central and regional teams to optimize coverage and content. The company operates distribution centers in

various locations to optimize cost and delivery performance.

Asia/Pacific

The company's Asia/Pacific segment is comprised of revenues from two main businesses. Invacare Asia/Pacific sells electronic controls systems from its Dynamic Controls business to medical equipment manufacturers, including Invacare, its affiliates and other companies. These controls systems and components are used primarily in mobility and respiratory devices. This segment also includes revenue from trade sales and rentals to customers in Australia, New Zealand, China, Japan, Korea and Southeast Asia. The sales and rentals businesses trade in Invacare and third-party products as required to meet local needs. Products are distributed throughout Asia via a network of distribution modes designed to optimize cost and delivery performance.

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Marketing in direct markets in Asia/Pacific are managed regionally. Sponsorship efforts are focused around programs designed to introduce people with disabilities to sports as a pathway to inclusion. In 2016, Invacare New Zealand was a supporting partner and preferred equipment supplier of Paralympics New Zealand. Invacare also sponsored the Oz Day 10K classic wheelchair race on Australia Day. Invacare was a sponsor of the Attitude Trust and was a named sponsor for the Disabled Sports Person of the Year award that was held as part of the Attitude Awards on World Disability Day in New Zealand.

PRODUCT LIABILITY COSTS

The company is self-insured in North America for product liability exposures through its captive insurance company, Invatection Insurance Company, which currently has a policy year that runs from September 1 to August 31 and insures annual policy losses up to $10,000,000 per occurrence and $13,000,000 in the aggregate. The company also has additional layers of external insurance coverage, related to all lines of 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.

PRODUCT DEVELOPMENT AND ENGINEERING

The company’s strategy includes establishing a cadence of developing meaningful new products in key markets and in all product areas. In coordination with various technical groups across the company’s network, Invacare launched a series of new innovations in 2016, including the following:

- The Alber® Twion® is a lightweight power-assist add-on wheelchair drive which was launched early 2016 in the United States. By utilizing the latest gearless digital motor technology and full smartphone connectivity, it provides consumers with extra power for propelling their wheelchairs. Intelligent force sensors activate the right amount of motor assistance for the consumer, to move them more easily while reducing the risk of repetitive strain injuries that may result from long-term manual wheelchair use.
- The Invacare® Myon® HC is the new custom manual folding wheelchair in the company's active manual line of products. It has a unique folding mechanism that allows it to be folded using only one hand instead of a more typical two-hand operation. The chair is highly configurable, which gives prescribing care providers the flexibility to get a good fit for users while maintaining the rigid efficiency and ride quality that is typically only available with less adjustable non-folding wheelchairs. This product launched in Europe in 2015, and in North America in April 2016.
- The Aquatec® Kogia® bathlifter launched in May 2016 in Europe, and it has already won the Good Design Award 2016. The Aquatec Kogia has been designed with comfort, ease of use and safety in mind. Weighing only 22 pounds, the Kogia is lightweight and still able to support up to 300 pounds.

In Europe, Invacare launched the first phase of the Invacare® LiNX® power wheelchair control system. Invacare LiNX is the company's new user-inspired control system that provides a revolutionary driving experience to consumers. Featuring a unique modular design, the first generation of this system can be expanded, customized and adjusted to match the changing needs of the consumer. Key features include simplified user interactions; quick intuitive configurability; and a more responsive drive experience for greater user confidence. Phase two of the LiNX roll-out, which includes application to more complex rehab controls, as well as the North America launch, are planned for the second half of 2017.

The Alber® e-fix® is a lightweight and highly efficient, fully digital add-on hub drive controlled by a joystick. This product was introduced to the U.S. market in late 2016. The ultra-lightweight lithium-ion batteries weigh only 4.4 lbs., which makes it the most lightweight power-supply in its category. The drive components can be disassembled in seconds by means of quick release connections to provide unsurpassed transportability for the client and attendant.

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- The Invacare® Platinum® Mobile portable oxygen concentrator (POC) was launched in late 2016 in the quickly growing portable oxygen concentrator segment. The company's POC weighs less than five pounds, is quiet and durable. The unit has pulse settings from 1 - 4 to meet the varying needs of respiratory ailments. It features Invacare® Sensi-Pulse™ Technology that customizes the size of each bolus of oxygen to meet patient demand. Additionally, the Invacare Platinum Mobile Oxygen Concentrator is designed to pass real use conditions of daily life with user-friendly features.
- Throughout 2016, Küschall, the company's lightweight high-performance wheelchair products from Switzerland, introduced several new wheelchairs to its line. The Küschall Compact is a sleek, lightweight foldable wheelchair developed to meet customer needs in price sensitive regions or healthcare systems. Next to it, the Küschall Champion active rigid wheelchair that folds is now available in an even more compact version through a new folding front frame option. In December 2016, the company received 510(k) clearance from FDA to introduce Küschall products into the U.S. market.

MANUFACTURING AND SUPPLIERS

The company’s objective is to efficiently deploy resources in its supply network to achieve the best quality, service performance and lowest total cost. The company targets to achieve this result with a combination of value from Invacare facilities, contract manufacturers and key suppliers.

The company continues to emphasize reducing the cost of its manufacturing and distribution operations. The company is expanding its culture of deploying current Good Manufacturing Practices (“cGMP”) and Lean Manufacturing principles to eliminate waste throughout the network and will continue to pursue ongoing improvements. At its core, the company’s operations produce and distribute both custom-configured products for specialized clinical situations and standard products.

The company procures raw materials, components and finished goods from a global network. The company utilizes regional sourcing offices to identify, develop and manage its supply base. Where appropriate, Invacare utilizes suppliers across multiple regions to ensure flexibility, continuity and responsiveness. The company’s network of engineering design centers, product management groups and sources of supply are actively managed to optimize costs and satisfy customer demand.

North America

The company operates several vertically integrated factories in North America, each with specific capabilities: custom powered wheelchairs and seating products (Elyria, OH); manual and passive manual wheelchairs and patient aids (Reynosa, MX); beds, institutional case goods and respiratory therapy products (Sanford, FL); manual recreational and wheelchair products (Pinellas Park, FL), passive manual and pediatric wheelchairs (Simi Valley, CA); and seating and positioning systems (Toronto, ONT). Products made in North American operations are sold in North America and are shipped as finished goods and as subcomponents to internal and external customers globally. The company is rationalizing its North American distribution network to optimize delivery performance and cost.

Asia/Pacific

Invacare manufactures products that serve global markets through the company’s wholly-owned factories in Suzhou, Jiangsu Province, China. The Suzhou facilities supply finished goods and subcomponents to internal and external customers worldwide.

Europe

The company has eight manufacturing and assembly facilities in Europe with capabilities to manufacture patient aids, wheelchairs, powered mobility accessories, bath safety products, beds, therapeutic support surfaces, and patient transport products. Products manufactured in Europe are used by customers worldwide.

GOVERNMENT REGULATION

The company is governed by regulations that affect the manufacture, distribution, marketing and sale of its products and regulate healthcare reimbursement that may affect its customers and the company directly. These policies differ among and within every country in which the company operates. Changes in regulations, guidelines, procedural precedents, enforcement and healthcare policy take place frequently and can impact the size, growth potential and profitability of products sold in each market.

In many markets, healthcare costs have been consistently increasing in excess of the rate of inflation and as a percentage of GDP. Efforts to control the payor's budget deficits have impacted reimbursement levels for healthcare programs. Private insurance companies often mimic changes in federal programs. Reimbursement guidelines in the home healthcare industry have a substantial

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impact on the nature and type of equipment consumers can obtain and thus, affect the product mix, pricing and payment patterns of the company's customers who are the medical equipment providers.

The company has continued its efforts to influence public policies that impact home-based and long-term non-acute healthcare. The company has been actively educating federal and state legislators about the needs of the patient communities it serves and has worked with policy authors to ensure the industry's healthcare consumer needs are represented. The company believes its efforts have given the company a competitive advantage. Customers and end-users recognize the company's advocacy efforts, and the company has the benefit of remaining apprised of emerging policy direction.

FDA

The United States Food and Drug Administration ("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, depending on the level of risk posed to patients, with Class III designating the highest-risk 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 in compliance with the Quality System Regulation (QSR). Domestic and foreign manufacturers of medical devices sold in the U.S. are subject to periodic inspections by FDA. In addition, some foreign governments have adopted regulations relating to the design, manufacture and marketing of health care products.

Consent Decree

In December 2012, the company reached agreement with FDA on the terms of the consent decree of injunction with respect to the company's Corporate facility and its Taylor Street wheelchair manufacturing facility in Elyria, Ohio. A complaint and consent decree were filed in the U.S. District Court for the Northern District of Ohio, and on December 21, 2012, the Court approved the consent decree and it became effective. The injunction limits the company's manufacture and distribution of power and manual wheelchairs, wheelchair components and wheelchair sub-assemblies at or from its Taylor Street manufacturing facility in Elyria, Ohio. The decree also temporarily limited design activities related to wheelchairs and power beds that take place at the impacted Elyria, Ohio facilities. The company is entitled to continue to produce from the Taylor Street manufacturing facility certain medically necessary wheelchairs provided that documentation and record-keeping requirements are followed, as well as replace, service and repair products already in use, under terms delineated in the consent decree. In addition, the company was able to fulfill purchase orders and quotes that were in the company's order fulfillment system prior to the effective date of the decree.

Under the terms of the consent decree, in order to resume full operations at the impacted facilities, the company must successfully complete a third-party expert certification audit and receive written notification from FDA. The certification audit is comprised of three distinct reports. The first two of the three certification reports were completed and accepted by FDA during 2013. In February 2016, the third-party expert issued its third certification report indicating substantial compliance with FDA's Quality System Regulation (QSR), and the report was submitted to FDA. Similar to the first and second certification processes, FDA has responded to this report with clarifying questions to which the company and the independent expert have responded.

In December 2015, FDA issued Form 483 observations following a 2015 inspection lasting approximately five months at the Corporate and Taylor Street facilities in Elyria, Ohio which included a review of the company's compliance with the terms of the consent decree and the matters covered by the first and second expert certification reports previously accepted in 2013 (the "December 2015 Form 483"). The company has filed its responses to this Form 483 and continues to work on addressing FDA's observations.

On June 7, 2016, the company received a letter from FDA in follow up to the December 2015 Form 483 and the company’s subsequent responses. To satisfy FDA’s design control requirements, the FDA letter outlined additional steps the company must take. In particular, FDA clarified its requirement for the company to complete the remediation of certain design history files ("DHFs") referenced in the December 2015 Form 483 and in the consent decree. Before the company can design any new Taylor Street wheelchair devices, the specified DHFs must be completed, then recertified by the company’s third-party expert, whose updated report must be accepted by FDA. FDA also clarified that its acceptance of the expert’s report on these DHFs is a prerequisite to proceeding further with the third certification process. In January 2017, the company submitted the specified DHFs to the third-party expert for review. The company cannot predict the third-party's acceptance of the company's DHFs as conforming to design control requirements, nor the timing of the third-party's updated report or FDA's acceptance of the report.
Upon FDA reinstatement of the second certification and acceptance of the third certification report, the company will then submit a report in accordance with paragraph 5H of the consent decree. The 5H report is written by the company detailing its

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actions to improve its quality systems and overall compliance status together with its written responses to any observations in the independent expert's certification report and prior FDA inspection observations. Upon acceptance of this 5H report, FDA will have 30 days to initiate reinspection of the company's Corporate and Taylor Street operations. The company cannot predict the acceptance of this report by FDA, the timing or duration of the inspection, nor any remaining work that may be needed to meet FDA's requirements for resuming full operations at the impacted facilities.

After resumption of full operations, the company must undergo five years of audits by a third-party expert to determine whether the facilities are in continuous compliance with FDA regulations and the consent decree. The auditor will inspect the Corporate and Taylor Street facilities' activities every six months during the first year following the resumption of full operations and then annually for the following four years.

Under the consent decree, FDA has the authority to order the company to take a wide variety of actions if FDA finds that the company is not in compliance with the consent decree or FDA regulations, including requiring the company to cease all operations relating to Taylor Street products. FDA also can order the company to undertake a partial cessation of operations or a recall, issue a safety alert, public health advisory, or press release, or to take any other corrective action FDA deems necessary with respect to Taylor Street products.

FDA also has authority under the consent decree to assess liquidated damages of $15,000 per violation per day for any violations of the consent decree, FDA regulations or the federal Food, Drug, and Cosmetic Act. FDA also may assess liquidated damages for shipments of adulterated or misbranded devices, except as permitted by the consent decree, in the amount of twice the sale price of any such adulterated or misbranded device. The liquidated damages are capped at $7,000,000 for each calendar year. The liquidated damages are in addition to any other remedies otherwise available to FDA, including civil money penalties.

For additional information regarding the consent decree, please see the following sections of this Annual Report on Form 10-K: Item 1. Business - Government Regulation; Item 1A. Risk Factors; and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Outlook and - Liquidity and Capital Resources.

Other FDA Matters

In December 2010, the company received a warning letter from FDA related to quality system processes and procedures at the company's Sanford, Florida facility. In October 2014, FDA conducted an inspection at the Sanford facility and, at the conclusion, issued Form 483 observations. The company responded to FDA in a timely manner, and it is executing a comprehensive quality systems remediation plan that is intended to address all of FDA's concerns regarding the Sanford facility in the warning letter and Form 483. At the time of filing of this Annual Report on Form 10-K, this matter remains pending. See Item 1A. Risk Factors.

In 2014, FDA conducted inspections at the company's manufacturing facility in Suzhou, China, at the company's electronic components subsidiary in Christchurch, New Zealand, and at the company's electromotive subsidiary, Alber GmbH, in Albstadt, Germany. FDA issued its inspectional observations on Form 483 after these inspections, and the company submitted its responses to the agency in a timely manner. The agency has accepted the company's responses and closed these inspections.

In May 2016, FDA inspected the company's manufacturing facility in Suzhou, China, and had no inspectional observations. In July 2016, FDA inspected Motion Concepts L.P. in Concord, Ontario, Canada and issued its inspectional observations on Form 483. The company made a timely response to FDA regarding these Form 483 observations, and the agency has accepted the responses and closed the inspection.

The results of regulatory claims, proceedings or investigations are difficult to predict. An unfavorable resolution or outcome of the FDA warning letter or Form 483 observations, or any other matter that may arise out of any FDA inspection of the company's sites, could materially and adversely affect the company's business, financial condition, liquidity and results of operations.

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 are necessary to ensure the company's products adhere to high standards of quality and safety. The company continues to operate these programs to ensure compliance with applicable regulations and actively keeps abreast of proposed regulations, particularly those which could have a material adverse effect on the company.

National Competitive Bidding

In the United States, the Centers for Medicare and Medicaid Services ("CMS") is a significant payor and governs healthcare reimbursement for Medicare and Medicaid services. On January 1, 2011, CMS began its National Competitive Bidding ("NCB") program in nine metropolitan statistical areas across the country ("Round 1") to reduce healthcare spending. On July 1, 2013,

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CMS expanded the program to an additional 91 metropolitan statistical areas ("Round 2"). These bid programs have resulted in new, lower Medicare payment rates in these 100 areas. CMS expects to rebid reimbursement rates in these areas at least every three years. In January 2016, CMS began the deployment of NCB rates to the remainder of the Medicare population that had not yet been impacted by the program. These were primarily less densely populated, rural areas. CMS divided the United States into eight regions and is applying the average reimbursement reduction per NCB product category in each region from Round 1 and Round 2 to the rural providers in those eight regions. Fifty percent of the rural reimbursement reduction became effective in January 2016. The remaining half of the reduction was applied in July 2016, although in December 2016 Congress retroactively delayed that second half reimbursement reduction until January 1, 2017. The company’s exposure to effects of NCB rate reductions and any similar reductions from private payors or state agencies is primarily related to the increased credit risk of its customers whose revenue based on reimbursement may be significantly reduced. As reimbursement rates are reduced, the company’s customers may experience pressure on profitability and liquidity. The company therefore remains judicious in its extension of credit to its customers and is vigilant about collections efforts.

Although reductions in CMS payments are not beneficial to the homecare industry, the company believes it can still grow and thrive in this environment. The company intends to continue productivity initiatives. As a result of reimbursement reductions, the company’s customers are increasingly interested in cost-effective clinical solutions for their clients. Some of the company’s solutions are particularly effective in providing clinical benefits to patients and cost-effective healthcare provision for the company’s customer-providers. As an example, the company’s respiratory therapy products can help offset reimbursement reductions by eliminating the need for routine home exchange services of pre-filled oxygen cylinders with end-users. Delivery costs can be a substantial element of cost for its customers. The company's HomeFill oxygen systems and the company’s oxygen concentrators can provide effective convenient therapy for consumers and cost-effective equipment solutions for providers by eliminating customer's costs associated with home cylinder exchange. The company intends to develop other products that help providers improve profitability.

## BACKLOG

The company generally manufactures its products to meet near-term demands by shipping from stock or by building to order based on the specialized 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, 2016, the company had approximately 4,600 employees.

## FOREIGN OPERATIONS AND EXPORT SALES

The company also markets its products for export to other foreign countries. In 2016, the company's products were sold in over 100 countries. 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, P.O. Box 4028, Elyria, OH 44036-2125. The contents of the company's website are not part of this Annual Report on Form 10-K.

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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,” “be and “anticipate,” as well as similar comments, denote forward-looking statements that are subject to inherent uncertainties 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: adverse effects of the company’s consent decree of injunction with the U.S. Food and Drug Administration (FDA), including but not limited to, compliance costs, limitations on the production and/or distribution of the company's products, inability to bid on or win certain contracts, unabsorbed capacity utilization, including fixed costs and overhead, or limitations on the company’s ability to design new power wheelchairs at its Corporate and Taylor Street facilities; any circumstances or developments that might delay or adversely impact FDA's acceptance of the expert’s updated report on the remediation of specified design history files, FDA's acceptance of the third, most comprehensive expert certification audit report, FDA's acceptance of the company's own written report as required by the consent decree, or FDA's inspection of the company's quality systems at the Elyria, Ohio, facilities impacted by the consent decree, including any possible failure to comply with the consent decree or FDA regulations, any requirement to perform additional remediation activities or further resultant delays in receipt of FDA's written notification to resume operations; regulatory proceedings 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; adverse effects of regulatory or governmental inspections of company facilities at any time and governmental enforcement actions; circumstances or developments that may make the company unable to implement or realize the anticipated benefits, or that may increase the costs, of its current business initiatives; product liability or warranty claims; product recalls, including more extensive warranty or recall experience than expected; the failure or refusal of customers or healthcare professionals to sign verification of medical necessity (VMN) documentation or other certification forms required by the exceptions to FDA consent decree; possible adverse effects of being leveraged, including interest rate or event of default risks; exchange rate fluctuations, particularly in light of the relative importance of the company's foreign operations to its overall financial performance and including the existing and potential impacts from the Brexit referendum; potential impacts of the new United States administration’s policies, and any legislation or regulations that may result from those policies, such as possible border-adjusted taxes on imported goods; legal actions, including adverse judgments or settlements of litigation or claims in excess of available insurance limits; adverse changes in government and other third-party payor reimbursement levels and practices both in the U.S. and in other countries (such as, for example, more extensive pre-payment reviews and post-payment audits by payors, or the continuing impact of the Medicare National Competitive Bidding program); ineffective cost reduction and restructuring efforts or inability to realize anticipated cost savings or achieve desired efficiencies from such efforts; delays, disruptions or excessive costs incurred in facility closures or consolidations; tax rate fluctuations; additional tax expense or additional tax exposures, which could affect the company's future profitability and cash flow; inability to design, manufacture, distribute and achieve market acceptance of new products with greater functionality or new product platforms that deliver the anticipated benefits; consolidation of health care providers; lower cost imports; uncollectible accounts receivable; difficulties in implementing/upgrading Enterprise Resource Planning systems; risk of cybersecurity attack, data breach or data loss and/or delays in or inability to recover or restore data and IT systems; risks inherent in managing and operating businesses in many different foreign jurisdictions; 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 or freight costs; heightened vulnerability to a hostile takeover attempt or other shareholder activism; provisions of Ohio law or in the company's debt agreements, charter documents or other agreements that may prevent or delay a change in control, as well as the risks described from time to time in the company's reports as filed with the Securities and Exchange Commission. Except to the extent required by law, the company does not undertake and specifically declines 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.

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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 occur, develop or worsen, the company’s business, financial condition, results of operations and future growth prospects could change substantially.

The company is subject to a consent decree of injunction ("consent decree") with the U.S. Food and Drug Administration (“FDA”), the effects of which have been, and continue to be, costly to the company and could result in continued adverse consequences to the company's business.

The consent decree, which was filed as an exhibit to the company's Form 8-K filed on December 20, 2012, became effective December 21, 2012. The injunction limits the company's manufacture and distribution of power and manual wheelchairs, wheelchair components and wheelchair sub-assemblies at or from its Taylor Street manufacturing facility in Elyria, Ohio. The decree also temporarily limited design activities related to wheelchairs and power beds that take place at the impacted Elyria, Ohio facilities. However, the company is entitled to continue to produce from the Taylor Street manufacturing facility certain medically necessary wheelchairs provided that documentation and record-keeping requirements are followed, as well as ongoing replacement, service and repair of products already in use, under terms delineated in the consent decree. In addition, the company was able to fulfill purchase orders and quotes that were in the company's order fulfillment system prior to the effective date of the decree. Under the terms of the consent decree, in order to resume full operations at the impacted facilities, the company must successfully complete a third-party expert certification audit and receive written notification from FDA. The certification audit is comprised of three distinct reports. The first two of the three certification reports were completed and accepted by FDA during 2013. In February 2016, the third-party expert issued its third certification report indicating substantial compliance with the FDA’s Quality System Regulation (QSR), and the report was submitted to FDA. Similar to the first and second certification processes, FDA has responded to this report with clarifying questions to which the company and the independent expert have responded.

In December 2015, FDA issued Form 483 observations following a 2015 inspection of approximately 5 months at the Corporate and Taylor Street facilities in Elyria, Ohio which included a review of the company’s compliance with the terms of the consent decree and the matters covered by the first and second expert certification reports previously accepted in 2013 (the “December 2015 Form 483”). The company has filed its responses to this Form 483 and continues to work on addressing FDA’s observations.

On June 7, 2016, the company received a letter from FDA in follow up to the December 2015 Form 483 and the company’s subsequent responses. To satisfy FDA’s design control requirements, the FDA letter outlined additional steps the company must take. In particular, FDA clarified its requirement for the company to complete the remediation of certain design history files (DHFs) referenced in the December 2015 Form 483 and in the consent decree. Before the company can design any new Taylor Street wheelchair devices, the specified DHFs must be completed, then recertified by the company’s third-party expert, whose updated report must be accepted by FDA. FDA also clarified that its acceptance of the expert’s updated report on these DHFs is a prerequisite to proceeding further with the third certification process.

Under the terms of the consent decree, the company must submit its own report related to its compliance status and its responses to any observations by the third-party expert or by FDA from prior inspections. The company will not be able to resume full operations at the Corporate and Taylor Street facilities until FDA issues written notice that it has found the facilities to be in compliance. Within 30 days of receiving the company’s report, according to the terms of the consent decree, FDA will begin a comprehensive inspection of the Corporate and Taylor Street facilities.

The company cannot predict the acceptance by FDA of the third certification report or the company's own report, or any remaining work that may be needed to meet FDA's requirements, or the timing or potential response of FDA's inspection and subsequent written notification. Significant delays in FDA's acceptance of the final third-party expert certification audit, FDA's inspection or written notification to resume operations, or any need to complete significant additional remediation as a result of FDA review of the final third-party expert certification audit or FDA inspection could have a material adverse effect on the company's business, financial condition, liquidity or results of operations.

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After resumption of full operations, the company must undergo five years of audits by a third-party expert auditor, who will issue reports to the company and FDA identifying whether the facilities are operated and administered in continuous compliance with FDA regulations and the consent decree. Under the consent decree, FDA has the authority to inspect the Corporate and Taylor Street facilities at any time. FDA also has the authority to order the company to take a wide variety of remedial actions if FDA finds that the company is not in compliance with the consent decree or FDA regulations. FDA also has authority under the consent decree to assess liquidated damages for any violations of the consent decree, FDA regulations or the federal Food, Drug and Cosmetic Act. See Item 1. Business -- Government Regulation. Any such failure by the company to comply with the consent decree or FDA regulations, or any need to complete significant remediation as a result of any such audits or inspections, or actions taken by FDA as a result of any such failure to comply, could have a material adverse effect on the company’s business, financial condition, liquidity or results of operations.

During the pendency of the consent decree negotiations in 2012, and during its effectiveness since December 21, 2012, the company has experienced significant pressures on its net sales and operating results. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations. The company expects to continue to experience pressure on net sales and profitability, particularly in the North America/HME and Asia/Pacific segments, until FDA has accepted the final third-party certification report and the company's own report, and the company has successfully completed the previously described FDA inspection and has received written notification from FDA that the company may resume full operations. Even after the company receives FDA notification, it is uncertain as to whether, or how quickly, the company will be able to rebuild net sales and profitability to more typical historical levels, irrespective of market conditions. If the company is unable to obtain FDA approval to resume full operations on a timely basis, the company may be required to restructure its business strategy to rebuild profitability, and there can be no assurance that it would be successful in doing so.

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 FDA, and by similar governmental authorities in the foreign countries where the company does business. 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 FDA if the company’s products may have caused, or contributed to, a death or serious injury, or if they malfunction and would be likely to cause, or contribute to, a death or serious injury if the malfunction were to recur. In general, unless an exemption applies, the company’s mobility and respiratory therapy products must receive a pre-market clearance from FDA before they can be marketed in the United States. 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 FDA through the pre-market clearance process or that FDA will provide export certificates that are necessary to export certain of the company’s products. Export certificates are required for the company to have its products registered for sale in certain foreign countries. In connection with the FDA warning letter received by the company's Sanford, Florida facility in December 2010, as described below, FDA has refused to provide new export certificates for company products until the matters covered in the warning letter are resolved. Currently, the company cannot obtain new certificates of export for Sanford, Florida facility products until the warning letter has been closed and for Taylor Street facility products until the company has exited the injunctive phase of the consent decree. The inability to obtain export certificates for products produced at its Taylor Street or Sanford facilities has limited the company's ability to support new foreign markets with such products.

Additionally, the company is required to obtain pre-market clearances to market modifications to the company’s existing products or market its existing products for new indications. FDA requires device manufacturers themselves to make and document a determination as to whether or not a modification requires a new clearance; however, FDA can review and disagree with a manufacturer’s decision. The company has applied for, and received, a number of pre-market clearances for modifications to marketed devices. The company may not be successful in receiving

clearances in the future or FDA may not agree with the company's decisions not to seek clearances for any particular device modification. 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 FDA.

If FDA requires the company to obtain pre-market 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, FDA may not clear these submissions in a timely manner, if at all. 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.

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The company’s failure to comply with the regulatory requirements of 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, FDA routinely inspects the sites of medical device companies, and from 2010 through 2016, FDA inspected certain of the company's facilities. In December 2012, the company and FDA agreed to a consent decree of injunction affecting the company's Corporate facility and its Taylor Street manufacturing facility in Elyria, Ohio. See the previous Risk Factor regarding the FDA consent decree. In December 2015, FDA issued Form 483 observations following a 2015 inspection of approximately 5 months at the Corporate and Taylor Street facilities in Elyria, Ohio which included a review of the company’s compliance with terms of the consent decree and the matters covered by the first and second expert certification reports previously accepted in 2013. FDA’s inspection included a review of the company's compliance with terms of the consent decree, and the matters covered by the first and second expert certification reports previously reviewed and accepted in 2013. The company has timely responded to FDA's inspectional findings and intends to incorporate FDA’s observations into the company's ongoing quality system improvements. In June 2016, the company received a letter from FDA in follow up to the Form 483 related to FDA's 2015 inspection of the Corporate and Taylor Street facilities and the company's subsequent responses, in which FDA clarified its requirements for the company to complete remediation of certain DHFs before the company can resume design of any new Taylor Street wheelchair devices or proceed further with the third expert certification report process. In addition, in December 2010, the company received a warning letter from FDA related to quality system processes and procedures at the company's Sanford, Florida facility. In October 2014, FDA conducted an inspection at the Sanford facility and, at the conclusion, issued its Form 483 observations. The company is executing a comprehensive quality systems remediation plan that is intended to address all of FDA’s concerns regarding the Sanford facility in the warning letter and Form 483. In January 2014, FDA conducted inspections at the company’s manufacturing facility in Suzhou, China and at the company’s electronic components subsidiary in Christchurch, New Zealand, covering quality systems and current Good Manufacturing Practice regulations. In August 2014, FDA inspected Alber GmbH in Albstadt, Germany. FDA issued its inspectional observations on Forms 483 to the company after these inspections, and the company submitted its responses to the agency in a timely manner. In October 2014, FDA conducted an inspection at the Sanford facility and, at the conclusion, issued its Form 483 observations. In July 2016, FDA inspected Motion Concepts L.P. in Concord, Ontario, Canada and issued its inspectional observations on Form 483. The company has timely filed its responses to these Forms 483 with FDA and continues to work on addressing FDA's observations. However, the results of regulatory claims, proceedings or investigations are difficult to predict. An unfavorable resolution or outcome of the FDA warning letter or the Form 483 observations, or any other matter that may arise out of any FDA inspection of the company's sites, could materially and adversely affect the company's business, financial condition, liquidity and results of operations.

In many of the foreign countries in which the company manufactures or markets its products, the company is subject to extensive medical device regulations that are similar to those of 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 may 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 by third-party payors, including Medicare and Medicaid, for the company products sold to their customers and patients. 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 and the business of the company's customers. As a part of the health care industry, the company and its customers are 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

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company's efforts will be effective to prevent a material adverse effect on the company’s business from noncompliance issues. For example, as discussed in the preceding Risk Factors, the company is subject to a FDA consent decree affecting its Corporate facility and Taylor Street manufacturing facility in Elyria, Ohio and subject to a FDA warning letter related to its Sanford, Florida facility.

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, all of which may affect the company and its customers. 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.

If the company’s business transformation efforts are ineffective, the company’s strategic goals, business plans and financial performance could be negatively impacted.
The company is in the midst of a multi-year turnaround strategy intended to substantially transform its business and re-orient its resources to a more clinically complex mix of products and solutions. To date, this strategy has included actions to re-orient the company’s North American commercial team, restart the company’s innovation pipeline, shift its product mix, develop and expand its talent, and strengthen its balance sheet. As part of these actions, the company has increased the size of its salesforce and support in North America, invested in product development, discontinued a significant amount of non-core product, and issued convertible debt. The strategy also will include steps to realign infrastructure and processes, such as restructuring actions, intended to drive efficiency and reduce costs.

The company may not be successful in achieving the full long-term growth and profitability, operating efficiencies and cost reductions, and other benefits expected from these efforts. The company also may experience business disruptions associated with these activities. Further, the benefits of the strategy, if realized, may be realized later than expected, the costs of implementing the strategy may be greater than anticipated, and the company may lack adequate cash or capital to complete the transformation. If these measures are not successful, the company may undertake additional transformation efforts, which could result in future expenses. If the company’s business transformation efforts prove ineffective, the company’s ability to achieve its strategic goals and business plans, and the company’s financial performance, may be materially adversely affected.

The company’s products are subject to recalls, which could be costly and harm the company’s reputation and business.
The company is subject to ongoing medical device reporting regulations that require the company to report to 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. 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. In addition, 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. A government mandated or voluntary recall or field correction by the company could occur as a result of component failures, manufacturing errors or design defects, including defects in labeling. Any recall or field correction could 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 will continue to review the adequacy of its recall accruals as the recalls progress, as its warranty reserves are subject to adjustment in future periods as new developments can impact the company's estimate of the cost of these matters.

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 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.

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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, in 100 metropolitan areas, the Centers for Medicare and Medicaid Services (CMS) introduced a National Competitive Bidding program (NCB) which set new, lower payment rates for medical equipment and supplies. Round one of NCB for nine metropolitan areas in the U.S. 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. Effective July 2013, CMS commenced round two of the NCB program, which was expanded to include an additional 91 metropolitan areas. In January 2016, CMS began the deployment of NCB rates to the remainder of the Medicare population that had not yet been impacted by the program, primarily to rural areas. CMS has divided the United States into eight regions and applied the average reimbursement reduction per NCB product category in each region from Round 1 and Round 2 to the rural providers in those eight regions. Fifty percent of the reimbursement reduction became effective in January 2016. The remaining half of the reduction was applied in July 2016, although in December 2016 Congress retroactively delayed that payment cut until January 1, 2017.

CMS announced that the NCB program has resulted in $202.1 million in savings in its first year of implementation in the nine metropolitan areas with significant savings primarily in oxygen and oxygen supplies, mail-order diabetic supplies and standard power wheelchairs. The CMS Office of the Actuary estimated that the NCB program would save Medicare an estimated $25.8 billion, and beneficiaries an estimated $17.2 billion, over ten years.

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 become unable to pay their bills as they come due or 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 one of the industry's largest creditors and an increase in bankruptcies or financial weakness 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 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, liquidity 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.
The U.S. Affordable Care Act enacted in 2010 includes provisions intended to expand access to health insurance coverage, improve the quality and reduce the costs of healthcare over time. Specifically, as one means to pay for the costs of the Affordable Care Act, the law imposes a 2.3% sales-based excise tax on U.S. sales by manufacturers or

importers of most medical devices. The excise tax is deductible by the manufacturer or importer on its federal income tax return. The company has determined that most of its products are exempt from the tax based on the retail exemption provided in the Affordable Care Act as defined by the regulations. However, certain products that it sells for institutional use are subject to the excise tax. Based on the company's interpretation of the regulations, the impact from the tax was immaterial for the company in 2016, 2015 and 2014. However, the excise tax may increase the company’s cost of doing business, particularly if the exemptions do not ultimately apply as the company expects based on its interpretations of the regulations.

The Affordable Care Act and the programs implemented by the law may reduce reimbursements for the company's products, may impact the demand for the company’s products and may impact the prices at which the company sells its products. In addition, various healthcare programs and regulations may be ultimately implemented at the federal or state level. Such changes could have a material adverse effect on the company’s business, results of operations and/or financial condition.

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The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) enacted in 2010, and the rules and regulations enacted thereunder by the SEC and the Commodity Futures Trading Commission (CFTC), institute a wide range of reforms, certain of which may impact the company. Among other things, the Dodd-Frank 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 Dodd-Frank Act also provides for new statutory and regulatory requirements for derivative transactions, including foreign exchange and interest rate hedging transactions, and new requirements will be implemented over time. 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. The company does not enter into derivative transactions for speculative purposes. Any new statutory and regulatory requirements for derivative transactions could impact the company's ability to hedge or hedge in a cost-effective manner.

In addition, the Dodd-Frank Act contains provisions to improve transparency and accountability concerning the sourcing of “conflict minerals” from mines located in the conflict zones of the Democratic Republic of Congo (DRC) and its adjoining countries. The term “conflict minerals” currently encompasses tantalum, tin, tungsten (or their ores) and gold. Conflict minerals can be found in a vast array of products. This legislation requires manufacturers, such as the company, to investigate and disclose their use of any conflict minerals originating in the DRC or adjoining countries in an annual filing with the SEC. It also implements guidelines to assist the manufacturer in preventing, by way of performing due diligence in its supply chain, any such sourcing from, or potentially financing or benefiting, armed groups in this area. As standards for the production of the annual conflict minerals report evolve, the company may be required to undertake significant due diligence processes requiring considerable investments of human resources and finances in order to comply with the conflict minerals due diligence and disclosure requirements. If the company's suppliers are unable or unwilling to provide it with requested information and to take other steps to ensure that there is no financing or benefiting of armed groups in the DRC and there are no conflict minerals included in materials or components supplied to the company, it may be forced to disclose in its SEC filings about the use of conflict minerals in its supply chain, which may expose the company to reputational risks, which in turn could materially adversely affect its business, financial condition and results of operations. In addition, the company could be negatively impacted by any changes made to the either the Affordable Care Act or the Dodd-Frank Act by the new United States administration.

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 predominant currency used by the company’s subsidiaries outside the United States to transact business is the functional currency used for each subsidiary. 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, in particular costs and revenues from its European operations, 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. For example, the recent devaluation of the euro has had a negative impact on the translation of company's European segment net income into U.S. dollars and the foreign currency impact of the Brexit referendum in the U.K. has had and is expected to have, a negative impact on acquisition of dollar and Euro denominated goods in the U.K. If other countries also exit the European Union, similar negative impacts may result.

The company uses foreign exchange 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 any similar arrangements that mitigate the company's exposure to foreign exchange translation risk, and does not believe that any meaningful arrangement to do so is available to the company.

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 rate swap contracts to mitigate its exposure to interest rate fluctuations, but those efforts may not adequately protect the company from significant interest rate risks. Interest on some 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, to the extent that the company has outstanding borrowings subject to LIBOR-based interest rates.

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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, some of which may no longer be supported by the hardware or software vendors, the company faces the challenge of supporting these older systems, implementing upgrades or migrating to new platforms when necessary and aggregating data that is timely and accurate. The failure of the company's information technology systems, whether resulting from the disparate or older 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, malware 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, liquidity 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 has, a more appropriate market strategy or better strategic execution.

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 take market share from the company or 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 company's failure to recognize changing market demands or a failure to develop or execute a strategy to meet such changes could also result in 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, which may include distributors, 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. In addition, as reimbursement pressures persist in the U.S. market, the company is beginning to see some customers directly sourcing select lifestyle products to secure a low-cost advantage.

The company maintains cash balances globally in various financial institutions.

While the company monitors its accounts with financial institutions both domestically and internationally, recovery of funds cannot be assured in the event the financial institution would fail. In addition, the company may be limited by foreign governments in the amount and timing of funds to be repatriated from foreign financial institutions. As a result, this could adversely impact the company's ability to fund normal operations, capital expenditures, or service debt, which could adversely affect the company's results.

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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;
- fluctuations in foreign currency exchange rates;
- 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;
- potential adverse changes in trade agreements between the United States and foreign countries, including the North America Free Trade Agreement (NAFTA) among the United States, Canada and Mexico;
- potential adverse changes in economic and political conditions in countries where the company operates or where end users of the company’s products reside, or in their diplomatic relations with the United States;
- government control of capital transactions, including the borrowing of funds for operations or the expatriation of cash;
- potential adverse tax consequences, including those that may result from the new United States administration's policies, such as possible border-adjusted taxes on imported goods;
- 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 and assembling operations or its key suppliers located outside of the United States, or increase the cost to the company of conducting those operations or using those suppliers. For example, the company increasingly relies on its manufacturing and sourcing operations in China and Mexico to produce its products. Disruptions in, or increased costs related to, 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.

In addition to the risks associated with the impact of the FDA consent decree, the company may be subject to claims, litigation, governmental or regulatory investigations, or other liabilities as a result of injuries caused by allegedly defective products, or disputes arising out of acquisitions or dispositions the company has completed or relating to the company's intellectual property. 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.

The results of legal or regulatory actions or regulatory 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. 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 medical devices and related products exposes the company to a significant risk of product liability claims. From time to time, the company has been, and currently is, 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.

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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 is self-insured in North America for product liability exposures through its captive insurance company, Invatection Insurance Company, which currently has a policy year that runs from September 1 to August 31 and insures annual policy losses up to $10,000,000 per occurrence and $13,000,000 in the aggregate. The company also has additional layers of external insurance coverage, related to all lines of 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. If the company's reserves are not adequate to cover actual claims experience, the company's financial results could be adversely affected.

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 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. From time to time, however, the prices, availability, or quality of these materials fluctuate due to global market demands or economic conditions, 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 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 or change in quality of those materials could impact the company's ability to manufacture its products and could increase the cost of production. Additionally, the company may not be able to increase the prices of its products due to competitive pricing pressure or other factors. As an example, inflation in China has in the past and may 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 low cost countries, such as countries in 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 historically has been engaged in product development and improvement programs. However, beginning in 2012 as a result of the FDA consent decree, which is described elsewhere in this Annual Report on Form 10-K, the company's engineering resources had been focused primarily on quality remediation and not on the design of new products. The company has received FDA's approval to resume design activities at the impacted Elyria facilities in 2013. However, in June 2016,

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the company received a letter from FDA which required the company to complete the remediation of certain design history files before the company can design any new Taylor Street wheelchairs devices.

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 can 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.

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 terms of the company’s debt facilities and financing arrangements may limit the company’s flexibility in operating its business.

The company has outstanding $150,000,000 aggregate principal amount of 5.00% Convertible Senior Notes due 2021 and is a party to an Amended and Restated Credit Agreement that provides for asset-based lending senior secured revolving credit facilities which mature in January 2021. The credit agreement provides the company and certain of the company's U.S., Canadian, U.K. and French subsidiaries with the ability to borrow under senior secured revolving credit, letter of credit and swing line loan facilities. The aggregate borrowing availability under the credit facilities is determined based on borrowing base formulas set forth in the credit agreement. The credit facilities are secured by substantially all of the company's domestic and Canadian assets, other than real estate, and by substantially all of the personal property assets of the company's U.K. subsidiaries and all of the receivables of the company's French subsidiaries. The credit agreement contains customary default provisions, with certain grace periods and exceptions, that include, among other things, failure to pay amounts due, breach of covenants, representations or warranties, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical reimbursement program, and an interruption of any material manufacturing facilities for more than ten consecutive days.

The restrictive terms of the company's credit agreement may limit the company’s ability to conduct and expand its business and pursue its business strategies. The company’s ability to comply with the provisions of its credit agreements can be affected by events beyond its control, including changes in general economic and business conditions, or by government enforcement actions, such as, for example, adverse impacts from the FDA consent decree of injunction. If the company is unable to comply with the provisions in the credit agreement, it could result in a default which could trigger acceleration of, or the right to accelerate, the related debt. Because of cross-default provisions in its agreements and instruments governing certain of the company's indebtedness, a default under the credit agreement could result in a default under, and the acceleration of, certain other company indebtedness. In addition, the company's lenders would be entitled to proceed against the collateral securing the indebtedness.

The company's ability to meet its liquidity needs will depend on many factors, including the operating performance of the business, the company's ability to obtain FDA acceptance of the final third-party expert certification report and the

company's own report, to successfully complete FDA inspection contemplated under the consent decree and to obtain receipt of the written notification from FDA permitting the company to resume full operations, as well as the company's continued compliance with the covenants under its credit agreement. Notwithstanding the company's expectations, if the company's operating results decline more than it currently anticipates, or if the company is unable to obtain FDA acceptance of the final third-party expert certification report and the company's own report or to successfully complete the FDA inspection, the company may be unable to comply with the financial covenants, and its lenders could demand repayment of the amounts outstanding under the company's credit facility.

The company also has an agreement with De Lage Landen, Inc. (“DLL”), a third-party financing company, to provide financing to the company's U.S. customers. Either party could terminate this agreement with 180 days' notice or 90 days' notice by DLL upon the occurrence of certain events. Should this agreement be terminated, the company's borrowing needs under the credit agreement could increase.

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The company's capital expenditures could be higher than anticipated.

Unanticipated maintenance issues, changes in government regulations or significant investments in technology and new product development could result in higher than anticipated capital expenditures, which could impact the company's debt, interest expense and cash flows.

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 were to receive an adverse judgment in any such proceeding, 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 could 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, and patents provide protection for finite time periods. 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

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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.

The company may be unable to make strategic acquisitions without obtaining amendments to its credit agreement. The company's business plans historically included identifying, analyzing, 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 provisions of the credit agreement restrict the company from undertaking certain acquisitions unless the company is able to negotiate and obtain amendments with regard to those provisions. If the company is unable to obtain the necessary amendments, it may miss opportunities to grow its business through strategic acquisitions.

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.

Additional tax expense or additional tax exposures could affect the company's future profitability and cash flow. The company is subject to income taxes in the United States and various non-U.S. jurisdictions. The domestic and international tax liabilities are dependent upon the allocation of income among these different jurisdictions. The company's tax expense includes estimates of additional tax which may be incurred for tax exposures and reflects various other estimates and assumptions. In addition, the assumptions include assessments of future earnings of the company that could impact the valuation of its deferred tax assets. The company's future results of operations could be adversely affected by changes in the company's effective tax rate which could result from changes in the mix of earnings in countries with differing statutory tax rates, changes in the overall profitability of the company, changes in tax legislation and rates, changes in generally accepted accounting principles, changes in the valuation of deferred tax assets and liabilities, the results of audits and examinations of previously filed tax returns and continuing assessments of its tax exposures. Corporate tax reform and tax law changes continue to be analyzed in many jurisdictions, including the potential impacts of the new United States administration's policies, and any legislation or regulations which may result from those policies, such as possible border-adjusted taxes on imported goods.

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 some the company's customers may be at risk. 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 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 inability to attract and retain, or 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

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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, such as the company's Chairman, President and Chief Executive Officer and its Senior Vice President and Chief Financial Officer, as well as other members of its management team. The company had significant turnover in its management team in recent years and cannot be certain that its executive officers and other key employees will continue in their respective capacities for any period of time, and these employees may be difficult to replace. 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, and Ohio law could delay or prevent a sale or change in control of the company.

Provisions of the company's credit agreement, its charter documents, 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.

The holders of the company's Class B Common Shares 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 this filing, the Class B Common Shares represented approximately 19% of the combined voting power of the company's Common Shares and Class B Common Shares. Substantially all of such Class B Common Shares are beneficially owned by a former executive whose beneficial ownership of the combined voting power 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. He also will have the power to influence or make more difficult a change in control, and it is possible that his interests may differ from the interests of the other shareholders, and he could take actions with which some shareholders may disagree.

Difficulties in implementing or upgrading the company's Enterprise Resource Planning systems may disrupt the company's business.

The company is in the process of upgrading its Enterprise Resource Planning, or "ERP," system in Europe. The complexities and business process changes associated with such an ERP upgrade can potentially result in various difficulties including problems processing and fulfilling orders, customer disruptions and lost business. While the company believes the potential difficulties associated with upgrading the company's primary ERP system in Europe have been addressed or can be mitigated, there can be no assurance that the company will not experience disruptions or inefficiencies in the company's business operations as a result of the upgrade which could have a material adverse effect on the company's business, financial condition, liquidity or results of operations.

Item 1B. Unresolved Staff Comments.

Not applicable.

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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, 2016 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:

| | Square Feet | Ownership Or Expiration Date of Lease | Renewal Options | Use |
|---|---|---|---|---|
| North American/HME Operations | | | | |
| Arlington, Texas | 63,626 | May 2018 | One (3 yr.) | Warehouse and Offices |
| Atlanta, Georgia | 137,284 | April 2019 | One (5 yr.) | Warehouse and Offices |
| Attleboro, Massachusetts | 1,200 | July 2018 | None | Offices |
| Beijing, China | 1,399 | January 2018 | None | Offices |
| Cranbury, New Jersey | 111,987 | April 2018 | Two (3 yr.) | Warehouse and Offices |
| Cranbury, New Jersey | 127,963 | April 2018 | Two (3 yr.) | Warehouse and Offices |
| Elyria, Ohio | | | | |
| —1200 Taylor Street | 251,000 | April 2035 | Three (10 yr.) | Manufacturing and Offices |
| —899 Cleveland Street | 95,464 | November 2017 | None | Warehouse |
| —One Invacare Way | 50,000 | April 2035 | Three (10 yr.) | Headquarters |
| —1320 Taylor Street | 30,000 | January 2018 | One (3 yr.) | Offices |
| —1166 Taylor Street | 4,800 | April 2035 | Three (10 yr.) | Warehouse and Offices |
| —561 Ternes Avenue | 12,001 | December 2018 | One (1 yr.) | Warehouse |
| Guangzhou, China | 895 | April 2018 | None | Offices |
| Kirkland, Quebec | 17,010 | November 2018 | One (5 yr.) | Manufacturing, Warehouse and Offices |
| Mississauga, Ontario | 61,375 | February 2019 | None | Warehouse and Offices |
| North Ridgeville, Ohio | 152,000 | April 2035 | Three (10 yr.) | Warehouse and Offices |
| North Ridgeville, Ohio | 20,000 | June 2018 | None | Warehouse |
| Oakdale, Pennsylvania | 5,543 | September 2018 | One (1 yr.) | Warehouse and Offices |
| Ontario, California | 97,618 | May 2018 | Two (3 yr.) | Warehouse and Offices |
| Ontario, California | 121,900 | May 2018 | Two (3 yr.) | Warehouse and Offices |
| Pharr, Texas | 4,180 | November 2017 | None | Warehouse and Offices |
| Pinellas Park, Florida | 11,400 | Month to Month | None | Manufacturing and Offices |
| Pinellas Park, Florida | 3,200 | Month to Month | None | Manufacturing |
| Pinellas Park, Florida | 3,200 | Month to Month | None | Manufacturing |
| Pinellas Park, Florida | 2,430 | May 2017 | None | Warehouse |
| Reynosa, Mexico | 152,256 | Own | — | Manufacturing and Offices |
| Sanford, Florida | 116,272 | April 2035 | Three (10 yr.) | Manufacturing and Offices |
| Scarborough, Ontario | 5,428 | February 2018 | None | Manufacturing and Offices |
| Shanghai, China | 1,615 | May 2017 | None | Offices |
| Shenzheng, China | 1,054 | August 2018 | None | Offices |
| Simi Valley, California | 38,501 | February 2019 | None | Manufacturing, Warehouse and Offices |
| Simi Valley, California | 1,500 | Month to Month | None | Warehouse |
| Spicewood, Texas | 6,500 | Month to Month | None | Manufacturing and Offices |
| Suzhou, China | 129,824 | April 2019 | None | Manufacturing, Warehouse and Offices |
| Tonawanda, New York | 10,218 | June 2021 | None | Warehouse and Offices |
| Vaughan, Ontario | 34,452 | December 2020 | None | Manufacturing and Offices |

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| | Square Feet | Ownership Or Expiration Date of Lease | Renewal Options | Use |
|---|---|---|---|---|
| Institutional Products Group | | | | |
| Maryland Heights, Missouri | 10,786 | November 2019 | One (3 yr.) | Offices |
| | | | | |
| Asia/Pacific Operations | | | | |
| Auckland, New Zealand | 30,518 | September 2017 | None | Manufacturing, Warehouse and Offices |
| Christchurch, New Zealand | 72,269 | December 2020 | One (3 yr.) | Manufacturing, Warehouse and Offices |
| Kidderminster, United Kingdom | 6,200 | January 2018 | None | Warehouse and Offices |
| North Olmsted, Ohio | 2,280 | October 2018 | None | Warehouse and Offices |
| North Rocks, NSW, Australia | 45,714 | August 2017 | Two (3 yr.) | Warehouse and Offices |
| Suzhou, China | 41,290 | February 2020 | None | Manufacturing, Warehouse and Offices |
| | | | | |
| European Operations | | | | |
| Albstadt, Germany | 73,894 | February 2018 | Two (5 yr.) | Manufacturing, Warehouse and Offices |
| Albstadt, Germany | 12,917 | Month to Month | None | Warehouse |
| Albstadt, Germany | 21,162 | Month to Month | None | Warehouse and Offices |
| Albstadt, Germany | 1,399 | Month to Month | None | Warehouse and Offices |
| Almult, Sweden | 35,521 | November 2017 | None | Warehouse |
| Almult, Sweden | 26,651 | November 2017 | None | Warehouse |
| Almult, Sweden | 12,282 | Month to Month | None | Warehouse |
| Bergen, Norway | 1,076 | April 2020 | One (5 yr.) | Warehouse and Offices |
| Bodo, Norway | 969 | May 2017 | One (1 yr.) | Services and Offices |
| Brondby, Denmark | 19,536 | Month to Month | One (1 yr.) | Warehouse and Offices |
| Brondby, Denmark | 3,767 | Month to Month | One (1 yr.) | Warehouse |
| Dihult, Sweden | 5,382 | Month to Month | One (3 mos.) | Warehouse |
| Dio, Sweden | 110,524 | Own | — | Manufacturing, Warehouse and Offices |
| Dublin, Ireland | 5,000 | May 2024 | One (5 yr.) | Warehouse and Offices |
| Ede, The Netherlands | 12,917 | December 2021 | One (75 mos.) | Warehouse |
| Erniss, Sweden | 17,502 | Month to Month | One (3 mos.) | Warehouse |
| Exeter, United Kingdom | 22,000 | May 2021 | None | Warehouse and Offices |
| Fondettes, France | 191,856 | Own | — | Manufacturing and Warehouse |
| Girona, Spain | 14,639 | November 2018 | One (1 yr.) | Warehouse and Offices |
| Gland, Switzerland | 5,586 | September 2022 | One (5 yr.) | Offices |
| Gland, Switzerland | 1,184 | September 2022 | One (5 yr.) | Offices |
| Goteborg, Sweden | 2,691 | September 2018 | One (3 yr.) | Warehouse |
| Isny, Germany | 47,232 | Own | — | Manufacturing, Warehouse and Offices |
| Isny, Germany | 1,615 | Own | — | Warehouse |
| Kinross, United Kingdom | 4,800 | September 2017 | One (6 mos.) | Warehouse and Offices |
| Kristiansand, Norway | 646 | January 2018 | One (1 yr.) | Services and Offices |
| Landskrona, Sweden | 5,382 | January 2018 | One (3 yr.) | Warehouse |
| Larvik, Norway | 1,076 | May 2017 | One (1 yr.) | Services and Offices |
| Lillehammer, Norway | 807 | May 2017 | One (1 yr.) | Services and Offices |
| Loppem, Belgium | 4,036 | March 2024 | Three (3 yr.) | Warehouse and Offices |
| Mondsee, Austria | 1,507 | March 2020 | None | Warehouse and Offices |
| Mondsee, Austria | 764 | December 2019 | None | Offices |

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| | Square Feet | Ownership Or Expiration Date of Lease | Renewal Options | Use |
|---|---|---|---|---|
| European Operations | | | | |
| Mondsee, Austria | 377 | Month to Month | None | Warehouse |
| Mondsee, Austria | 624 | Month to Month | None | Warehouse |
| Neuville en Ferrain, France | 1,399 | April 2022 | One (3 yr.) | Offices |
| Oporto, Portugal | 88,264 | November 2017 | One (1 yr.) | Manufacturing, Warehouse and Offices |
| Oporto, Portugal | 3,730 | December 2018 | One (2 yr.) | Offices |
| Oskarshamn, Sweden | 1,076 | December 2017 | One (1 yr.) | Warehouse |
| Oslo, Norway | 24,262 | April 2021 | None | Manufacturing, Warehouse and Offices |
| Pencoed, United Kingdom | 152,278 | December 2019 | One (5yr.) | Manufacturing and Offices |
| Porta Westfalica, Germany | 134,563 | November 2021 | Two (5yr.) | Manufacturing, Warehouse and Offices |
| Porta Westfalica, Germany | 8,934 | Month to Month | None | Warehouse |
| Porta Westfalica, Germany | 13,455 | Month to Month | None | Warehouse and Offices |
| Sandnes, Norway | 807 | January 2019 | One (3 yr.) | Offices |
| Spanga, Sweden | 16,146 | Own | — | Warehouse and Offices |
| Thiene, Italy | 21,528 | Own | — | Warehouse and Offices |
| Trondheim, Norway | 5,027 | December 2018 | One (5 yr.) | Services and Offices |
| Warwick, United Kingdom | 135,413 | May 2017 | One (3 yr.) | Warehouse and Offices |
| Wien, Austria | 215 | Month to Month | None | Warehouse |
| Witterswil, Switzerland | 40,343 | March 2018 | One (1 yr.) | Manufacturing, Warehouse and Offices |
| Witterswil, Switzerland | 1,076 | Month to Month | None | Warehouse |
| Witterswil, Switzerland | 969 | Month to Month | None | Warehouse |
| Witterswil, Switzerland | 4,306 | Month to Month | One (3 mos.) | Warehouse |
| Witterswil, Switzerland | 678 | Month to Month | None | Warehouse |
| Witterswil, Switzerland | 269 | Month to Month | None | Warehouse |
| Witterswil, Switzerland | 238 | Month to Month | None | Warehouse |
| Witterswil, Switzerland | 237 | Month to Month | None | Warehouse |

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Item 3. Legal Proceedings.

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 that the company faces in the United States have been referred to the company's captive insurance company and/or excess insurance carriers while all non-U.S. lawsuits have been referred to the company's commercial insurance carriers. All such lawsuits are generally 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 2012, the company reached agreement with FDA on the terms of a consent decree of injunction with respect to the company's Corporate facility and its Taylor Street wheelchair manufacturing facility in Elyria, Ohio. A complaint and consent decree were filed in the U.S. District Court for the Northern District of Ohio, and on December 21, 2012, the Court approved the consent decree and it became effective. The consent decree limits the company's manufacture and distribution of power and manual wheelchairs, wheelchair components and wheelchair sub-assemblies at or from its Taylor Street manufacturing facility. The decree also initially limited design activities related to wheelchairs and power beds that take place at the impacted Elyria, Ohio facilities. The company is entitled to continue to produce from the Taylor Street manufacturing facility certain medically necessary wheelchairs provided that documentation and record-keeping requirements are followed, as well as ongoing replacement, service and repair of products already in use, under terms delineated in the consent decree. Under the terms of the consent decree, in order to resume full operations at the impacted facilities, the company must successfully complete third-party expert certification audits at the impacted Elyria facilities, which is comprised of three distinct reports that must be submitted to, and accepted by, FDA. During 2013, the company completed the first two of the third-party expert certification audits, and FDA found the results of both to be acceptable. In these reports, the third-party expert certified that the company's equipment and process validation procedures and its design control systems are compliant with FDA's QSR. As a result of FDA's acceptance of the first certification report on May 13, 2013, the Taylor Street facility was able to resume supplying parts and components for the further manufacturing of medical devices at other company facilities. The company's receipt of FDA's acceptance of the second certification report on July 15, 2013, resulted in the company being able to resume design activities at the impacted facilities related to power wheelchairs and power beds. In February, 2016, the independent expert auditor issued its certification report for the third phase of the consent decree indicating substantial compliance with FDA's QSR and the report was submitted to FDA. Similar to the first and second certification processes, FDA has responded to this report with clarifying questions to which the company and the independent expert have responded. When FDA's questions are satisfactorily addressed, the company intends to request a meeting with FDA prior to submitting its own written report required by the terms of the consent decree.

In December 2015, FDA issued Form 483 observations following a 2015 inspection of approximately 5 months at the Corporate and Taylor Street facilities in Elyria, Ohio which included a review of the company’s compliance with the terms of the consent decree and the matters covered by the first and second expert certification reports previously accepted in 2013 (the “December 2015 Form 483”). The company has timely filed its responses to this Form 483 and continues to work on addressing FDA’s observations.

On June 7, 2016, the company received a letter from FDA in follow up to the December 2015 Form 483 and the company’s subsequent responses to the Form 483. To satisfy FDA’s design control requirements, FDA letter outlined additional steps the company must take. In particular, FDA clarified its requirement for the company to complete the remediation of certain design history files (DHFs) referenced in the December 2015 Form 483 and in the consent decree. Before the company can design any new Taylor Street wheelchair devices, the specified DHFs must be completed, then recertified by the company’s third-party expert, whose updated report must be accepted by FDA. FDA also clarified that its acceptance of the expert’s updated report on these DHFs is a prerequisite to proceeding further with the third certification process. FDA has clarified that the DHFs associated with certain power wheelchair and power bed products which the company has discontinued at the end of 2016 would not need to be remediated.

Under the terms of the consent decree, the company must submit its own written report to FDA regarding its compliance status together with its written responses to any observations in the independent expert's report. The independent third-party expert auditor's third certification report, as well as the company's own report, both must be accepted by FDA before the agency reinspects the impacted Elyria facilities. If FDA is satisfied with the company's compliance, FDA will provide written notification that the company is permitted to resume full operations at the impacted facilities. The company cannot predict the acceptance of these reports by FDA, the timing of the inspection, nor any remaining work that may be needed to meet FDA's requirements to resume full operations at the impacted facilities. FDA has the authority to inspect any FDA registered facility at any time.

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After resumption of full operations, the company must undergo five years of audits by a third-party expert auditor to determine whether the facilities are in continuous compliance with FDA regulations and the consent decree. The auditor will inspect the Corporate and Taylor Street facilities' activities every six months during the first year following the resumption of full operations and then once every 12 months for the next four years thereafter.

Under the consent decree, FDA has the authority to inspect the Corporate and Taylor Street facilities at any time. FDA also has the authority to order the company to take a wide variety of actions if FDA finds that the company is not in compliance with the consent decree or FDA regulations, including requiring the company to cease all operations relating to Taylor Street products. FDA also can order the company to undertake a partial cessation of operations or a recall, issue a safety alert, public health advisory, or press release, or to take any other corrective action FDA deems necessary with respect to Taylor Street products.

FDA also has authority under the consent decree to assess liquidated damages of $15,000 per violation per day for any violations of the consent decree, FDA regulations or the federal Food, Drug, and Cosmetic Act. FDA also may assess liquidated damages for shipments of adulterated or misbranded devices, except as permitted by the consent decree, in the amount of twice the sale price of any such adulterated or misbranded device. The liquidated damages are capped at $7,000,000 for each calendar year. The liquidated damages are in addition to any other remedies otherwise available to FDA, including civil money penalties.

For additional information regarding the consent decree, please see the following sections of this Annual Report on Form 10-K: Item 1. Business - Government Regulation; Item 1A. Risk Factors; and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Outlook and - Liquidity and Capital Resources.

In December 2010, the company received a warning letter from FDA related to quality system processes and procedures at the company's Sanford, Florida facility. In January 2014, FDA conducted inspections at the company's manufacturing facility in Suzhou, China and at the company's electronic components subsidiary in Christchurch, New Zealand, covering quality systems and current Good Manufacturing Practice regulations. In August 2014, FDA inspected Alber GmbH in Albstadt, Germany. FDA issued its inspectional observations on Forms 483 to the company after these inspections, and the company submitted its responses to the agency in a timely manner. In October 2014, FDA conducted an inspection at the Sanford facility and, at the conclusion, issued its Form 483 inspectional observations. In December 2015, FDA issued Form 483 observations following a 2015 inspection of approximately 5 months at the Corporate and Taylor Street facilities in Elyria, Ohio. In July 2016, FDA inspected Motion Concepts L.P. in Concord, Ontario, Canada and issued its inspectional observations on Form 483. The company has timely filed its responses to these Forms 483 with FDA and continues to work on addressing FDA's observations. The results of regulatory claims, proceedings, investigations, or litigation are difficult to predict. An unfavorable resolution or outcome of the FDA warning letter or other FDA enforcement related to the Sanford facility or other company facilities could materially and adversely affect the company's business, financial condition, and results of operations. See Item 1. Business - Government Regulation - Other FDA Matters and 1A. Risk Factors in this Annual Report on Form 10-K.

On September 12, 2014, an amended complaint, in a lawsuit originally instituted on August 26, 2013, was filed against Invacare Corporation, former officer and director Gerald B. Blouch, former officer and director A. Malachi Mixon III, and the company's Senior Vice President, Human Resources, Patricia Stumpp, as well as outside directors Dale C. LaPorte and Michael F. Delaney and former outside director Charles S. Robb, in the U.S. District Court for the Northern District of Ohio, alleging that the defendants breached their fiduciary duties and violated the Employee Retirement Income Security Act (ERISA) in the administration and maintenance of the company stock fund in the company's Retirement Savings Plan (401(k) Plan). The lawsuit seeks class certification and unspecified damages and attorneys' fees for participants in the company's stock fund of the 401(k) Plan between July 22, 2010 and the present. On August 28, 2015, the Court limited plaintiff's claim to the time period between July 22, 2010 and December 8, 2011. Following mediation, the parties entered into a written settlement agreement which was finally approved by the Court on December 13, 2016, and the case was dismissed. The settlement amount was paid by the company's insurance carriers.

Additional information regarding the company's commitments and contingencies is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in Contingencies in the Notes to the Condensed Consolidated Financial Statements included in this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures.

None.

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Executive Officers of the Registrant.*

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

| Name | Age | Position |
|---|---|---|
| Matthew E. Monaghan | 49 | Chairman, President and Chief Executive Officer |
| Robert K. Gudbranson | 53 | Senior Vice President and Chief Financial Officer |
| Dean J. Childers | 50 | Senior Vice President and General Manager, North America |
| Anthony C. LaPlaca | 58 | Senior Vice President, General Counsel and Secretary |
| Ralf Ledda | 49 | Senior Vice President and General Manager, Europe, Middle East & Africa |
| Patricia A. Stumpp | 55 | Senior Vice President, Human Resources |

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

Matthew E. Monaghan was appointed the company's President and Chief Executive Officer in April 2015 and was elected Chairman of the Board in May 2015. Prior to joining Invacare, Mr. Monaghan served as a business unit leader at Zimmer Holdings (now Zimmer Biomet NYSE: ZBH), a major orthopedic implant company, serving first as Vice President and General Manager of the company's Global Hips business (December 2009 to January 2014) and later as Senior Vice President of Hips and Reconstructive Research (January 2014 until joining Invacare). While at Zimmer, Mr. Monaghan was responsible for the Hip division's new product development, engineering, marketing, clinical studies, quality, regulatory affairs and results of the shared sales and supply chain functions. Later, those responsibilities also included directing global research for various areas of material, process and product innovation. Prior to joining Zimmer in 2009, Mr. Monaghan spent eight years as an operating executive for two leading private equity firms, Texas Pacific Group (TPG) and Cerberus Capital Management, where he led acquisitions and operational improvements of portfolio companies, which included the carve-out from Baxter Healthcare of a global medical business, making significant improvements at a U.S. personal insurance business and as COO of a consumer durable goods business spun off from Newell-Rubbermaid. For the first 13 years of his career, Mr. Monaghan held various engineering, financial and management positions at General Electric (NYSE:GE). Since November 2016, Mr. Monaghan has served as a director of INC Research (NASDAQ: INCR), a contract research organization serving the needs of pharmaceutical clients.

Robert K. Gudbranson was appointed Senior Vice President and Chief Financial Officer in April 2008. He served as Interim President and Chief Executive Officer of the company from August 2014 to March 2015. From October 2005 until his appointment at Invacare, Mr. Gudbranson served as Vice President of Strategic Planning and Acquisitions at Lincoln Electric Holdings, Inc., Cleveland Ohio (NASDAQ: LECO), a global manufacturer of welding, brazing and soldering products. 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.

Dean J. Childers joined the company in May 2015 and was appointed Senior Vice President & General Manager, North America, in June 2015. Prior to joining the company, Mr. Childers served as Vice President, Business Operations at Integra Lifesciences, Inc., Plainsboro NJ (NASDAQ: IART), a life sciences company focused on regenerative technologies and orthopedics, from September 2014 until May 2015. From 2010-2014, Mr. Childers served as Vice President, Logistics at Zimmer, Inc., Warsaw, Indiana (NYSE:ZMH), an orthopedic device company participating in the joint reconstruction, trauma, sports medicine, surgical equipment, spine and dental markets.

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, Elyria, Ohio, 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.

Ralf Ledda was appointed Senior Vice President and General Manager, Europe, Middle East & Africa on November 1, 2016. Previously he served for 21 years as Managing Director of Alber GmbH, Albstadt, Germany, Invacare's subsidiary that specializes in innovative electromotive technology and power add-on devices used with medical and recreational products.

Patricia A. Stumpp was appointed Senior Vice President, Human Resources in September 2009. Ms. Stumpp joined Invacare in 1991 and has held positions of increasing responsibility including serving as Director of Compensation & Benefits from January 2001 to August 2006 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.

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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 March 7, 2017 was 2,234 and 21, respectively. The closing sale price for the Common Shares on March 7, 2017 as reported by NYSE was $11.70. The prices set forth below do not include retail markups, markdowns or commissions.

The following table sets forth, for each of the quarterly periods indicated, the high and low intraday sales prices of the company’s common shares and dividends declared on the company’s common shares for the periods indicated.

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | High | Low | Cash Dividends Declared | High | Low | Cash Dividends Declared |
| Quarter Ended: | | | | | | |
| December 31 | $13.45 | $8.00 | $ 0.0125 | $20.41 | $14.00 | $ 0.0125 |
| September 30 | 13.66 | 10.76 | 0.0125 | 22.22 | 14.24 | 0.0125 |
| June 30 | 14.06 | 9.89 | 0.0125 | 23.59 | 18.85 | 0.0125 |
| March 31 | 17.25 | 11.67 | 0.0125 | 20.35 | 14.33 | 0.0125 |

During 2016 and 2015, the Board of Directors also declared annualized dividends of $0.0455 per Class B Common Share. For information regarding limitations on the payment of dividends in the company's credit facilities and debt 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. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources, regarding covenants in the company's senior credit facilities with respect to the payment of dividends.

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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*.

| | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 | 12/16 |
|---|---|---|---|---|---|---|
| Invacare Corporation | $100.00 | $106.87 | $152.75 | $110.64 | $115.12 | $86.74 |
| S&P 500 | 100.00 | 116.00 | 153.58 | 174.60 | 177.01 | 198.18 |
| Russell 2000 | 100.00 | 116.35 | 161.52 | 169.43 | 161.95 | 196.45 |
| S&P Healthcare Equipment & Supplies | 100.00 | 118.04 | 152.22 | 183.34 | 197.72 | 216.59 |



* 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, 2011 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, 2016.

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The following table presents information with respect to repurchases of Common Shares made by the company during the three months ended December 31, 2016.

| Period | Total Number of Shares Purchased (1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2) |
|---|---|---|---|---|
| 10/1/2016 - 10/31/16 | — | $— | — | 2,453,978 |
| 11/1/2016 - 11/30/16 | 2,762 | 11.90 | — | 2,453,978 |
| 12/1/2016 - 12/31/16 | — | — | — | 2,453,978 |
| Total | 2,762 | $11.90 | — | 2,453,978 |

(1) All 2,762 shares repurchased between October 1, 2016 and December 31, 2016 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 equity compensation plans.

(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 no shares pursuant to this Board authorized program during 2016.

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 on Schedule 14A for the 2017 Annual Meeting of Shareholders.

Under the terms of the company's Credit Agreement, repurchases of shares by the company generally are not permitted except in certain limited circumstances in connection with the vesting or exercise of employee equity compensation awards.

Item 6. Selected Financial Data.

The selected consolidated financial data set forth below with respect to the company's consolidated statements of comprehensive income (loss), cash flows and shareholders' equity for the fiscal years ended December 31, 2016, 2015 and 2014, and the consolidated balance sheets as of December 31, 2016 and 2015 are derived from the Consolidated Financial Statements included elsewhere in this Form 10-K or as adjusted to reflect the impact of discontinued operations. The consolidated statements of comprehensive income (loss), cash flows and shareholders' equity data for the fiscal years ended December 31, 2013 and 2012 and consolidated balance sheet data for the fiscal years ended December 31, 2014, 2013 and 2012 are derived from the company's previously filed Consolidated Financial Statements or as adjusted to reflect the impact of discontinued operations. 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. The Balance Sheet, Other Data and Key Ratios reflect the impact of discontinued operations to the extent included in the Consolidated Balance Sheets and Consolidated Statement of Cash Flows.

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| | 2016 * | 2015 ** | 2014 *** | 2013 **** | 2012 ***** |
|---|---|---|---|---|---|
| | (In thousands, except per share and ratio data) | | | | |
| Earnings | | | | | |
| Net Sales from continuing operations | $1,047,474 | $1,142,338 | $1,270,163 | $1,334,505 | $1,415,818 |
| Net Earnings (loss) from continuing operations | (42,856) | (26,450) | (68,760) | (54,334) | (14,083) |
| Net Earnings from discontinued operations | — | 260 | 12,690 | 87,385 | 15,910 |
| Net Earnings (loss) | (42,856) | (26,190) | (56,070) | 33,051 | 1,827 |
| Net Earnings (loss) per Share—Basic: | | | | | |
| Net Earnings (loss) from Continuing Operations | (1.32) | (0.82) | (2.15) | (1.70) | (0.45) |
| Net Earnings from Discontinued Operations | — | 0.01 | 0.40 | 2.74 | 0.50 |
| Net Earnings (loss) per Share—Basic | (1.32) | (0.81) | (1.75) | 1.04 | 0.06 |
| Net Earnings (loss) per Share—Assuming Dilution: | | | | | |
| Net Earnings (loss) from Continuing Operations | (1.32) | (0.82) | (2.15) | (1.70) | (0.45) |
| Net Earnings from Discontinued Operations | — | 0.01 | 0.39 | 2.73 | 0.50 |
| Net Earnings (loss) per Share—Assuming Dilution | (1.32) | (0.81) | (1.75) | 1.03 | 0.06 |
| 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 | $409,072 | $362,299 | $405,987 | $419,539 | $567,949 |
| Total Assets | 903,743 | 838,143 | 963,731 | 1,096,434 | 1,262,294 |
| Current Liabilities | 220,861 | 247,644 | 290,232 | 276,165 | 299,735 |
| Working Capital | 188,211 | 114,655 | 115,755 | 143,374 | 268,214 |
| Long-Term Debt | 146,088 | 45,092 | 19,732 | 31,184 | 229,375 |
| Other Long-Term Obligations | 114,407 | 82,589 | 88,805 | 118,276 | 112,195 |
| Shareholders' Equity | 422,387 | 462,818 | 565,322 | 670,809 | 620,989 |
| Other Data | | | | | |
| Research and Development Expenditures | $17,123 | $18,677 | $23,149 | $24,075 | $23,851 |
| Capital Expenditures | 10,151 | 7,522 | 12,327 | 14,158 | 20,091 |
| Depreciation and Amortization | 14,635 | 18,204 | 30,941 | 34,399 | 37,223 |
| Key Ratios | | | | | |
| Return on Sales % from continuing operations | (4.1) | (2.3) | (5.4) | (4.1) | (1.0) |
| Return on Average Assets % | (4.9) | (2.9) | (5.4) | 2.8 | 0.1 |
| Return on Beginning Shareholders' Equity % | (9.3) | (4.6) | (8.4) | 5.3 | 0.3 |
| Current Ratio | 1.9:1 | 1.5:1 | 1.4:1 | 1.5:1 | 1.9:1 |
| Debt-to-Equity Ratio | 0.38:1 | 0.10:1 | 0.04:1 | 0.07:1 | 0.38:1 |

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* Reflects gain on sale of Garden City Medical, Inc. of $7,386,000 ($7,386,000 after-tax income or $0.23 per share assuming dilution), charges related to restructuring from continuing operations of $2,447,000 ($2,447,000 after-tax expense or $0.08 per share assuming dilution), incremental warranty expense of $2,856,000 ($2,856,000 after-tax expense or $0.09 per share assuming dilution related to three product recalls) and net gain on convertible debt derivatives of $1,268,000 ($1,268,000 after-tax income or $0.04 per share assuming dilution).

** Reflects charges related to restructuring from continuing operations of $1,971,000 ($1,843,000 after-tax expense or $0.06 per share assuming dilution), net warranty reversals of $2,325,000 ($2,325,000 after-tax income or $0.07 per share assuming dilution related to three product recalls) and the positive impact of an intraperiod tax allocation associated with discontinued operations of $140,000 or $0.00 per share assuming dilution.

*** Reflects charges related to restructuring from continuing operations of $11,112,000 ($10,096,000 after-tax expense or $0.32 per share assuming dilution), incremental warranty expense of $11,493,000 ($10,801,000 after-tax expense or $0.34 per share assuming dilution related to three product recalls), asset write-downs to intangible assets of $13,041,000 ($13,041,000 after-tax expense or $0.41 per share assuming dilution) and the positive impact of an intraperiod tax allocation associated with discontinued operations of $7,175,000 or $0.22 per share assuming dilution.

**** Reflects charges related to restructuring from continuing operations of $9,336,000 ($7,493,000 after-tax expense or $0.23 per share assuming dilution), incremental warranty expense of $7,264,000 ($7,170,000 after-tax expense or $0.22 per share assuming dilution related to a power wheelchair joystick recall), asset write-downs to intangible assets of $1,523,000 ($1,322,000 after-tax expense or $0.04 per share assuming dilution) and the positive impact of an intraperiod tax allocation associated with discontinued operations of $3,445,000 or $0.11 per share assuming dilution.

***** Reflects charges related to restructuring from continuing operations of $11,395,000 ($11,255,000 after-tax expense or $0.36 per share assuming dilution), a discrete 2012 tax expense related to prior years of $9,336,000 or $0.30 per share assuming dilution which is a non-cash charge in 2012 for a matter that was under audit and contested by the company, early debt extinguishment charges of $312,000 ($312,000 after-tax expense or $0.01 per share assuming dilution), asset write-downs to intangible assets of $773,000 ($698,000 after-tax expense or $0.02 per share assuming dilution) and the positive impact of an intraperiod tax allocation associated with discontinued operations of $7,126,000 or $0.23 per share assuming dilution.

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

OVERVIEW

Management’s discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes that appear elsewhere in this annual report on Form 10-K.

Invacare is a multi-national company with integrated capabilities to design, produce and distribute durable medical equipment. The company makes products that help people move, breathe, rest and perform essential hygiene, and with those products the company supports people with congenital, acquired and degenerative conditions. The company’s products and solutions are important parts of care for people with a range of challenges, from those who are active and heading to work or school each day and may need additional mobility or respiratory support, to those who are cared for in residential care settings, at home and in rehabilitation centers. The company operates in facilities in North America, Europe and Asia/Pacific, which are the result of dozens of acquisitions made over the company’s nearly forty-year history. Some of these acquisitions have been combined into integrated operating units, while others remain relatively independent.

Strategy

The company had a strategy to be a leading provider of durable medical equipment to providers in global markets by providing the broadest portfolio available. This strategy has not kept pace with certain reimbursement changes, competitive dynamics and company-specific challenges. Since 2015, the company has made a major shift in its strategy. The company has since been aligning its resources to produce products and solutions that assist customers and end-users with their most clinically complex needs. By focusing the company’s efforts to provide the best possible assistance and outcomes to the people and caregivers who use its products, the company aims to improve its financial condition for sustainable profit and growth. To execute this transformation, the company is undertaking a substantial three-phase multi-year transformation plan.

Transformation

The company is executing a multi-year transformation to shift to its new strategy. This is expected to yield better financial results from the application of the company’s resources to products and solutions that provide greater healthcare value in clinically complex rehabilitation and post-acute care. The transformation is divided into the following three phases:

Phase One - Assess and Reorient
- Increase commercial effectiveness;
- Shift and narrow the product portfolio;
- Align innovation resources to clinically complex solutions;
- Accelerate quality efforts with culture of quality excellence; and
- Develop and expand talent.

Phase Two - Build and Align
- Leverage commercial improvements;
- Optimize the business for cost and efficiency;
- Continue to improve quality systems;
- Launch new clinical product platforms; and
- Expand talent management and culture.

Phase Three - Grow
- Lead in quality culture and operations excellence; and
- Grow above market.

In 2016, the company made significant progress on its Phase One work, most notably in North America, where some of the greatest improvement is needed. As expected, the 2016 financial results show the near-term impact of investments in commercial resources, new product development, and quality systems, ahead of accretion. The company will continue to make significant investments in this transformation, reduce sales in certain areas, refocus resources away from less accretive activities, and look at its global infrastructure for opportunities to drive efficiency. Phase One investments are in the early phases of providing returns.

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The company expects to begin seeing some results later in 2017 and more substantive results in 2018. In the meantime, the company has begun taking early Phase Two actions to streamline operations, resize and reshape the organization, especially in North America, around its new business mix and size. By executing this strategy and making these operational improvements, the company expects long-term benefits for the company's constituents.

Favorable Long-term Demand

Ultimately, demand for the company's products and services is based on the need to provide care for people with certain conditions. The company's medical devices provide solutions for end-users and caregivers. Therefore, the demand for the company's medical equipment is largely driven by population growth and the incidence of certain conditions where treatment may be supplemented by the company's devices. The company also provides solutions to help equipment providers and residential care operators deliver cost-effective and high-quality care. The company believes that its commercial team, customer relationships, products and solutions, supply chain infrastructure, and strong research and development pipeline will create favorable business potential.

DISCONTINUED AND DIVESTED OPERATIONS

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

In 2014, the net sales of the Altimate discontinued operations were $11,778,000 and earnings before income taxes were $2,796,000. Results for Altimate include an interest expense allocation from continuing operations to discontinued operations of $202,000 in 2014 as proceeds from the sale were required to be utilized to pay down debt. The interest allocation was based on the net proceeds assumed to pay down debt applying the company's average interest rates for the periods presented. The company has classified Altimate as a discontinued operation for all periods presented.

The company recorded total expenses related to all of its discontinued operations since 2012 of $8,801,000, of which $8,405,000 were paid as of December 31, 2016. The company recorded an incremental intra-period tax allocation expense to discontinued operations for 2015 and 2014 representing the cumulative intra-period allocation expense to discontinued operations based on the company's domestic taxable loss related to continuing operations for 2015 and 2014.

On July 2, 2015, the company sold its rentals businesses to Joerns Healthcare Parent, LLC, for approximately $15,500,000 in cash, which was subject to final post-closing adjustments. The rentals businesses had been operated on a stand-alone basis and reported as part of the IPG segment of the company. The company recorded a pre-tax gain of approximately $24,000 in the third quarter of 2015, which represented the excess of the net sales price over the book value of the assets and liabilities of the rentals businesses, as of the date of completion of the disposition. The company recorded expenses related to the sale of the rentals businesses totaling $1,792,000, of which $1,265,000 have been paid as of December 31, 2016. The sale of the rentals businesses was not dilutive to the company's results. The company utilized the net proceeds from the sale to reduce debt outstanding under its credit agreement. The company determined that the sale of the rentals businesses did not meet the criteria for classification as a discontinued operation in accordance with ASU 2014-08. The rentals businesses were treated as held for sale as of June 30, 2015 until sold on

July 2, 2015. As such, the results of the rentals businesses are included in the Results from Continuing Operations discussion below.

On September 30, 2016, the company, completed the sale of GCM to Compass Health Brands Corp., for approximately $13,829,000 in cash, which is subject to final post-closing adjustments. The net proceeds from the transaction were $12,729,000, net of expenses. The company recorded a pre-tax gain of $7,386,000 in the third quarter of 2016, which represented the excess of the net sales price over the book value of the assets and liabilities of GCM. The company recorded expenses related to the sale of GCM totaling $1,100,000, of which $230,000 has been paid out as of December 31, 2016. The sale of GCM was dilutive to the company's results. The company utilized the net proceeds to fund operations. The company determined that the sale of GCM did not meet the criteria for classification as a discontinued operation in accordance with ASU 2014-08 but the "held for sale" criteria of ASC 360-10-45-9 were met and thus GCM was treated as held for sale for purposes of the Condensed Consolidated Balance Sheets as of December 31, 2015. As such, the results of the rentals businesses are included in the Results from Continuing Operations discussion below.

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RESULTS OF CONTINUING OPERATIONS

2016 Versus 2015

Net Sales. Consolidated net sales for 2016 decreased 8.3% for the year, to $1,047,474,000 from $1,142,338,000 in 2015. Foreign currency translation decreased net sales by 1.6 percentage points. Constant currency net sales decreased 6.7% compared to 2015. Higher constant currency net sales in the Europe and Asia/Pacific segments were offset by lower constant currency net sales in the North America/HME and IPG segments. Constant currency net sales for the company, excluding the impact of all the divested businesses (GCM and rentals businesses), decreased 4.9% compared to 2015. Constant currency net sales is a non-GAAP financial measure - see "Business Segment Net Sales" on page I-49.

Europe

European net sales increased 0.7% in 2016 compared to the prior year to $540,013,000 from $536,463,000 as foreign currency translation decreased net sales by 3.0 percentage points. Constant currency net sales increased 3.7% compared to 2015. The improvements in constant currency net sales were driven by increased sales of mobility and seating and lifestyle products. Changes in exchange rates have had, and may continue to have, a significant impact on sales in this segment.

North America/Home Medical Equipment (North America/HME)

North America/HME net sales decreased 16.1% in 2016 versus the prior year to $397,702,000 from $474,196,000 with foreign currency translation decreasing net sales by 0.2 of a percentage point. Constant currency net sales decreased 15.9% compared to the prior year. Excluding the net sales impact of the divested GCM business, reported net sales decreased by 15.5% and by 15.3% on a constant currency basis. The decreases in constant currency net sales were primarily driven by reduced sales of lifestyle and respiratory products while mobility and seating declined slightly.

Institutional Products Group (IPG)

IPG net sales decreased 26.1% in 2016 over the prior year to $64,413,000 from $87,137,000 as foreign currency translation decreased sales by 0.2 of a percentage point. Excluding the net sales impact of the divested rentals businesses, reported net sales decreased by 11.5% and by 11.3% on a constant currency basis. The decreases in constant currency net sales of the non-rentals businesses were driven by sales declines in all major product categories.

Asia/Pacific

Asia/Pacific net sales increased 1.8% in 2016 from the prior year to $45,346,000 from $44,542,000. Foreign currency translation decreased net sales by 1.7 percentage points. Constant currency net sales increased 3.5% compared to 2015 due to net sales increases in the Australia and New Zealand distribution businesses and at the company's subsidiary that produces microprocessor controllers. 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 27.1% in 2016 as compared to 27.4% in 2015. Excluding the impact of all the divested businesses, gross margin as a percentage of net sales for 2016 increased by 0.2 of a percentage point as compared to 2015 driven by favorable sales mix principally offset by increased warranty expense. Gross margin as a percentage of net sales increased for the North America/HME and Asia/Pacific segments with declines in the Europe and IPG segments. Gross profit dollars declined in all segments, except for Asia/Pacific,

with the largest declines in North America/HME and IPG. The decline in IPG was primarily impacted by the sale of the rentals businesses in 2015.

Gross profit in Europe as a percentage of net sales decreased 0.5 of a percentage point in 2016 from the prior year and gross margin dollars decreased by $1,721,000. The decrease in margin was principally due to unfavorable foreign currency, pricing, warranty and R&D expense. Incremental warranty recall expense of $1,490,000 was recorded in 2016 for a component of a lifestyles product.

North America/HME gross profit as a percentage of net sales increased by 0.4 of a percentage point in 2016 from the prior year while gross margin dollars decreased by $14,106,000 driven by net sales declines and increased warranty expense. The 2016 gross margin reflects warranty recall expense of $1,366,000, or 0.3 of a percentage point, for a recall which was related to a component on a lifestyles product. In comparison, warranty recall expense reversals of $2,325,000, or 0.5 of a percentage point, were recorded in 2015.

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IPG gross profit as a percentage of net sales decreased 9.9 percentage points in 2016 from the prior year and gross margin dollars decreased $14,090,000. The decrease in margin was primarily attributable to the sale of the rentals businesses ($11,359,000 or 8.5 percentage points) and to a lesser extent unfavorable sales mix and increased warranty expense.

Gross profit in Asia/Pacific as a percentage of net sales increased 1.8 percentage points in 2016 from the prior year and gross margin dollars increased $1,038,000. The increase was primarily related to favorable sales mix and reduced manufacturing costs, which were partially offset by R&D expense.

See “Accrued Expenses” in the Notes to the Consolidated Financial Statements included elsewhere in this report for the total warranty provision amounts and a reconciliation of the changes in the warranty accrual.

Selling, General and Administrative. Consolidated selling, general and administrative (SG&A) expenses as a percentage of net sales were 29.0% in 2016 and 27.9% in 2015. The overall dollar decrease was $14,865,000, or 4.7%, with foreign currency translation decreasing expense by $4,226,000 or 1.4 percentage points. Excluding the impact of foreign currency translation, SG&A expenses decreased $10,639,000, or 3.3%. Excluding the impacts of all the divested businesses and foreign currency translation, SG&A expense increased $2,212,000, or 0.7%, compared to 2015, primarily related to increased product liability and employment costs. The SG&A expense in 2015 included a write-off of costs related to a canceled legacy software program based on a change in the North America/HME IT strategy.

European SG&A expenses increased by 3.5%, or $4,079,000, in 2016 compared to 2015. Foreign currency translation decreased expense by approximately $3,224,000 or 2.7 percentage points. Excluding the foreign currency translation impact, SG&A expenses increased by $7,303,000, or 6.2%, principally related to increased employment costs.

SG&A expenses for North America/HME decreased 4.0%, or $5,603,000, in 2016 compared to 2015 with foreign currency translation decreasing expense by $722,000 or 0.5 of a percentage point. Excluding the foreign currency translation, SG&A expense decreased $4,881,000, or 3.5%, principally as a result of reduced regulatory costs in 2016, a $4,031,000 2015 write-off of costs for a canceled legacy software program, and a reduction in expense in 2016 resulting from the GCM divestiture.

SG&A expenses for IPG decreased by 50.7%, or $11,949,000, in 2016 compared to 2015. Excluding the impact of foreign currency translation, SG&A expenses decreased by $11,927,000, or 50.6%, primarily related to a reduction in expense for the rentals business divestiture ($11,239,000) and employment costs.

Asia/Pacific SG&A expenses decreased 6.1%, or $1,018,000, in 2016 compared to 2015. Foreign currency translation decreased expense by $258,000 or 1.6 percentage points. Excluding the foreign currency translation impact, SG&A expenses decreased $760,000, or 4.5%, principally as a result of favorable foreign currency transactions and reduced employment costs.

SG&A expenses related to the Other Segment decreased by 1.8% or $374,000 in 2016 as compared to 2015 primarily related to decreased legal expense in 2016.

Gain on Sale of Business. As a result of the sale of GCM on September 30, 2016, the company recorded a gain in 2016 of $7,386,000 on the sale, which represents the excess of the net sales price over the book value of the net assets of GCM. As a result of the sale of the rentals business on July 2, 2015, the company recorded a gain of $24,000 in 2015, which represented the excess of the net sales price over the book value of the assets and liabilities of the rentals businesses.

Charge Related to Restructuring Activities. The company's restructuring charges were necessitated primarily by continued declines in Medicare and Medicaid reimbursement by the U.S. government, as well as similar healthcare reimbursement pressures abroad, which negatively affect the company's customers (e.g. home health care providers) and continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations. Restructuring decisions were also the result of reduced profitability in the North America/HME and Asia/Pacific segments impacted by the FDA consent decree. In addition, as a result of the company's transformation strategy, additional restructuring charges were incurred during 2016 and are expected to continue into 2017. While the company's restructuring efforts have been executed on a timely basis, and have resulted in operating cost savings, the savings have been more than offset by the general business decline, higher regulatory and compliance costs related to quality system improvements, and more recently, investments as a result of the company's transformation strategy and higher interest expense. The company expects any near-term cost savings from restructuring will be offset by other costs as a result of the company's transformation strategy and other pressures on the business.

Charges for the year ended December 31, 2016 totaled $2,447,000 which were related to North America/HME segment ($2,347,000) and the Asia/Pacific segment ($100,000). In North America/HME, costs were incurred related to severance ($1,862,000) and lease termination costs ($485,000). The Asia/Pacific charges were for severance costs. The savings from these

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charges will be reflected primarily in reduced selling, general and administrative expenses and manufacturing expenses for the company. Payments for the year ended December 31, 2016 were $2,992,000 and the cash payments were funded with company's cash on hand. The majority of the 2016 charges are expected to be paid out within twelve months.

Charges for the year ended December 31, 2015 totaled $1,971,000 including charges for severance ($1,678,000) and charges principally related to a building lease termination primarily in the North America/HME segment ($293,000). Severance charges were incurred in the North America/HME segment ($1,069,000), Europe segment ($510,000), IPG segment ($73,000) and Asia/Pacific segment ($26,000) related to the elimination of certain positions as a result of general restructuring efforts. The savings from these charges have been reflected primarily in reduced selling, general and administrative expenses and manufacturing expenses for the company. Payments for the year ended December 31, 2015 were $3,723,000 and were funded with operating cash flows and cash on hand. The 2015 charges have been paid out.

To date, the company's liquidity has not been materially impacted; however, the company's disclosure below in Liquidity and Capital Resources highlights risks that could negatively impact the company's liquidity. See also "Charges Related to Restructuring Activities" in the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Asset write-downs to intangible assets. In accordance with ASC 350, Intangibles - Goodwill and Other, the company reviews intangibles for impairment. As a result of the company's 2016 and 2015 intangible reviews, the company did not recognize any intangible write-down charges.

Net Gain on Convertible Debt Derivatives. For 2016, the company recognized a loss of $2,504,000 related to the convertible note hedge derivative long-term asset and recognized a gain of $3,772,000 related to the convertible debt conversion liability derivative which resulted in a net gain of $1,268,000 related to the fair value of the convertible debt derivatives. See "Long-Term Debt" in the Notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

Interest. Interest expense increased to $15,875,000 in 2016 from $4,136,000 in 2015, representing a 283.8% increase. This increase was due to the convertible debt issuance in the first quarter of 2016 and, to a lesser extent, capital lease interest expense as a result of the real estate sale and leaseback transaction completed during the second quarter of 2015. Interest income in 2016 was $265,000, as compared to $165,000 in 2015.

Income Taxes. The company had an effective tax rate of 45.0% in 2016 compared to an expected benefit of 35% on the continuing operations pre-tax loss and an effective tax rate of 125.3% in 2015 compared to an expected benefit of 35% on the pre-tax loss from continuing operations. The company's effective tax rates in 2016 and 2015 both were unfavorable to the expected U.S. federal statutory rate benefit for those years due to the negative impact of the company not being able to record tax benefits related to losses in those countries which had tax valuation allowances for the year, which more than offset the benefit of foreign income taxed at rates below the U.S. statutory rate. See “Income Taxes” in the Notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

Research and Development. The company continued to invest in research and development activities in 2016. The company dedicated 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, decreased to $17,123,000 in 2016 from $18,677,000 in 2015. The expenditures, as a percentage of net sales, were 1.6% and 1.6% in 2016 and 2015, respectively.

2015 Versus 2014

Net Sales. Consolidated net sales for 2015 decreased 10.1% for the year, to $1,142,338,000 from $1,270,163,000 in 2014. Foreign currency translation decreased net sales by 8.7 percentage points. Constant currency net sales decreased 1.4% compared to 2014. Higher constant currency net sales in the Europe and Asia/Pacific segments were offset by lower constant currency net sales in the North America/HME and IPG segments. Constant currency net sales for the company, excluding the impact of the divested rentals businesses in the IPG segment, were flat for the year ended December 31, 2015, compared to the prior year. Constant currency net sales is a non-GAAP financial measure - see "Business Segment Net Sales" on page I-49.

Europe

European net sales decreased 12.1% in 2015 compared to the prior year to $536,463,000 from $610,555,000 as foreign currency translation decreased net sales by 15.6 percentage points. Constant currency net sales increased 3.5% compared to 2014 principally due to increases in sales of mobility and seating, respiratory and lifestyle products.

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North America/Home Medical Equipment (North America/HME)

North America/HME net sales decreased 6.6% in 2015 versus the prior year to $474,196,000 from $507,867,000, with foreign currency translation decreasing net sales by 1.0 percentage point. Constant currency net sales decreased 5.6% compared to the prior year, as increases in sales of mobility and seating products were more than offset by declines in sales of respiratory and lifestyle products. Net sales in the mobility and seating product category were impacted by the FDA consent decree, which limits production of custom power wheelchairs and seating systems at the Taylor Street manufacturing facility to products having properly completed verification of medical necessity (VMN) documentation. The VMN is a signed document from a clinician, and in some instances a physician, that certifies that the product is deemed medically necessary for a particular patient's condition, which cannot be adequately addressed by another manufacturer's product or which is a replacement of the patient's existing product. In an effort to position the company for improved sales results in the future, during 2015, the company began a transformation of its generalist sales force to one more focused on clinically complex products, which includes the mobility and seating product category. As a result, lifestyle and respiratory product net sales were de-emphasized contributing to lower net sales for these products.

Institutional Products Group (IPG)

IPG net sales decreased 15.2% in 2015 over the prior year to $87,137,000 from $102,796,000 as foreign currency translation decreased sales by 0.8 of a percentage point. Excluding the net sales impact of the divested rentals businesses, constant currency net sales increased 3.7% driven primarily by increases in sales of beds and interior design projects. These increases were partially offset by sales declines in therapeutic support surfaces.

Asia/Pacific

Asia/Pacific net sales decreased 9.0% in 2015 from the prior year to $44,542,000 from $48,945,000. Foreign currency translation decreased net sales by 16.5 percentage points. Constant currency net sales increased 7.5% primarily due to sales increases at the company's New Zealand and Australian distribution businesses, and at the company's subsidiary that produces microprocessor controllers.

Gross Profit. Consolidated gross profit as a percentage of net sales was 27.4% in 2015 as compared to 27.3% in 2014. The 2015 gross margin reflects a warranty expense reversal related to recalls of $2,325,000 or 0.2 of a percentage point, recorded in the North America/HME segment. The company's warranty reserve is subject to adjustment as new developments change the company's estimates. The 2014 gross margin reflected an incremental warranty expense for three previously disclosed recalls of $11,493,000 or 0.9 of a percentage point. The incremental warranty expense was recorded in the North America/HME, Europe and Asia/Pacific reporting segments. Excluding the impact of the warranty expense amounts noted previously, the gross margin as a percentage of net sales was 27.2% in 2015 as compared to 28.2% in 2014. The margin decrease was principally related to unfavorable sales mix, foreign exchange and the impact of the divested rentals businesses. The rentals businesses had a higher gross margin as a percentage of net sales than the average gross margin as a percentage of net sales for the overall company. Gross profit as a percentage of net sales for the North America/HME and Asia/Pacific segments was favorable as compared to the prior year with the Europe and IPG segments unfavorable compared to the prior year.

Gross profit in Europe as a percentage of net sales decreased 1.9 percentage points in 2015 from the prior year. The decrease in margin was principally due to unfavorable foreign currency exchange and a negative sales mix, partially offset by reduced warranty expense. The 2014 gross margin reflected an incremental warranty expense of $3,395,000 or 0.6 of a percentage point for a previously disclosed recall.

North America/HME gross profit as a percentage of net sales increased 2.7 percentage points in 2015 from the prior year. The increase in margins was principally due to reduced warranty expense, favorable sales mix and decreased manufacturing costs. The 2015 gross margin reflects a warranty recall expense reversal of $2,325,000 or 0.5 of a percentage point for three recalls compared to incremental warranty recall expense of $6,833,000 or 1.3 of a percentage point in 2014.

IPG gross profit as a percentage of net sales decreased 7.9 percentage points in 2015 from the prior year. The decrease in margin is primarily attributable to the sale of the rentals businesses (5.4 percentage points) and increased freight costs.

Gross profit in Asia/Pacific as a percentage of net sales increased 1.9 percentage points in 2015 from the prior year. The increase was primarily as a result of reduced warranty expense and a favorable manufacturing costs. The 2014 gross margin included an incremental warranty expense for the power wheelchair joystick recall of $1,265,000, or 2.6 percentage points.

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See “Accrued Expenses” in the Notes to the Consolidated Financial Statements included elsewhere in this report for the total provision amounts and a reconciliation of the changes in the warranty accrual.

Selling, General and Administrative. Consolidated selling, general and administrative (SG&A) expenses as a percentage of net sales were 27.9% in 2015 and 30.1% in 2014. The overall dollar decrease was $63,419,000, or 16.6%, with foreign currency translation decreasing expense by $23,891,000 or 6.3 percentage points. Excluding the impact of foreign currency translation, SG&A expenses decreased $39,528,000, or 10.3%. This decrease was primarily attributable to the sale of the rentals businesses in the third quarter of 2015, which lowered SG&A expenses by $15,626,000, and by reduced consulting expense (including regulatory and compliance costs related to quality system improvements), employment costs and product liability expense. These were partially offset by a $4,031,000 write-off of costs associated with a canceled legacy software program based on a change in the North America/HME IT strategy.

European SG&A expenses decreased by 15.9%, or $22,254,000, in 2015 compared to 2014. Foreign currency translation decreased expense by approximately $18,709,000 or 13.4 percentage points. Excluding the foreign currency translation impact, SG&A expenses decreased by $3,545,000, or 2.5%, primarily in depreciation and amortization expense partially offset by increased employment costs.

SG&A expenses for North America/HME decreased 9.5%, or $14,673,000, in 2015 compared to 2014, with foreign currency translation decreasing expense by $2,313,000 or 1.5 percentage points. Excluding the foreign currency translation, SG&A expense decreased $12,360,000, or 8.0%, due principally to reduced employment costs, product liability expense and consulting expense, including lower regulatory and compliance costs related to quality systems improvements. These were partially offset by a $4,031,000 write-off of costs in 2015 associated with a canceled legacy software program based on a change in the North America/HME IT strategy. In addition, 2014 included an incremental expense of $958,000 related to the retirement of an executive officer of the company.

SG&A expenses for IPG decreased by 43.1%, or $17,874,000, in 2015 compared to 2014. Excluding the impact of foreign currency translation, SG&A expenses decreased by $17,881,000, or 43.1%, primarily due to the sale of the rentals businesses, which reduced SG&A expenses by $15,626,000, as well as reduced employment costs.

Asia/Pacific SG&A expenses decreased 21.5%, or $4,580,000, in 2015 compared to 2014. Foreign currency translation decreased expense by $2,876,000 or 13.5 percentage points. Excluding the foreign currency translation impact, SG&A expenses decreased $1,704,000, or 8.0%, principally as a result of reduced employment costs and depreciation expense.

SG&A expenses related to the Other Segment decreased by 16.3% or $4,038,000 in 2015 as compared to 2014. The decrease is attributable to lower legal and professional costs as well as decreased employment costs. In addition, 2014 included an incremental expense of $1,800,000 related to the retirement of an executive officer of the company.

Asset write-downs to intangible assets. As a result of the company's 2015 intangible review, the company did not recognize any intangible write-down charges.

As a result of the company's review of intangible assets for 2014, the company recognized intangible write-down charges in the IPG segment of $13,041,000 comprised of a customer list impairment of $12,826,000 and a non-compete agreement of $215,000 as the actual and remaining cash flows associated with the intangibles were less than the cash flows originally used to value the intangibles, primarily driven by reduced net sales. The after-tax and pre-tax impairment amounts were the same for each of the above impairments.

Charge Related to Restructuring Activities. Charges for the year ended December 31, 2015 totaled $1,971,000 including charges for severance ($1,678,000) and charges principally related to a building lease termination primarily in the North America/HME segment ($293,000). Severance charges were incurred in the North America/HME segment ($1,069,000), Europe segment ($510,000), IPG segment ($73,000) and Asia/Pacific segment ($26,000) related to the elimination of certain positions as a result of general restructuring efforts. The savings from these charges have been reflected primarily in reduced selling, general and administrative expenses and manufacturing expenses for the company. Payments for the year ended December 31, 2015 were $3,723,000 and were funded with operating cash flows and cash on hand. The 2015 charges have been paid out.

Charges for the year ended December 31, 2014 totaled $11,112,000 including charges for severance ($9,841,000), other charges in IPG and Europe ($1,286,000) principally related to building write-downs and lease termination cost reversals ($15,000). Severance charges were incurred in the North America/HME segment ($4,404,000), Other ($2,978,000), IPG segment ($1,163,000), Asia/Pacific segment ($769,000) and Europe segment ($527,000). The North America/HME segment severance charges were principally related to additional positions eliminated due to lost sales volumes resulting from the impact of the FDA

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consent decree. The Other severance charges related to the elimination of two senior corporate executive positions. IPG segment severance charges related principally to the closure of the London, Ontario facility. Europe and Asia/Pacific severance charges related to the elimination of certain positions as a result of general restructuring efforts. The costs related to the building write-downs related to two plant closures. The savings from these charges have been reflected primarily in reduced selling, general and administrative expenses and manufacturing expenses for the company. Payments for the year ended December 31, 2014 were $11,131,000 and were funded with operating cash flows and the company's revolving credit facility. The majority of the 2014 charges have been paid out other than certain executive charge payments which will be paid out over the next few years.

The company's disclosure below in Liquidity and Capital Resources highlights risks that could negatively impact the company's liquidity. See also "Charges Related to Restructuring Activities" in the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Interest. Interest expense decreased to $4,136,000 in 2015 from $4,887,000 in 2014, representing a 15.4% decrease. This decrease was attributable primarily to lower average borrowings in 2015 versus 2014, despite an increase in interest expense related to capital leases. Interest income in 2015 was $165,000 as compared to $507,000 in 2014, primarily due to interest income earned in Europe on a VAT receivable in 2014 that did not recur in 2015.

Income Taxes. The company had an effective tax rate of 125.3% in 2015 compared to an expected benefit of 35% on the continuing operations pre-tax loss and an effective rate of 8.8% in 2014 compared to an expected benefit of 35% on the pre-tax loss from continuing operations. The company's effective tax rate in 2015 was unfavorable to the expected U.S. federal statutory rate benefit due to the negative impact of the company not being able to record tax benefits related to losses in those countries which had tax valuation allowances for the year, which more than offset the benefit of foreign income taxed at rates below the U.S. statutory rate. The company's effective tax rate in 2014 was unfavorable to the expected U.S. federal statutory rate benefit due to the same reasons, except the company recognized a benefit of $7,175,000 in the U.S. as an intra-period allocation with discontinued operations against a portion of the domestic taxable loss from continuing operations. 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 were included in costs of products sold, decreased to $18,677,000 in 2015 from $23,149,000 in 2014. The expenditures, as a percentage of net sales, were 1.6% and 1.8% in 2015 and 2014, 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 its review of pricing, 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 cash balances, as described below.

The company's total debt outstanding, inclusive of the debt discount related to the 4.125% Convertible Senior Subordinated Debentures due 2027 (the "2027 Debentures") included in equity in accordance with FSB APB 14-1 as well as the debt discount and fees associated with the 5.00% Convertible Senior Notes due 2021 (the "2021 Notes"), increased by $148,178,000 to $196,501,000 at December 31, 2016 from $48,323,000 as of December 31, 2015. The company's balance sheet reflects the impact of ASC 470-20, which reduced debt and increased equity by $311,000

and $1,203,000 as of December 31, 2016 and December 31, 2015, respectively, related to the 2027 Debentures. The debt discount and fees associated with the 2021 Notes reduced the company's reported debt balance by $29,919,000 and $4,922,000, respectively, as of December 31, 2016. The debt increase in 2016 was principally a result of issuing $150,000,000 aggregate principal amount of 2021 Notes. The company's cash and cash equivalents were $124,234,000 at December 31, 2016, compared to $60,055,000 as of December 31, 2015. At December 31, 2016 and December 31, 2015, the company had zero borrowings outstanding under its revolving credit facility. The increase in cash balances compared to December 31, 2015 was primarily the result of the net proceeds received from the issuance of the 2021 Notes in the first quarter of 2016 and the sale proceeds from the sale of GCM, partially offset by cash flow usage.

On February 2, 2017, the company repurchased all of the outstanding $13,350,000 principal amount of 2027 Debentures as the holders exercised their February 1, 2017 right to require the company to repurchase their 2027 Debentures (see Long-Term Debt and Subsequent Event in the Notes to Condensed Consolidated Financial Statements included in this report).

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The company's borrowing capacity and cash balances were utilized for normal operations during the period ended December 31, 2016. Debt repayments, acquisitions, divestitures, the timing of vendor payments, the granting of extended payment terms to significant national accounts and other activity can have a significant impact on the company's cash flow and 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. 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 within the company, loans or other purposes, except in China where the cash balance as of December 31, 2016 was approximately $7,145,000.

The company has an asset-based lending Amended and Restated Revolving Credit and Security Agreement (the “Credit Agreement”), which provides for a revolving line of credit, letter of credit and swing line facility for the company's U.S. and Canadian borrowers in an aggregate principal amount of up to $100,000,000 (the "U.S. and Canadian Credit Facility") and a similar facility for European borrowers in an aggregate principal amount of up to $30,000,000 (the "European Credit Facility") each of which is subject to variable rates and availability based on a borrowing base formula. The initial borrowings under the Credit Agreement were used to repay approximately $17,000,000 in aggregate principal amount of borrowings and terminate the company's previous credit agreement, which was scheduled to mature in October 2015. As determined pursuant to the borrowing base formula for the U.S. and Canadian borrowers, the company’s borrowing base including the period ending December 31, 2016 under the U.S. and Canadian Credit Facility of the Credit Agreement was approximately $52,761,000, with aggregate borrowing availability of approximately $32,031,000, taking into account the $5,000,000 minimum availability reserve, then-outstanding letters of credit, other reserves and the $11,250,000 dominion trigger amount noted below. As determined pursuant to the borrowing base formula for the European borrowers, the company’s borrowing base including the period ending December 31, 2016 under the European Credit Facility of the Credit Agreement was approximately $18,604,000, with aggregate borrowing availability of approximately $12,229,000, considering the $3,000,000 minimum availability reserve and the $3,375,000 dominion trigger amount noted below. As of December 31, 2016, the combined aggregate borrowing availability under the U.S. and Canadian Credit Facility and the European Credit Facility of the Credit Agreement was $44,260,000. See Long-Term Debt in the Notes to the Consolidated Financial Statements for more details regarding the Credit Agreement.

As a result of entering into the Credit Agreement, the company incurred $2,113,000 in fees, which were capitalized and are being amortized through January 16, 2021. In addition, as a result of terminating the previous credit agreement, which was scheduled to mature in October 2015, the company wrote-off $668,000 in previously capitalized fees in the first quarter of 2015, which is reflected in the expense of the North America / HME segment. As of December 31, 2016, the company was in compliance with all covenant requirements under the Credit Agreement. The Credit Agreement contains customary representations, warranties and covenants including dominion triggers requiring the company to maintain borrowing capacity of not less than $11,250,000 on an given business day or $12,500,000 for five consecutive days related to the U.S. and Canadian borrowers, and $3,375,000 on an given business day or 12.5% of the maximum amount that may be drawn under the European Credit Facility for five consecutive days related to European borrowers, in order to avoid triggering full control by an agent for the lenders of the company's cash receipts for application to the company's obligations under the agreement.

If the company is unable to comply with the provisions in the Credit Agreement, it could result in a default, which could trigger acceleration of, or the right to accelerate, the related debt. Because of cross-default provisions in its agreements and instruments governing certain of the company's indebtedness, a default under the Credit Agreement could result in a default under, and the acceleration of, certain other company indebtedness. In addition, the company's lenders would be entitled to proceed against the collateral securing the indebtedness.

Based on the company's current expectations, the company believes that its cash balances and available borrowing capacity under its Credit Agreement should be sufficient to meet working capital needs, capital requirements, and

commitments for at least the next twelve months. Notwithstanding the company's expectations, if the company's operating results decline as the result of pressures on the business due to, for example, currency fluctuations or regulatory issues or the company's failure to execute its business plans, the company may be unable to comply with its obligations under the Credit Agreement, and its lenders could demand repayment of any amounts outstanding under the company's credit facilities.

In the first quarter of 2016, the company issued $150,000,000 aggregate principal amount of 2021 Notes in a private offering. The notes bear interest at a rate of 5.00% per year payable semi-annually and will mature in February 2021, unless repurchased or converted in accordance with their terms prior to such date. Prior to August 15, 2020, the notes will be convertible only upon satisfaction of certain conditions and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. Unless and until the company obtains shareholder approval under applicable New York Stock Exchange rules, the notes will be convertible, subject to certain conditions, into cash. If the company

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obtains such shareholder approval, the notes may be settled in cash, the company’s common shares or a combination of cash and the company’s common shares, at the company’s election.

In connection with the offering of the 2021 Notes, the company entered into privately negotiated convertible note hedge transactions with two financial institutions (the “option counterparties”). These transactions cover, subject to customary anti-dilution adjustments, the number of the company’s common shares that will initially underlie the 2021 Notes, and are expected generally to reduce the potential equity dilution, and/or offset any cash payments in excess of the principal amount due, as the case may be, upon conversion of the 2021 Notes. The company entered into separate, privately negotiated warrant transactions with the option counterparties at a higher strike price relating to the same number of the company’s common shares, subject to customary anti-dilution adjustments, pursuant to which the company sold warrants to the option counterparties. The warrants could have a dilutive effect on the company’s outstanding common shares and the company’s earnings per share to the extent that the price of the company’s common shares exceeds the strike price of those warrants.

The initial net proceeds from the offering of the 2021 Notes were $144,034,000, after deducting fees and estimated offering expenses payable by the company. Approximately $5,000,000 of the net proceeds from the offering was used to repurchase the company’s common shares, and $15,600,000 of the net proceeds was used to pay the net cost of the convertible note hedge and warrant transactions. The company incurred $5,966,000 in fees, which were capitalized and are being amortized as interest expense through February 2021, of which all $5,966,000 was paid by December 31, 2016. The company has used, and intends to continue to use the remaining net proceeds from the offering for working capital and general corporate purposes, which may include funding portions of the company’s ongoing turnaround and addressing potential risks and contingencies. The net proceeds have allowed the company to invest in new products, people, marketing initiatives and working capital to transform the business and pursue growth.

The company also has an agreement with De Lage Landen, Inc. (“DLL”), a third-party financing company, to provide lease financing to the company's U.S. customers. Either party could terminate this agreement with 180 days' notice or 90 days' notice by DLL upon the occurrence of certain events. Should this agreement be terminated, the company's borrowing needs under the Credit Agreement could increase.

While there is general concern about the potential for rising interest rates, the company expects that it will be able to absorb modest rate increases in the months ahead without any material impact on its liquidity or capital resources. For 2016 and 2015, the weighted average interest rate on all borrowings, excluding capital leases, was 4.85% and 3.83%, respectively.

CAPITAL EXPENDITURES

There were no individually material capital expenditure commitments outstanding as of December 31, 2016. The company estimates that capital investments for 2017 will be between $15,000,000 and $20,000,000 compared to actual capital expenditures of $10,151,000 in 2016. The anticipated increase relates primarily to the company's investments to transform the company. The company believes that its balances of cash and cash equivalents and existing borrowing facilities will be sufficient to meet its operating cash requirements and fund required capital expenditures (see "Liquidity and Capital Resources"). The Credit Agreement limits the company's annual capital expenditures to $35,000,000.

CASH FLOWS

Cash flows used by operating activities were $56,613,000 in 2016, compared to cash used of $5,378,000 in the previous year. The 2016 operating cash flows were negatively impacted by net loss, declines in accrued expenses, including tax payments of approximately $12,500,000 related to a previously disclosed liability for uncertain tax

positions and current taxes, and accounts payable as well as increased inventory. Operating cash flows in 2016 were positively impacted by a reduction in accounts receivable. Operating cash flows in 2015 were negatively impacted by retirement payments of $24,651,000 related to the retirement of two executive officers of the company.

Cash flows provided by investing activities were $3,649,000 in 2016, compared to $44,376,000 in 2015. Cash flows provided by investing activities in 2016 included net proceeds of $13,829,000 from the sale of GCM. Cash flows provided by investing activities in 2015 included the receipt of $23,000,000 in proceeds from the company's real estate sale leaseback transaction, surrender of corporate-owned life insurance of $11,902,000 to fund payments in 2015 related to the retirement of certain executive officers of the company in 2014 and net proceeds of $13,700,000 from the sale of its rental businesses in July 2015.

Cash flows provided by financing activities in 2016 were $118,549,000 compared to cash flows used of $14,346,000 in 2015. Cash flows provided in 2016 reflect net proceeds received as a result of the issuance of the 2021 Notes, including the net proceeds used for the related convertible note hedge transactions, repurchase of common shares and payment of financing costs.

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During 2016, free cash flow was negative $66,722,000 compared to free cash flow generation of $10,217,000 in 2015. In 2016 and 2015, free cash flow was negatively impacted by the same items that affected cash flows used by operation activities. In addition, free cash flow in 2015 included a positive free cash flow impact of $23,000,000 as a result of the proceeds from the company's real estate sale leaseback transaction. Excluding the negative impact of $12,500,000 in tax payments, free cash flow in 2016 was negative $54,222,000. Excluding the $23,000,000 positive impact of the real estate sale and leaseback transaction and the $24,651,000 negative impact of the retirement payments noted above, free cash flow in 2015 was positive $11,868,000. Free cash flow is a non-GAAP financial measure that is comprised of net cash used by operating activities less purchases of property and equipment plus 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, | |
|---|---|---|
| | 2016 | 2015 |
| Net cash provided by operating activities | $(56,613) | $(5,378) |
| Sales of property and equipment | 42 | 23,117 |
| Less: Purchases of property and equipment—net | (10,151) | (7,522) |
| Free Cash Flow | $(66,722) | $10,217 |

BUSINESS SEGMENT NET SALES

The following tables provide net sales change for continuing operations as reported and as adjusted to exclude the impact of foreign exchange translation (constant currency net sales) as well as net sales further adjusted to exclude the impact of the sale of GCM on September 30, 2016 and the sale of the rentals businesses in July 2015, neither of which were deemed discontinued operations for financial reporting purposes. “Constant currency net sales" is a non-GAAP financial measure, which is defined as net sales excluding the impact of foreign currency translation. The current year's functional constant currency net sales are translated using the prior year's foreign exchange rates. These amounts are then compared to the prior year's sales to calculate the constant currency net sales change. Management believes that this financial measure provides meaningful information for evaluating the core operating performance of the company.

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Twelve months ended December 31, 2016 compared to December 31, 2015:

| | Reported | Foreign Currency Translation Impact | Constant Currency |
|---|---|---|---|
| North America / HME | (16.1)% | (0.2)% | (15.9)% |
| Institutional Products Group | (26.1)% | (0.2)% | (25.9)% |
| Europe | 0.7 % | (3.0)% | 3.7 % |
| Asia/Pacific | 1.8 % | (1.7)% | 3.5 % |
| Consolidated | (8.3)% | (1.6)% | (6.7)% |

| | Reported | Impact of GCM | Reported excluding GCM |
|---|---|---|---|
| North America / HME | (16.1)% | (0.6)% | (15.5)% |

| | Reported | Impact of GCM | Constant Currency excluding GCM |
|---|---|---|---|
| North America / HME | (15.9)% | (0.6)% | (15.3)% |

| | Reported | Impact of Rentals Businesses | Reported excluding Rentals Businesses |
|---|---|---|---|
| Institutional Products Group | (26.1)% | (14.6)% | (11.5)% |

| | Constant Currency | Impact of Rentals Businesses | Constant Currency excluding Rentals Businesses |
|---|---|---|---|
| Institutional Products Group | (25.9)% | (14.6)% | (11.3)% |

| | Reported | Impact of GCM and Rentals Businesses | Reported excluding GCM and Rentals Businesses |
|---|---|---|---|
| Consolidated | (8.3)% | (1.7)% | (6.6)% |

| | Constant Currency | Impact of GCM and Rentals Businesses | Constant Currency excluding GCM and Rentals Businesses |
|---|---|---|---|
| Consolidated | (6.7)% | (1.8)% | (4.9)% |

Twelve months ended December 31, 2015 compared to December 31, 2014:

| | Reported | Foreign Currency Translation Impact | Constant Currency |
|---|---|---|---|
| North America / HME | (6.6)% | (1.0)% | (5.6)% |
| Institutional Products Group | (15.2)% | (0.8)% | (14.4)% |
| Europe | (12.1)% | (15.6)% | 3.5 % |
| Asia/Pacific | (9.0)% | (16.5)% | 7.5 % |
| Consolidated | (10.1)% | (8.7)% | (1.4)% |

| | Reported | Impact of Rentals Businesses | Reported excluding Rentals Businesses |
|---|---|---|---|
| Institutional Products Group | (15.2)% | (17.7)% | 2.5 % |
| Consolidated | (10.1)% | (1.2)% | (8.9)% |

| | Constant Currency | Impact of Rentals Businesses | Constant Currency excluding Rentals Businesses |
|---|---|---|---|
| Institutional Products Group | (14.4)% | (18.1)% | 3.7 % |
| Consolidated | (1.4)% | (1.4)% | — % |

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CONTRACTUAL OBLIGATIONS

The company's contractual obligations as of December 31, 2016 are as follows (in thousands):

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| 5.00% Convertible Senior Subordinated Debentures due 2021 | $180,938 | $7,500 | $15,000 | $158,438 | $— |
| 4.125% Convertible Senior Subordinated Debentures due 2027 | 13,625 | 13,625 | — | — | — |
| Capital lease obligations | 44,695 | 3,477 | 5,673 | 5,344 | 30,201 |
| Operating lease obligations | 32,687 | 15,360 | 14,021 | 2,865 | 441 |
| Product liability | 20,611 | 3,996 | 7,849 | 3,415 | 5,351 |
| Purchase obligations (primarily computer systems contracts) | 27,539 | 11,469 | 13,422 | 2,648 | — |
| Supplemental Executive Retirement Plan | 6,003 | 391 | 782 | 782 | 4,048 |
| Other, principally deferred compensation | 3,752 | 159 | 281 | — | 3,312 |
| Total | $329,850 | $55,977 | $57,028 | $173,492 | $43,353 |

The table does not include any payments related to liabilities recorded for uncertain tax positions as the company cannot make a reasonably reliable estimate as to the timing of 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. For 2016, annualized dividends of $0.05 per Common Share and $0.045 per Class B Common Share were declared and paid. It is not anticipated that this annual dividend rate will change materially as the company believes that capital should be kept available for investments and growth opportunities as a result of its multi-year turnaround strategy.

CRITICAL ACCOUNTING ESTIMATES

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.

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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. In 2013, the Centers for Medicare and Medicaid Services announced new Medicare prices which became effective in July 2013 for the second round of the NCB program, which was expanded to include 91 additional MSAs. In January 2016, CMS began expanding NCB to rural areas which expanded the program to 100% of the Medicare population. While the current NCB program contract pricing continues through the end of 2018, the company believes the changes could have a significant impact on the collectability of accounts receivable for those customers which are in the rural locations impacted and which have a portion of their revenues tied to Medicare reimbursement. In addition, there is a risk that these precedent-setting price reductions could influence other non-CMS payors' reimbursement rates for the same product categories. As a result, this is an additional risk factor which the company considers when assessing the collectability of accounts receivable.

The company has an agreement with DLL, a third-party financing company, to provide lease financing to Invacare's U.S. 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 potential 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 and the analysis is completed in the fourth quarter. Furthermore, goodwill and other long-lived assets are reviewed for impairment whenever events or changes in circumstances

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indicate that the carrying amount of an asset may not be recoverable. The majority of the company's goodwill and intangible assets relate to the company's Europe and IPG segments which were profitable in 2016.

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 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 (DCF) method 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 8.67% in 2016 for the company's annual impairment analysis compared to 9.41% in 2015 and 9.89% in 2014.

The company also utilizes an Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) 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.

In 2016, 2015 and 2014, the company performed a review for potential impairments of any other assets, including the company's Taylor Street facility which is subject to the FDA consent decree that limits the company's manufacture and distribution of custom power and manual wheelchairs, wheelchair components and wheelchair subassemblies at the Taylor Street facility. The company determined there was no impairment of the property, plant and equipment of the Taylor Street facility based on a comparison of the forecasted undiscounted cash flows to the carrying value of the net assets in accordance with ASC 360. In addition, the company determined there was no impairment of inventory associated with the facility.

While there was no indication of impairment in 2016 related to goodwill for the Europe 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 2016 impairment analysis and determined that there still would not be any indicator of potential impairment for the segments with goodwill which are Europe and IPG.

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 2014, the company recognized intangible write-down charges in the IPG segment of $13,041,000 comprised of a customer list impairment of $12,826,000 and a non-compete agreement of $215,000 as the actual and remaining cash flows associated with the intangibles were less than the cash flows originally used to value the intangibles, primarily driven by reduced net sales. The after-tax and pre-tax impairment amounts were the same for each of the above impairments. 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 write-down charges were the result of decisions to exit certain businesses as well as lower than anticipated sales.

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Product Liability

The company is self-insured in North America for product liability exposures through its captive insurance company, Invatection Insurance Company, which currently has a policy year that runs from September 1 to August 31 and insures annual policy losses up to $10,000,000 per occurrence and $13,000,000 in the aggregate. The company also has additional layers of external insurance coverage, related to all lines of 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.

Warranty

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. See Accrued Expenses in the Notes to the Consolidated Financial Statements 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, 2016, there was $12,049,000 of total unrecognized compensation cost from stock-based compensation arrangements, which is related to non-vested options and shares, and includes $8,740,000 related to restricted stock awards, $3,134,000 related to performance awards and $175,000 related to non-qualified stock options.

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. Performance awards granted are expensed based on estimated achievement of the performance objectives over the relevant performance award 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 liability, including assessing uncertainties related to tax return filing positions, as well as estimating temporary differences due to the different treatment of items for tax and accounting policies. The temporary differences are reported as deferred tax assets and or liabilities. The company also must estimate whether it will more likely than not realize its deferred tax assets and whether a valuation allowance should be established. Substantially all of the company's U.S., Australia, Switzerland and New Zealand deferred tax assets are offset by a valuation allowance. 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.

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Accounting for Convertible Debt and Related Derivatives

In the first quarter of 2016, the company issued $150,000,000 aggregate principal amount of the 2021 Notes. In connection with the offering of the 2021 Notes, the company entered into privately negotiated convertible note hedge transactions with two option counterparties. These transactions cover, subject to customary anti-dilution adjustments, the number of the company’s common shares that will initially underlie the 2021 Notes, and are expected generally to reduce the potential equity dilution, and/or offset any cash payments in excess of the principal amount due, as the case may be, upon conversion of the 2021 Notes. The company entered into separate, privately negotiated warrant transactions with the option counterparties at a higher strike price relating to the same number of the company’s common shares, subject to customary anti-dilution adjustments, pursuant to which the company sold warrants to the option counterparties. The warrants could have a dilutive effect on the company’s outstanding common shares and the company’s earnings per share to the extent that the price of the company’s common shares exceeds the strike price of those warrants. The strike price of the warrants will initially be $22.4175 per share and is subject to certain adjustments under the terms of the warrant transactions.

The convertible debt conversion liability and the convertible note hedges are accounted for as derivatives that are fair valued quarterly while the warrants are included as equity. The fair value of the convertible debt conversion liability and the convertible note hedges are estimated using a lattice model incorporating the terms and conditions of the notes and considering, for example, changes in the prices of the company's common shares, company stock price volatility, risk-free rates and changes in market rates. The valuations are, among other things, subject to changes in both the company's credit worthiness and the counter-parties to the instruments as well as change in general market conditions. While the change in fair value of the convertible debt conversion liability and the convertible note hedges are generally expected to move in opposite directions, the net change in any given period may be material.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For the company’s disclosure regarding recently issued accounting pronouncements, see Accounting Policies - Recent Accounting Pronouncements in the Notes to the Consolidated Financial Statements.

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 has at times used interest swap agreements to mitigate its exposure to interest rate fluctuations. Based on December 31, 2016 debt levels, a 1% change in interest rates would have no impact on annual interest expense as the company did not have any variable rate debt outstanding. 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.

The company is party to the Credit Agreement which was originally entered into on January 16, 2015 and matures in January 2021, as extended by an amendment to the Credit Agreement which became effective on November 30, 2016. Accordingly, while the company is exposed to increases in interest rates, its exposure to the volatility of the current market environment is currently limited until the Credit Agreement expires. The Credit Agreement contains customary default provisions, with certain grace periods and exceptions, which provide that events of default that include, among other things, failure to pay amounts due, breach of covenants, representations or warranties, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical reimbursement program, and an interruption of any material manufacturing facilities for more than ten consecutive days. Should the company fail to

comply with these requirements, the company would potentially have to attempt to obtain alternative financing and thus likely be required to pay much higher interest rates.

As of December 31, 2016, the company had no borrowings outstanding under its Credit Agreement, which provides for a senior secured revolving credit facility for U.S. and Canadian borrowers of up to $100,000,000 at variable rates, subject to availability based on a borrowing base formula, and in addition provides for a revolving credit, letter of credit and swing line loan facility for European borrowers allowing borrowing up to an aggregate principal amount of $30,000,000 at variable rates, also subject to availability based on a borrowing base formula. As of December 31, 2016, the company had $13,350,000 in principal of 2027 Debentures outstanding, of which $311,000 was included in equity. The 2027 Debentures were classified as short-term debt as of December 31, 2016 as the holders exercised their right on February 1, 2017 to require the company to repurchase all of the 2027 Debentures. Settlement of the repurchase of the 2027 Debentures occurred on February 2, 2017. As of December 31, 2016, the company also had $150,000,000 in principal amount outstanding of its 2021 Notes.

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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 Comprehensive Income (Loss), 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-54 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, 2016, 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, 2016, 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 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 (2013 framework).

In management's opinion, internal control over financial reporting is effective as of December 31, 2016.

(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 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.

As previously disclosed in the company's Current Report on Form 8-K filed on June 7, 2012, in connection with the settlement of certain shareholder derivative litigation, the company previously entered into a Stipulation and Agreement of Settlement on June 1, 2012 (the "Stipulation"). The Stipulation, among other things, required the company to implement certain corporate governance enhancements (the "Reforms") and maintain them until at least June 30, 2017. The Stipulation also requires the company's board of directors to decide whether to continue the Reforms, in whole or in part, beyond June 30, 2017, and disclose the decision to the company's shareholders. Accordingly, the board of directors has determined that the Reforms, with certain amendments thereto to be effective July 1, 2017, will continue in effect after the original June 30, 2017 expiration date until such time as the board of directors determines to rescind them. The board of directors further determined that the amended Reforms will remain in effect until at least six months after the company receives notice from FDA that it is permitted to resume full operations at the facilities impacted by the Consent Decree. A copy of the amended Reforms, to be effective as of July 1, 2017, is filed as Exhibit 99.2 to this Annual Report on Form 10-K.

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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 experts, the procedures by which security holders may recommend nominees to the Board of Directors, compliance with Section 16(a) of the Exchange Act, code of ethics 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 Reporting Compliance” in the company’s definitive Proxy Statement on Schedule 14A for the 2017 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 on Schedule 14A for the 2017 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 “Security Ownership of Certain Beneficial Holders and Management” in the company’s definitive Proxy Statement on Schedule 14A for the 2017 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 “Equity Compensation Plan Information” in the company’s definitive Proxy Statement on Schedule 14A for the 2017 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 on Schedule 14A for the 2017 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 Registered Public Accounting Firm Fees and Services” in the company’s definitive Proxy Statement on Schedule 14A for the 2017 Annual Meeting of Shareholders.

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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 Comprehensive Income (Loss)—years ended December 31, 2016, 2015 and 2014
Consolidated Balance Sheet—December 31, 2016 and 2015
Consolidated Statement of Cash Flows—years ended December 31, 2016, 2015 and 2014
Consolidated Statement of Shareholders' Equity—years ended December 31, 2016, 2015 and 2014
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-61 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 March 10, 2017.

INVACARE CORPORATION

By: /s/ MATTHEW E. MONAGHAN
Matthew E. Monaghan
Chairman of the Board of Directors, President and Chief Executive Officer

Item 16. Form 10-K Summary.

None.

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Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of March 10, 2017.

| Signature | Title |
|---|---|
| /s/ MATTHEW E. MONAGHAN<br>Matthew E. Monaghan | Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer) |
| /s/ ROBERT K. GUDBRANSON<br>Robert K. Gudbranson | Senior Vice President and Chief Financial Officer (Principal Finance and Accounting Officer) |
| /s/ SUSAN H. ALEXANDER<br>Susan H. Alexander | Director |
| /s/ MICHAEL F. DELANEY<br>Michael F. Delaney | Director |
| /s/ MARC M. GIBELEY<br>Marc M. Gibeley | Director |
| /s/ C. MARTIN HARRIS, M.D.<br>C. Martin Harris, M.D. | Director |
| /s/ DALE C. LAPORTE<br>Dale C. LaPorte | Director |
| /s/ MICHAEL J. MERRIMAN<br>Michael J. Merriman | Director |
| /s/ CLIFFORD D. NASTAS<br>Clifford D. Nastas | Director |
| /s/ BAIJU R. SHAH<br>Baiju R. Shah | Director |

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INVACARE CORPORATION
Report on Form 10-K for the fiscal year ended December 31, 2016.
Exhibit Index

| Official Exhibit No. | Description | Sequential Page No. |
|---|---|---|
| 2.1 | Membership Interest Purchase Agreement among Invacare Continuing Care, Inc., Invacare Corporation and Joerns Healthcare Parent, LLC, dated July 2, 2015. (Pursuant to Item 601(b)(2) of Regulation S-K, the registrant hereby agrees to supplementally furnish to the Securities and Exchange Commission upon request any omitted schedule or exhibit to the agreement.) | (A) |
| 2.2 | Share Purchase Agreement among Invacare Corporation, Garden City Medical Inc. and Compass Health Brands Corp., dated September 30, 2016. (Pursuant to Item 601(b)(2) of Regulation S-K, the registrant hereby agrees to supplementally furnish to the Securities and Exchange Commission upon request any omitted schedule or exhibit to the agreement.) | (B) |
| 3(a) | Second Amended and Restated Articles of Incorporation | (C) |
| 3(b) | Second Amended and Restated Code of Regulations, as amended | (D) |
| 4(a) | Specimen Share Certificate for Common Shares | (E) |
| 4(b) | Specimen Share Certificate for Class B Common Shares | (E) |
| 4(c) | 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) | (F) |
| 4(d) | Indenture, dated as of February 23, 2016, by and between Invacare Corporation and Wells Fargo Bank, National Association (including the form of the 5.00% Convertible Senior Notes due 2021). | (G) |
| 10(a) | Invacare Retirement Savings Plan, effective January 1, 2001, as amended | (H)* |
| 10(b) | Invacare Corporation 401(K) Plus Benefit Equalization Plan, effective January 1, 2003, as amended and restated | (H)* |
| 10(c) | Invacare Corporation Deferred Compensation Plus Plan, effective January 1, 2005, as amended August 19, 2009 and on November 23, 2010 | (I)* |
| 10(d) | Amendment No. 3 to Invacare Corporation Deferred Compensation Plus Plan, effective January 1, 2005 | (J)* |
| 10(e) | Invacare Corporation Death Benefit Only Plan, effective January 1, 2005, as amended | (H)* |
| 10(f) | Supplemental Executive Retirement Plan, as amended and restated effective February 1, 2000 | (K)* |
| 10(g) | Cash Balance Supplemental Executive Retirement Plan, as amended and restated, effective December 31, 2008 | (L)* |
| 10(h) | Amendment No. 1 to the Cash Balance Supplemental Executive Retirement Plan, effective August 19, 2009 | (M)* |
| 10(i) | 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 | (N)* |
| 10(j) | Invacare Corporation Amended and Restated 2003 Performance Plan | (O)* |
| 10(k) | Form of Director Stock Option Award under Invacare Corporation 2003 Performance Plan | (H)* |
| 10(l) | Form of Director Deferred Option Award under Invacare Corporation 2003 Performance Plan | (I)* |
| 10(m) | Form of Restricted Stock Award under Invacare Corporation 2003 Performance Plan | (J) |
| 10(n) | Form of Stock Option Award under Invacare Corporation 2003 Performance Plan | (H)* |
| 10(o) | Form of Executive Stock Option Award under Invacare Corporation 2003 Performance Plan | (H)* |
| 10(p) | Form of Switzerland Stock Option Award under Invacare Corporation 2003 Performance Plan | (H)* |

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| Official Exhibit No. | Description | Sequential Page No. |
|---|---|---|
| 10(q) | Form of Switzerland Executive Stock Option Award under Invacare Corporation 2003 Performance Plan | (H)* |
| 10(r) | Invacare Corporation 2013 Equity Compensation Plan | (P) |
| 10(s) | Amendment No. 1 to the Invacare Corporation 2013 Equity Compensation Plan | (Q)* |
| 10(t) | Form of Executive Stock Option Award under the Invacare Corporation 2013 Equity Compensation Plan | (R) |
| 10(u) | Form of Stock Option Award under the Invacare Corporation 2013 Equity Compensation Plan | (R) |
| 10(v) | Form of Executive Stock Option Award for Swiss Employees under the Invacare Corporation 2013 Equity Compensation Plan | (R) |
| 10(w) | Form of Stock Option Award for Swiss Employees under the Invacare Corporation 2013 Equity Compensation Plan | (R) |
| 10(x) | Form of Director Restricted Stock Award under the Invacare Corporation 2013 Equity Compensation Plan | (R) |
| 10(y) | Form of Restricted Stock Award under the Invacare Corporation 2013 Equity Compensation Plan | (R) |
| 10(z) | Form of Performance Share Award Agreement under the Invacare Corporation 2013 Equity Compensation Plan | (S) |
| 10(aa) | Form of Restricted Stock Award Agreement for Employees under the Invacare Corporation 2013 Equity Compensation Plan | (T) |
| 10(ab)** | Form of Director Restricted Stock Unit under the Invacare Corporation 2013 Equity Compensation Plan | |
| 10(ac) | Invacare Corporation Executive Incentive Bonus Plan, as amended and restated | (Q)* |
| 10(ad) | Employment Agreement, dated as of January 21, 2015, by and between the company and Matthew E. Monaghan. | (U)* |
| 10(ae) | Employment Agreement, dated as of July 23, 2014, by and between Invacare Corporation and Robert K. Gudbranson. | (V)* |
| 10(af) | Letter agreement, dated as of April 15, 2015, by and between the company and Dean J. Childers. | (N)* |
| 10(ag) | Letter agreement, dated as of July 31, 2008, by and between the company and Anthony C. LaPlaca. | (N)* |
| 10(ah)** | Employment Agreement, dated as of October 21, 2016, by and between the company and Ralf Ledda. | * |
| 10(ai)** | Employment Agreement, dated as of August 25, 2009, by and between the company and Patricia Stumpp. | * |
| 10(aj) | 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 certain executive officers | (N)* |
| 10(ak) | 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 executive officers | (N)* |
| 10(al) | Technical Information & Non-Competition Agreement, dated April 1, 2015, entered into by and between the company and Matthew E. Monaghan | (N)* |
| 10(am) | Technical Information & Non-Competition Agreement, dated April 6, 2008, entered into by and between the company and Robert K. Gudbranson | (N)* |
| 10(an) | Technical Information & Non-Competition Agreement entered into by and between the company and certain of its executive officers and schedule of all such agreements with executive officers | (N)* |
| 10(ao) | Indemnity Agreement, dated April 1, 2015, entered into by and between the company and Matthew E. Monaghan. | (N)* |

| | | |
|---|---|---|
| 10(ap) | 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 | (N)* |

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| Official Exhibit No. | Description | Sequential Page No. |
|---|---|---|
| 10(aq) | 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 | (I) |
| 10(ar)** | Director Compensation Schedule | * |
| 10(as)** | 2012 Non-employee Directors Deferred Compensation Plan, effective January 1, 2012, Amended and Restated as of November 17, 2016 | |
| 10(at) | Retirement Agreement and Release, dated as of November 14, 2014, by and between Invacare Corporation and A. Malachi Mixon, III. | (W)* |
| 10(au) | Purchase and Sale Agreement, dated as of February 24, 2015, by and between the company and Industrial Realty Group, LLC. | (X) |
| 10(av) | Form of Lease Agreement by and among the company and the affiliates of Industrial Realty Group, LLC named therein. | (X) |
| 10(aw) | Amended and Restated Revolving Credit and Security Agreement, dated as of September 30, 2015, by and among the company, the other Borrowers party thereto, the Guarantors party thereto, the Lenders party thereto, PNC Bank, National Association, as administrative agent, JP Morgan Chase Bank, N.A. and J.P. Morgan Europe Limited, as European agent. | (Y) |
| 10(ax) | First Amendment to Amended and Restated Revolving Credit and Security Agreement, dated as of February 16, 2016, by and among the company, the other borrowers party thereto, the guarantors party thereto, the lenders party thereto, PNC Bank, National Association, as administrative agent, and J.P. Morgan Europe Limited, as European agent. | (Z) |
| 10(ay)** | Second Amendment to Amended and Restated Revolving Credit and Security Agreement, dated as of May 3, 2016 by and among the company, the other borrowers party thereto, the guarantors party thereto, the lenders party thereto, PNC Bank, National Association, as administrative agent, and J.P. Morgan Europe Limited, as European agent. | |
| 10(az)** | Third Amendment to Amended and Restated Revolving Credit and Security Agreement, dated as of September 30, 2016, by and among the company, the other borrowers party thereto, the guarantors party thereto, the lenders party thereto, PNC Bank, National Association, as administrative agent, and J.P. Morgan Europe Limited, as European agent. | |
| 10(ba) | Fourth Amendment to Amended and Restated Revolving Credit and Security Agreement, dated as of November 30, 2016, by and among the Company, the other borrowers party thereto, the guarantors party thereto, the lenders party thereto, PNC Bank, National Association, as agent for the lenders, and J.P. Morgan Europe Limited, as European agent for the lenders. | (AA) |
| 10(bb) | Call Option Transaction Confirmation entered into between JPMorgan Chase Bank, National Association, London Branch and Invacare Corporation as of February 17, 2016 | (G) |
| 10(bc) | Call Option Transaction Confirmation entered into between Wells Fargo Bank, National Association and Invacare Corporation as of February 17, 2016 | (G) |
| 10(bd) | Warrants Confirmation between Invacare Corporation to JPMorgan Chase Bank, National Association, London Branch as of February 17, 2016 | (G) |
| 10(be) | Warrants Confirmation between Invacare Corporation to Wells Fargo Bank, National Association as of February 17, 2016 | (G) |
| 10(bf) | Additional Call Option Transaction Confirmation, dated March 4, 2016, between JPMorgan Chase Bank, National Association, London Branch and Invacare Corporation. | (AB) |
| 10(bg) | Additional Call Option Transaction Confirmation, dated March 4, 2016, between Wells Fargo Bank, National Association and Invacare Corporation. | (AB) |
| 10(bh) | Additional Warrants Confirmation, dated March 4, 2016, between JPMorgan Chase Bank, National Association, London Branch and Invacare Corporation. | (AB) |

| | | |
|---|---|---|
| 10(bi) | Additional Warrants Confirmation, dated March 4, 2016, between Wells Fargo Bank, National Association and Invacare Corporation. | (AB) |
| 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 | |

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| Official Exhibit No. | Description | Sequential Page No. |
|---|---|---|
| 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 | |
| 99.1 | Consent Decree of Permanent Injunction, as filed with the U.S. District Court for the Northern District of Ohio on December 20, 2012. | (AD) |
| 99.2** | Corporate Governance Reforms | |
| 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 | |

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* Management contract, compensatory plan or arrangement

** Filed herewith

(A) Reference is made to Exhibit 2.1 of the company report on Form 8-K, dated July 2, 2015, which Exhibit is incorporated herein by reference.

(B) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated October 3, 2016, which Exhibit is incorporated herein by reference.

(C) 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.

(D) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated February 13, 2014, which Exhibit is incorporated herein by reference.

(E) 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.

(F) 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.

(G) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated February 23, 2016, which Exhibit is incorporated herein by reference.

(H) 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.

(I) 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.

(J) Reference is made to the appropriate Exhibit of the company report on Form 10-K for the fiscal year ended December 31, 2011, which Exhibit is incorporated herein by reference.

(K) 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.

(L) 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.

(M) 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.

(N) Reference is made to the appropriate Exhibit of the company report on Form 10-K for the fiscal year ended December 31, 2015, which Exhibit is incorporated herein by reference.

(O)

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.

(P) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated May 16, 2013, which Exhibit is incorporated herein by reference.

(Q) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated May 14, 2015, which Exhibit is incorporated herein by reference.

(R) Reference is made to the appropriate Exhibit of the company report on Form 10-Q, for the fiscal quarter ended September 30, 2013, which Exhibit is incorporated herein by reference.

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(S) Reference is made to Exhibit 10.1 of the company report on Form 8-K, dated March 7, 2014, which Exhibit is incorporated herein by reference.

(T) Reference is made to Exhibit 10.2 of the company report on Form 8-K, dated March 7, 2014, which Exhibit is incorporated herein by reference.

(U) Reference is made to Exhibit 10.1 of the company report on Form 8-K, dated January 21, 2015, which Exhibit is incorporated herein by reference.

(V) Reference is made to Exhibit 10.1 of the company report on Form 8-K, dated July 23, 2014, which Exhibit is incorporated herein by reference.

(W) Reference is made to Exhibit 10.1 of the company report on Form 8-K, dated November 14, 2014, which Exhibit is incorporated herein by reference.

(X) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated April 23, 2015, which Exhibit is incorporated herein by reference.

(Y) Reference is made to Exhibit 10.1 of the company report on Form 8-K, dated September 30, 2015, which Exhibit is incorporated herein by reference.

(Z) Reference is made to Exhibit 10.1 of the company report on Form 8-K, dated February 16, 2016, which Exhibit is incorporated herein by reference.

(AA) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated November 30, 2016, which Exhibit is incorporated herein by reference.

(AB) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated March 7, 2016, 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 and Subsidiaries

We have audited the accompanying consolidated balance sheets of Invacare Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income (loss), cash flows and shareholders' equity for each of the three years in the period ended December 31, 2016. 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, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, 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, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 10, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio
March 10, 2017

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Invacare Corporation and Subsidiaries

We have audited Invacare Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (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, 2016, 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, 2016 and 2015 and the related consolidated statements of comprehensive income (loss), cash flows and shareholders' equity for each of the three years in the period ended December 31, 2016 of Invacare Corporation and our report dated March 10, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio
March 10, 2017

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
INVACARE CORPORATION AND SUBSIDIARIES

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (In thousands, except per share data) | | |
| Net sales | $1,047,474 | $1,142,338 | $1,270,163 |
| Cost of products sold | 763,847 | 829,514 | 922,775 |
| Gross Profit | 283,627 | 312,824 | 347,388 |
| Selling, general and administrative expenses | 303,781 | 318,646 | 382,065 |
| Gains on sale of businesses | (7,386) | (24) | — |
| Charges related to restructuring activities | 2,447 | 1,971 | 11,112 |
| Asset write-downs to intangible assets | — | — | 13,041 |
| Operating Loss | (15,215) | (7,769) | (58,830) |
| Net gain on convertible debt derivatives | (1,268) | — | — |
| Interest expense | 15,875 | 4,136 | 4,887 |
| Interest income | (265) | (165) | (507) |
| Loss from Continuing Operations Before Income Taxes | (29,557) | (11,740) | (63,210) |
| Income taxes | 13,299 | 14,710 | 5,550 |
| Loss from Continuing Operations | (42,856) | (26,450) | (68,760) |
| Net earnings from discontinued operations (net of tax of $1,200) | — | — | 1,596 |
| Gain on sale (net of tax of $0; $140 and $5,975) | — | 260 | 11,094 |
| Total Net Earnings from Discontinued Operations | — | 260 | 12,690 |
| Net Loss | $(42,856) | $(26,190) | $(56,070) |
| Net Earnings (Loss) per Share—Basic: | | | |
| Net loss from continuing operations | $(1.32) | $(0.82) | $(2.15) |
| Net earnings from discontinued operations | $— | $0.01 | $0.40 |
| Net Loss per Share—Basic | $(1.32) | $(0.81) | $(1.75) |
| Weighted Average Shares Outstanding—Basic | 32,471 | 32,171 | 32,009 |
| Net Earnings (Loss) per Share—Assuming Dilution: | | | |
| Net loss from continuing operations | $(1.32) | $(0.82) | $(2.15) |
| Net earnings from discontinued operations | $— | $0.01 | $0.39 |
| Net Earnings (loss) per Share—Assuming Dilution | $(1.32) | $(0.81) | $(1.75) |
| Weighted Average Shares Outstanding—Assuming Dilution | 32,590 | 32,683 | 32,197 |
| | | | |
| Net Loss | $(42,856) | $(26,190) | $(56,070) |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustments | (7,194) | (81,404) | (51,508) |
| Defined benefit plans: | | | |
| Amortization of prior service costs and unrecognized losses | (1,580) | (1,375) | (2,178) |
| Amounts arising during the year, primarily addition of new participants | — | (784) | — |
| Deferred tax adjustment resulting from defined benefit plan activity | (134) | (44) | 213 |
| Valuation reserve (reversal) associated with defined benefit plan activity | 223 | 47 | (222) |
| Current period gain (loss) on cash flow hedges | (1,407) | 2,731 | 244 |
| Deferred tax benefit (loss) related to gain (loss) on cash flow hedges | 144 | (177) | (86) |
| Other Comprehensive Loss | (9,948) | (81,006) | (53,537) |
| Comprehensive Loss | $(52,804) | $(107,196) | $(109,607) |

See notes to consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS
INVACARE CORPORATION AND SUBSIDIARIES

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| | (In thousands) | |
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | $124,234 | $ 60,055 |
| Trade receivables, net | 116,307 | 128,615 |
| Installment receivables, net | 1,368 | 1,145 |
| Inventories, net | 135,644 | 126,403 |
| Other current assets | 31,519 | 34,432 |
| Assets held for sale | — | 11,649 |
| Total Current Assets | 409,072 | 362,299 |
| Other Assets | 29,687 | 4,659 |
| Intangibles | 29,023 | 31,000 |
| Property and Equipment, net | 75,359 | 78,505 |
| Goodwill | 360,602 | 361,680 |
| Total Assets | $903,743 | $ 838,143 |
| Liabilities and Shareholders' Equity | | |
| Current Liabilities | | |
| Accounts payable | $88,236 | $ 103,571 |
| Accrued expenses | 110,095 | 118,956 |
| Current taxes payable | 7,269 | 17,154 |
| Short-term debt and current maturities of long-term obligations | 15,261 | 2,028 |
| Liabilities held for sale | — | 5,935 |
| Total Current Liabilities | 220,861 | 247,644 |
| Long-Term Debt | 146,088 | 45,092 |
| Other Long-Term Obligations | 114,407 | 82,589 |
| Shareholders' Equity | | |
| Preferred Shares (Authorized 300 shares; none outstanding) | — | — |
| Common Shares (Authorized 100,000 shares; 35,318 and 35,024 issued and outstanding in 2016 and 2015, respectively)—no par | 8,974 | 8,815 |
| Class B Common Shares (Authorized 12,000 shares; 729 and 734 issued and outstanding in 2016 and 2015)—no par | 183 | 184 |
| Additional paid-in-capital | 266,151 | 247,022 |
| Retained earnings | 266,144 | 310,583 |
| Accumulated other comprehensive earnings | (19,335) | (9,387) |
| Treasury shares (3,616 and 3,194 shares in 2016 and 2015, respectively) | (99,730) | (94,399) |
| Total Shareholders' Equity | 422,387 | 462,818 |
| Total Liabilities and Shareholders' Equity | $903,743 | $ 838,143 |

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS
INVACARE CORPORATION AND SUBSIDIARIES

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Operating Activities | (In thousands) | | |
| Net loss | $(42,856) | $(26,190) | $(56,070) |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Gain on sale of business (pre-tax) | (7,386) | (24) | — |
| Gain on sale of discontinued operations | — | (400) | (17,069) |
| Depreciation and amortization | 14,635 | 18,204 | 30,941 |
| Provision for losses on trade and installment receivables | 1,059 | 754 | 1,775 |
| Provision (benefit) for deferred income taxes | 901 | 3,588 | (2,387) |
| Provision for other deferred liabilities | 996 | 266 | 1,393 |
| Provision for stock-based compensation | 6,894 | 4,013 | 5,626 |
| Loss on disposals of property and equipment | 51 | 5,135 | 1,074 |
| Loss on debt extinguishment including debt finance charges and associated fees | — | 668 | 1,070 |
| Asset write-downs to intangible assets | — | — | 13,041 |
| Asset write-downs related to restructuring activities | — | — | 1,163 |
| Amortization of convertible debt discount | 5,454 | 796 | 710 |
| Amortization of debt fees | 1,991 | 558 | 778 |
| Gain on convertible debt derivatives | (1,268) | — | — |
| Changes in operating assets and liabilities: | | | |
| Trade receivables | 10,210 | 9,164 | 17,211 |
| Installment sales contracts, net | (1,236) | 283 | 15 |
| Inventories | (9,944) | 11,610 | (9,527) |
| Other current assets | 84 | 5,283 | 1,950 |
| Accounts payable | (13,648) | (7,240) | 8,329 |
| Accrued expenses | (18,491) | (22,003) | 34,113 |
| Other long-term liabilities | (4,059) | (9,843) | (25,244) |
| Net Cash (Used) Provided by Operating Activities | (56,613) | (5,378) | 8,892 |
| Investing Activities | | | |
| Purchases of property and equipment | (10,151) | (7,522) | (12,327) |
| Proceeds from sale of property and equipment | 42 | 23,117 | 2,521 |
| Proceeds from sale of businesses | 13,829 | 13,700 | 21,870 |
| Decrease in other long-term assets | (167) | 15,003 | 20,949 |
| Other | 96 | 78 | 569 |
| Net Cash Provided for Investing Activities | 3,649 | 44,376 | 33,582 |
| Financing Activities | | | |
| Proceeds from revolving lines of credit and long-term borrowings | 122,025 | 219,603 | 255,658 |
| Payments on revolving lines of credit and long-term borrowings | (2,830) | (232,808) | (286,712) |
| Proceeds from exercise of equity awards | 17 | 2,402 | 480 |
| Payment of financing costs | (6,125) | (1,954) | — |
| Payment of dividends | (1,583) | (1,589) | (1,584) |
| Issuance of warrants | 12,376 | — | — |
| Purchases of treasury shares | (5,331) | — | — |
| Net Cash Provided (Used) by Financing Activities | 118,549 | (14,346) | (32,158) |
| Effect of exchange rate changes on cash | (1,406) | (3,528) | (1,170) |
| Increase in cash and cash equivalents | 64,179 | 21,124 | 9,146 |
| Cash and cash equivalents at beginning of year | 60,055 | 38,931 | 29,785 |

| | | | |
|---|---|---|---|
| Cash and cash equivalents at end of year | $124,234 | $60,055 | $38,931 |

See notes to consolidated financial statements.

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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, 2014 Balance | $8,539 | $ 272 | $234,620 | $396,016 | $ 125,156 | $(93,794) | $670,809 |
| Deferred equity compensation | — | — | 69 | — | — | — | 69 |
| Exercise of stock options | 8 | — | 472 | — | — | — | 480 |
| Non-qualified stock options | — | — | 3,356 | — | — | — | 3,356 |
| Restricted stock awards | 44 | — | 2,226 | — | — | (471) | 1,799 |
| Net loss | — | — | — | (56,070) | — | — | (56,070) |
| Foreign currency translation adjustments | — | — | — | — | (51,508) | — | (51,508) |
| Unrealized gain on cash flow hedges | — | — | — | — | 158 | — | 158 |
| Defined benefit plans: | | | | | | | |
| Amortization of prior service costs and unrecognized losses and credits | — | — | — | — | (2,187) | — | (2,187) |
| Total comprehensive loss | — | — | — | — | — | — | (109,607) |
| Dividends | — | — | — | (1,584) | — | — | (1,584) |
| December 31, 2014 Balance | $8,591 | $ 272 | $240,743 | $338,362 | $ 71,619 | $(94,265) | $565,322 |
| Exercise of stock options | 43 | — | 2,359 | — | — | — | 2,402 |
| Non-qualified stock option | — | — | 1,228 | — | — | — | 1,228 |
| Restricted stock awards | 93 | — | 2,692 | — | — | (134) | 2,651 |
| Conversion from Class B to Common Stock | 88 | (88) | — | — | — | — | — |
| Net loss | — | — | — | (26,190) | — | — | (26,190) |
| Foreign currency translation adjustments | — | — | — | — | (81,404) | — | (81,404) |
| Unrealized gain on cash flow hedges | — | — | — | — | 2,554 | — | 2,554 |
| Defined benefit plans: | | | | | | | |
| Amortization of prior service costs and unrecognized losses and credits | — | — | — | — | (1,372) | — | (1,372) |
| Additions - new participants | — | — | — | — | (784) | — | (784) |
| Total comprehensive loss | — | — | — | — | — | — | (107,196) |
| Dividends | — | — | — | (1,589) | — | — | (1,589) |
| December 31, 2015 Balance | 8,815 | 184 | 247,022 | 310,583 | (9,387) | (94,399) | 462,818 |
| Deferred equity compensation | 69 | — | (69) | — | — | — | — |
| Exercise of stock options | — | — | 17 | — | — | — | 17 |
| Performance awards | — | — | 1,110 | — | — | — | 1,110 |
| Non-qualified stock options | — | — | 745 | — | — | — | 745 |
| Restricted stock awards | 89 | — | 4,950 | — | — | (331) | 4,708 |
| Conversion from Class B to Common Stock | 1 | (1) | — | — | — | — | — |
| Net loss | — | — | — | (42,856) | — | — | (42,856) |
| Foreign currency translation adjustments | — | — | — | — | (7,194) | — | (7,194) |
| Unrealized loss on cash flow hedges | — | — | — | — | (1,263) | — | (1,263) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Defined benefit plans: | | | | | | | |
| Amortization of prior service costs and unrecognized losses and credits | — | — | — | — | (1,491) | — | (1,491) |
| Total comprehensive loss | — | — | — | — | — | — | (52,804) |
| Issuance of warrants | — | — | 12,376 | — | — | — | 12,376 |
| Dividends | — | — | — | (1,583) | — | — | (1,583) |
| Purchase of treasury shares | — | — | — | — | — | (5,000) | (5,000) |
| December 31, 2016 Balance | $8,974 | $ 183 | $266,151 | $266,144 | $ (19,335) | $(99,730) | $422,387 |

See notes to consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIAIRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies

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

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries and include all adjustments, which were of a normal recurring nature, necessary to present fairly the financial position of the company as of December 31, 2016 and the results of its operations and changes in its cash flow for the years ended December 31, 2016, 2015 and 2014, respectively. 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.

Cash and Cash Equivalents: The company's policy is to treat investments that are readily convertible to cash and with maturities so near that there is little risk of changes in value due to changes in interest rates as cash and cash equivalents. Cash and cash equivalents are carried at cost, which approximates fair value.

Accounts Receivable: The company records accounts receivable when product ships or services are provided to its unaffiliated customers, risk of loss is passed and title is transferred. The estimated allowance for uncollectible amounts is based primarily on management's evaluation of the financial condition of specific customers. The company records accounts receivable reserves for amounts that may become uncollectible in the future. The company writes off accounts receivable when it becomes apparent, based upon customer circumstances, that such amounts will not be collected and legal remedies are exhausted.

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. Finished goods and work in process inventories include material, labor and manufacturing overhead costs. 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.

During 2014, the company recognized intangible write-down charges of $13,041,000 comprised of a customer list impairment of $12,826,000 and a non-compete agreement impairment of $215,000 each recorded in the IPG segment.

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INVACARE CORPORATION AND SUBSIDIAIRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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. See Accrued Expenses in the Notes to the Consolidated Financial Statements for a reconciliation of the changes in the warranty accrual.

Product Liability Cost: The company is self-insured in North America for product liability exposures through its captive insurance company, Invatection Insurance Company, which currently has a policy year that runs from September 1 to August 31 and insures annual policy losses up to $10,000,000 per occurrence and $13,000,000 in the aggregate. The company also has additional layers of external insurance coverage, related to all lines of 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 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.

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INVACARE CORPORATION AND SUBSIDIAIRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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 $17,123,000, $18,677,000 and $23,149,000 for 2016, 2015 and 2014, respectively.

Advertising: Advertising costs are expensed as incurred and included in selling, general and administrative expenses. Advertising expenses amounted to $13,593,000, $9,203,000 and $13,463,000 for 2016, 2015 and 2014, respectively, the majority of which is incurred for advertising in the United States and Europe.

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 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 deferred tax liability has been provided for future repatriation of $32,700,000 of unremitted earnings of these foreign subsidiaries. The amount of the unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries that are permanently reinvested is not practically determinable. The company has recorded the deferred tax impact of the unremitted earnings of the two subsidiaries for which the earnings are not permanently reinvested.

Value Added Taxes: The company operates internationally and is required to comply with value added tax (VAT) or goods and service tax (GST) regulations, particularly in Europe and Asia/Pacific. VAT and GST are taxes on consumption in which the company pays tax on its purchases of goods and services and charges customers on the sale of product. The difference between billings to customers and payments on purchases is then remitted or received from the government as filings are due. The company records tax assets and liabilities related to these taxes and the balances in these accounts can vary significantly from period to period based on the timing of the underlying transactions.

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.

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.

In the first quarter of 2016, the company issued $150,000,000 aggregate principal amount of 5.00% Convertible Senior Notes due 2021 (the "notes"). In connection with the offering of the notes, the company entered into privately negotiated convertible note hedge transactions with two financial institutions (the "option counterparties"). The convertible debt conversion liability and the convertible note hedges are accounted for as derivatives that are fair valued quarterly. The fair value of the convertible debt conversion liability and the convertible note hedge asset are estimated using a lattice model incorporating the terms and conditions of the notes and considering, for example, changes in the prices of the company's common stock, company stock price volatility, risk-free rates and changes in

market rates. The valuations are, among other things, subject to changes in both the company's credit worthiness and the counter-parties to the instruments as well as change in general market conditions. The change in the fair value of the convertible note hedges are recognized in net income (loss) for the respective period. While the change in fair value of the convertible debt conversion liability and the convertible note hedge asset are generally expected to move in opposite directions, the net change in any given period may be material.

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.

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INVACARE CORPORATION AND SUBSIDIAIRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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. For periods in which there was a net loss, loss per share assuming dilution utilized weighted average shares-basic.

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.

Reclassifications: In September of 2016, the company's board of directors authorized the sale of the company's subsidiary Garden City Medical Inc. ("GCM"), dba PMI and Pinnacle Medsource. Accordingly, GCM was treated as held for sale. The company's December 31, 2015 Balance Sheet was restated to reflect this treatment. See Operations Held for Sale in the Notes to the Consolidated Financial Statements for a description of the impact on the consolidated balance sheet.

In 2016, the company redefined the measure by which it evaluates segment profit or loss to be segment operating profit (loss). The previous performance measure was earnings before income taxes. All prior periods presented were restated to reflect the new measure. See Business Segments in the Notes to the Consolidated Financial Statements for a description of the change.

The company has historically classified the amortization of debt issuance costs, including any accelerated amortization in the form of debt fee write-offs, as a component of Selling, General and Administrative (SG&A) Expenses. During 2016, the company determined that it was more appropriate to classify this amortization as a component of interest expense. Therefore, interest expense for 2015 and 2014 has been increased by $1,225,000 and $1,848,000, respectively, with a corresponding decrease to SG&A expenses.

Recent Accounting Pronouncements (Already Adopted):

In April 2014, the FASB issued ASU 2014-08 changing the presentation of discontinued operations on the statements of income and other requirements for reporting discontinued operations. Under the new standard, a disposal of a component or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results when the component meets the criteria to be classified as held for sale or is disposed. The amendments in this update also require additional disclosures about discontinued operations and disposal of an individually significant component of an entity that does not qualify for discontinued operations. This standard was required to be prospectively applied to all reporting periods presented in financial reports issued after the effective date. This standard impacts the presentation of the company's financial statements but does not affect the calculation of net income, comprehensive income or earnings per share. The company adopted ASU 2014-08 effective January 1, 2015 which impacted the company’s Condensed Consolidated Statement of Comprehensive Income (Loss), Balance Sheets and Statement of Cash Flows. Specifically, the disposals of the United States Rentals businesses, in the third quarter of 2015, and Garden City Medical, in September 2016, were not deemed to be discontinued operations.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 requires debt issuance costs to be presented on the balance sheet as a direct deduction from the carrying amount of the

related debt liability, which is similar presentation of debt discounts or premiums. ASU 2015-03 does not change the recognition and measurement guidance for debt issuance costs and requires retrospective application to all periods presented upon adoption. Amortization of the debt fees are reflected as interest expense on the Condensed Consolidated Statement of Income (Loss). The company adopted ASU 2015-03 effective January 1, 2016 which did not have a material impact on the company's financial statements. See "Reclassifications" disclosure above for the amounts reclassified from Selling, General and Administrative expenses to Interest Expense for amortization of debt fees.

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes." ASU 2015-17 requires deferred tax assets and liabilities to be classified as noncurrent amounts on the balance sheet. The new accounting guidance is effective for fiscal periods beginning after December 15, 2016 and early adoption was permitted. The company adopted ASU 2015-17, on a prospective basis, effective October 1, 2015 and thus the company's deferred tax assets and liabilities have been classified as long-term in its Balance Sheet for all periods presented.

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INVACARE CORPORATION AND SUBSIDIAIRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

In August 2014, the FASB issued ASU 2014-15, “Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern,” which requires management to assess the company's ability to continue as a going concern and, in certain circumstances, provide footnote disclosure. The company adopted ASU 2014-15 effective December 31, 2016, which did not have a material impact on the company's financial statements.

Recent Accounting Pronouncements (Not Yet Adopted):
In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory,” to simplify the subsequent measurement of inventory. After effectiveness of this update, entities will be required to subsequently measure inventory at the lower of cost or net realizable value rather than at the lower of cost or market. This update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those annual periods, and early adoption is permitted. The company will adopt ASU 2015-11, effective January 1, 2017, and does not currently believe it will have a material impact on the company's financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation: Topic 718: Improvements to Employee Share-Based Payment Accounting." ASU 2016-09 is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This pronouncement is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The company will adopt ASU 2016-09, effective January 1, 2017, and does not believe it will have a material impact on the company's financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 requires a company to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. The guidance requires five steps to be applied: 1) identify the contract(s) with customers, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligation in the contract and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also requires both quantitative and qualitative disclosures, which are more comprehensive than existing revenue standards. The disclosures are intended to enable financial statement users to understand the nature, timing and uncertainty of revenue and the related cash flow. An entity can apply the new revenue standard retrospectively to each prior reporting period presented or retrospective with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. The new accounting guidance is effective for annual periods beginning after December 15, 2017, due to an approved one-year deferral, and early adoption is permitted. During 2016, the company completed a preliminary assessment of its contracts. Based on this review, the company does not expect this standard will have a material impact on the company's results of operations or cash flows in the periods after adoption. Pursuant to ASU 2014-09, revenues are recognized as control transfers to the customers, which is consistent with the current revenue recognition model and the current accounting for the majority of the company's contracts. The company will continue to evaluate the impact of ASU 2014-09, as well as any subsequent updates and clarifications, the possible impact of the standard on any new contracts entered into by the company through the date of adoption and determine the transition method of retrospective or cumulative effect transition method.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 requires lessees to put most leases on their balance sheet while recognizing expense in a manner similar to existing accounting. The new accounting guidance is effective for fiscal periods beginning after December 15, 2018 and early adoption is permitted. The company is currently reviewing the impact of the adoption of ASU 2016-02 on the company's financial statements.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Statements." ASU 2016-13 requires a new credit loss standard for most financial assets and certain other instruments. For example, entities will be required to use an "expected loss" model that will generally require earlier recognition of allowances for losses for trade receivables. The standard also requires additional disclosures, including disclosures regarding how an entity tracks credit quality. The amendments in the pronouncement are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Entities may early adopt the amendments as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The company is currently reviewing the impact of the adoption of ASU 2016-09 on the company's financial statements.

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INVACARE CORPORATION AND SUBSIDIAIRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Operations Held for Sale

On July 2, 2015, Invacare Continuing Care, Inc., a Missouri Corporation and wholly-owned subsidiary of the company ("ICC") completed the sale (the "Transaction") of all the issued and outstanding membership interests in Dynamic Medical Systems, LLC, a Nevada limited liability company, and Invacare Outcomes Management, LLC, a Delaware limited liability company, each a wholly-owned subsidiary of ICC (“collectively the rentals businesses”), pursuant to a Membership Interest Purchase Agreement (the “Purchase Agreement”) among the company, ICC and Joerns Healthcare Parent, LLC, a Delaware limited liability company. The rentals businesses had been operated on a stand-alone basis and reported as part of the Institutional Products Group segment of the company. The price paid to ICC for the rentals businesses was approximately $15,500,000 in cash, which was subject to certain post-closing adjustments required by the Purchase Agreement. Net proceeds from the Transaction were approximately $13,700,000, net of taxes and expenses. The company recorded a pre-tax gain of approximately $24,000 in the third quarter of 2015, which represented the excess of the net sales price over the book value of the assets and liabilities of the rentals businesses, as of the date of completion of the disposition. The company recorded expenses related to the sale of the rentals businesses totaling $1,792,000, of which $1,265,000 have been paid as of December 31, 2016. The sale of the rentals businesses was not dilutive to the company's results. The company utilized the net proceeds from the sale to reduce debt outstanding under its credit agreement. The company determined that the sale of the rentals businesses did not meet the criteria for classification as a discontinued operation in accordance with ASU 2014-08 but the "held for sale" criteria of ASC 360-10-45-9 were met and thus the rentals businesses were treated as held for sale as of June 30, 2015 until sold on July 2, 2015.

On September 30, 2016, the company, completed the sale of its subsidiary, Garden City Medical Inc, a Delaware corporation and wholly-owned subsidiary (“GCM”), dba PMI and Pinnacle Medsource, to Compass Health Brands Corp., a Delaware corporation (the “Purchaser”), pursuant to a Share Purchase Agreement. GCM sourced and distributed primarily lifestyle products under the brand ProBasics™ by PMI. GCM was part of the North America / HME segment of the company. The price paid to the company for GCM was $13,829,000 in cash and net proceeds from the transaction were $12,729,000, net of expenses. The company recorded a pre-tax gain of $7,386,000 in the third quarter of 2016, which represented the excess of the net sales price over the book value of the assets and liabilities of GCM. The company recorded expenses related to the sale of GCM totaling $1,100,000, of which $230,000 have been paid out as of December 31, 2016. The sale of GCM was dilutive to the company's results. The company utilized the net proceeds to fund operations. The company determined that the sale of GCM did not meet the criteria for classification as a discontinued operation in accordance with ASU 2014-08 but the "held for sale" criteria of ASC 360-10-45-9 were met and thus GCM was treated as held for sale for purposes of the Condensed Consolidated Balance Sheets as of December 31, 2015. The assets and liabilities of GCM that were sold on September 30, 2016 and shown as held for sale as of December 31, 2015 in the company's Consolidated Balance Sheets were comprised of the following (in thousands):

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Trade receivables, net | $ 4,526 | $ 5,040 |
| Inventories, net | 5,335 | 6,404 |
| Other current assets | 74 | 27 |
| Property and equipment, net | 149 | 178 |
| Assets sold | 10,084 | 11,649 |
| | | |
| Accounts payable | 2,990 | 2,037 |
| Accrued expenses and other short-term obligations | 1,751 | 3,464 |
| Current taxes payable | — | 434 |

| | | |
|---|---|---|
| Liabilities sold | $ 4,741 | $ 5,935 |

With the sale of GCM, the company entered into an agreement with the Purchaser for the Purchaser to buy, at cost, all ProBasics™ inventory capitalized on the balance sheets of certain Invacare subsidiaries which was not sold as part of the GCM sale on September 30, 2016. The value of the inventory sold was approximately $2,400,000 which was transferred to the Purchaser in the fourth quarter of 2016. Under the agreement, depending on certain conditions, the Purchaser may have until September 30, 2017 to pay for the inventory.

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INVACARE CORPORATION AND SUBSIDIAIRIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Discontinued Operations

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

In 2014, the net sales of the Altimate discontinued operations were $11,778,000 and earnings before income taxes were $2,796,000. Results for Altimate include an interest expense allocation from continuing operations to discontinued operations of $202,000 for 2014 as proceeds from the sale were required to be utilized to pay down debt. The interest allocation was based on the net proceeds assumed to pay down debt applying the company's average interest rates for the periods presented.

The company recorded total expenses related to all its discontinued operations since 2012 of $8,801,000, of which $8,405,000 were paid as of December 31, 2016.

The company recorded an incremental intra-period tax allocation expense to discontinued operations for 2015 and 2014 representing the cumulative intra-period allocation expense to discontinued operations based on the company's domestic taxable loss related to continuing operations for 2015 and 2014.

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

Receivables

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the company’s receivables are due from health care, medical equipment providers and long term care facilities located throughout the United States, Australia, Canada, New Zealand, China and Europe. A significant portion of products sold to providers, both foreign and domestic, are 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 ($6,916,000 in 2016 and $9,726,000 in 2015) is based primarily on management’s evaluation of the financial condition of specific customers. In addition, as a result of the company's 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 establishes reserves for specific customers as needed. The company writes off uncollectible trade accounts receivable after such receivables are moved to collection status and legal remedies are exhausted. See Concentration of Credit Risk in the Notes to the Consolidated Financial Statements for a description of the financing arrangement. Long-term installment receivables are included in “Other Assets” on the consolidated balance sheet.

The company’s U.S. customers electing to finance their purchases can do so using DLL. In addition, the company often provides financing directly for its Canadian customers for which DLL is not an option, as DLL typically

provides financing to Canadian customers only on a limited basis. The installment receivables recorded on the books of the company represent a single portfolio segment of finance receivables to the independent provider channel and long-term care customers. The portfolio segment is comprised of two classes of receivables distinguished by geography and credit quality. The U.S. installment receivables are the first class and represent installment receivables re-purchased from DLL because the customers were in default. Default with DLL is defined as a customer being delinquent by 3 payments. The Canadian installment receivables represent the second class of installment receivables which were originally financed by the company because third party financing was not available to the HME providers. The Canadian installment receivables are typically financed for twelve months and historically have had a very low risk of default.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

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

All installment accounts are accounted for using the same methodology regardless of the duration of the installment agreements. When an account is placed in collection status, the company goes through a legal process for pursuing collection of outstanding amounts, the length of which typically approximates eighteen months. Any write-offs are made after the legal process has been completed. The company has not made any changes to either its accounting policies or methodology to estimate allowances for doubtful accounts in the last twelve months.

Installment receivables as of December 31, 2016 and 2015 consist of the following (in thousands):

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Current | Long-Term | Total | Current | Long-Term | Total |
| Installment receivables | $2,027 | $2,685 | $4,712 | $2,309 | $2,318 | $4,627 |
| Less: Unearned interest | (40) | — | (40) | (42) | — | (42) |
| | 1,987 | 2,685 | 4,672 | 2,267 | 2,318 | 4,585 |
| Allowance for doubtful accounts | (619) | (2,219) | (2,838) | (1,122) | (1,670) | (2,792) |
| | $1,368 | $466 | $1,834 | $1,145 | $648 | $1,793 |

Installment receivables purchased from DLL during the twelve months ended December 31, 2016 increased the gross installment receivables balance by $1,901,000 during the year compared to $936,000 in 2015. 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):

| | 2016 | 2015 |
|---|---|---|
| Balance as of January 1 | $2,792 | $5,852 |
| Current period provision (benefit) | 1,220 | (332) |
| Direct write-offs charged against the allowance | (1,174) | (2,728) |
| Balance as of December 31 | $2,838 | $2,792 |

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Installment receivables by class as of December 31, 2016 consist of the following (in thousands):

| | Total Installment Receivables | Unpaid Principal Balance | Related Allowance for Doubtful Accounts | Interest Income Recognized |
|---|---|---|---|---|
| U.S. | | | | |
| Impaired installment receivables with a related allowance recorded | $ 3,762 | $ 3,762 | $ 2,706 | $ — |
| Canada | | | | |
| Non-impaired installment receivables with no related allowance recorded | 818 | 778 | — | 65 |
| Impaired installment receivables with a related allowance recorded | 132 | 132 | 132 | — |
| Total Canadian installment receivables | $ 950 | $ 910 | $ 132 | $ 65 |
| Total | | | | |
| Non-impaired installment receivables with no related allowance recorded | 818 | 778 | — | 65 |
| Impaired installment receivables with a related allowance recorded | 3,894 | 3,894 | 2,838 | — |
| Total installment receivables | $ 4,712 | $ 4,672 | $ 2,838 | $ 65 |

Installment receivables by class as of December 31, 2015 consist of the following (in thousands):

| | Total | Unpaid | Related | Interest |
|---|---|---|---|---|

| | Installment Receivables | Principal Balance | Allowance for Doubtful Accounts | Income Recognized |
|---|---|---|---|---|
| U.S. | | | | |
| Impaired installment receivables with a related allowance recorded | $ 3,618 | $ 3,618 | $ 2,729 | $ — |
| Canada | | | | |
| Non-impaired installment receivables with no related allowance recorded | 946 | 904 | — | 52 |
| Impaired installment receivables with a related allowance recorded | 63 | 63 | 63 | — |
| Total Canadian installment receivables | $ 1,009 | $ 967 | $ 63 | $ 52 |
| Total | | | | |
| Non-impaired installment receivables with no related allowance recorded | 946 | 904 | — | 52 |
| Impaired installment receivables with a related allowance recorded | 3,681 | 3,681 | 2,792 | — |
| Total installment receivables | $ 4,627 | $ 4,585 | $ 2,792 | $ 52 |

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, 2016, the company had no U.S. installment receivables past due of 90 days or more for which the company is still accruing interest. Individually, all U.S. installment receivables are assigned a specific allowance for doubtful accounts based on management’s review when the company does not expect to receive both the contractual principal and interest payments as specified in the loan agreement. In Canada, the company had an immaterial amount of installment receivables which were past due of 90 days or more as of December 31, 2016 and December 31, 2015 for which the company is still accruing interest.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

The aging of the company's installment receivables was as follows as of December 31, 2016 and 2015 (in thousands):

| | December 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Total | U.S. | Canada | Total | U.S. | Canada |
| Current | $832 | $— | $ 832 | $908 | $— | $908 |
| 0-30 days past due | 18 | — | 18 | 16 | — | 16 |
| 31-60 days past due | 12 | — | 12 | 12 | — | 12 |
| 61-90 days past due | 2 | — | 2 | 1 | — | 1 |
| 90+ days past due | 3,848 | 3,762 | 86 | 3,690 | 3,618 | 72 |
| | $4,712 | $3,762 | $ 950 | $4,627 | $3,618 | $1,009 |

Inventories

Inventories, net of reserves, as of December 31, 2016 and 2015 consist of the following (in thousands):

| | 2016 | 2015 |
|---|---|---|
| Finished goods | $68,701 | $60,803 |
| Raw materials | 56,270 | 54,005 |
| Work in process | 10,673 | 11,595 |
| | $135,644 | $126,403 |

Other Current Assets

Other current assets as of December 31, 2016 and 2015 consist of the following (in thousands):

| | 2016 | 2015 |
|---|---|---|
| Value added tax receivables | $14,336 | $18,031 |
| Service contracts | 2,902 | 2,013 |
| Prepaid insurance | 2,761 | 2,538 |
| Derivatives (foreign currency forward contracts) | 2,754 | 4,143 |
| Prepaid inventory | 790 | 158 |
| Recoverable income taxes | 503 | 367 |
| Prepaid debt fees | 489 | 869 |
| Prepaid and other current assets | 6,984 | 6,313 |
| | $31,519 | $34,432 |

Other Long-Term Assets

Other long-term assets as of December 31, 2016 and 2015 consist of the following (in thousands):

| | 2016 | 2015 |
|---|---|---|
| Convertible note hedge asset | $25,471 | $— |
| Cash surrender value of life insurance policies | 1,824 | 1,674 |
| Deferred financing fees | 793 | 1,088 |
| Investments | 108 | 160 |
| Long-term installment receivables | 466 | 648 |
| Long-term deferred taxes | 837 | 908 |
| Other | 188 | 181 |
| | $29,687 | $4,659 |

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During the quarter ended March 31, 2016, the company issued $150,000,000 principal amount of Convertible Senior Notes due 2021. As part of the transaction, the company entered into related convertible note hedge derivatives which are included in Other Long-Term Assets, the value of which will be adjusted quarterly to reflect fair value. See "Long-Term Debt" in the notes to the Consolidated Financial Statements included elsewhere in this report for more detail. The company sold life insurance policies of $11,902,000 and $21,338,000 in 2015 and 2014, respectively, to fund payments as the result of the retirement of certain executive officers of the company.

Property and Equipment

Property and equipment as of December 31, 2016 and 2015 consist of the following (in thousands):

| | 2016 | 2015 |
|---|---|---|
| Machinery and equipment | $301,367 | $299,205 |
| Land, buildings and improvements | 73,709 | 73,830 |
| Furniture and fixtures | 10,100 | 10,023 |
| Leasehold improvements | 12,054 | 11,947 |
| | 397,230 | 395,005 |
| Less allowance for depreciation | (321,871) | (316,500) |
| | $75,359 | $78,505 |

In the fourth quarter of 2015, the company wrote off $4,031,000 of costs previously capitalized associated with a canceled legacy software program based on a change in the North America/HME IT strategy.

Goodwill

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

| | Institutional Products Group | Europe | Consolidated |
|---|---|---|---|
| Balance at January 1, 2015 | $ 29,919 | $391,100 | $ 421,019 |
| Foreign currency translation adjustments | (2,763) | (56,576) | (59,339) |
| Balance at December 31, 2015 | 27,156 | 334,524 | 361,680 |
| Foreign currency translation adjustments | 450 | (1,528) | (1,078) |
| Balance at December 31, 2016 | $ 27,606 | $332,996 | $ 360,602 |

In accordance with Intangibles—Goodwill and Other, ASC 350, goodwill is reviewed for impairment. The company first estimates the fair value of each reporting unit and compares the calculated fair value to the carrying value of 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 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 8.67% in 2016 for the company's initial impairment analysis compared to 9.41% in 2015 and 9.89% in 2014.

The company also utilizes an Enterprise Value (EV) to Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) Method to compute the fair value of its reporting units which considers potential acquirers and their EV to EBITDA

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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.

While there was no indication of impairment in 2016 related to goodwill for the Europe or IPG segments, a future potential impairment is possible for these 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 2016 impairment analysis and determined that there still would not be an indicator of potential impairment for the Europe or IPG segments.

As part of the company's review of goodwill for impairment, the company also considers the potential for impairment of any other assets. In 2016, 2015 and 2014, the company performed a review for potential impairments of any other assets, including the company's Taylor Street facility which is subject to the FDA consent decree that limits the company's manufacture and distribution of custom power and manual wheelchairs, wheelchair components and wheelchair subassemblies at the Taylor Street facility. The company determined there was no impairment of the property, plant and equipment of the Taylor Street facility based on a comparison of the forecasted undiscounted cash flows to the carrying value of the net assets in accordance with ASC 360. In addition, the company determined there was no impairment of net inventory associated with the facility.

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 trademarks shown below, which have indefinite lives. The changes in intangible balances reflected on the balance sheet from December 31, 2015 to December 31, 2016 were the result of foreign currency translation and amortization.

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

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Historical Cost | Accumulated Amortization | Historical Cost | Accumulated Amortization |
| Customer lists | $49,362 | $ 45,797 | $49,858 | $ 45,019 |
| Trademarks | 24,091 | — | 24,524 | — |
| License agreements | 1,126 | 1,126 | 1,098 | 1,098 |
| Developed technology | 7,287 | 5,969 | 7,405 | 5,921 |
| Patents | 5,512 | 5,487 | 5,959 | 5,843 |
| Other | 1,162 | 1,138 | 1,161 | 1,124 |
| | $88,540 | $ 59,517 | $90,005 | $ 59,005 |

Amortization expense related to other intangibles was $1,629,000, $1,907,000 and $20,358,000 for 2016, 2015 and 2014, respectively. Estimated amortization expense for each of the next five years is expected to be $1,528,000 for 2017, $1,510,000 in 2018, $1,080,000 in 2019, $174,000 in 2020 and $174,000 in 2021. Amortized intangibles are being amortized on a straight-line basis over remaining lives from 1 to 10 years with the majority of the intangibles being amortized over an average remaining life of approximately 4 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 and developed technology. 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.

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During 2014, the company recognized intangible write-down charges in the IPG segment of $13,041,000 comprised of a customer list impairment of $12,826,000 and a non-compete agreement of $215,000 as the actual and remaining cash flows associated with the intangibles were less than the cash flows originally used to value the intangibles, primarily driven by reduced net sales. The after-tax and pre-tax impairment amounts were the same for each of the above impairments. 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 write-down charges were the result of decisions to exit certain businesses as well as lower than anticipated sales.

Accrued Expenses

Accrued expenses as of December 31, 2016 and 2015 consisted of accruals for the following (in thousands):

| | 2016 | 2015 |
|---|---|---|
| Salaries and wages | $32,959 | $41,216 |
| Warranty cost | 23,302 | 22,820 |
| Taxes other than income taxes, primarily Value Added Taxes | 19,194 | 21,424 |
| Freight | 5,211 | 5,978 |
| Professional | 4,728 | 5,774 |
| Product liability, current portion | 3,996 | 3,127 |
| Interest | 3,747 | 872 |
| Severance | 2,049 | 2,477 |
| Derivatives (foreign currency forward exchange contracts) | 1,783 | 2,014 |
| Deferred revenue | 1,446 | 400 |
| Insurance | 742 | 695 |
| Rent | 672 | 402 |
| Supplemental Executive Retirement Plan (SERP) | 391 | 1,279 |
| Rebates | 356 | 1,791 |
| Other items, principally trade accruals | 9,519 | 8,687 |
| | $110,095 | $118,956 |

Accrued rebates relate to several volume incentive programs the company offers its customers. The company accounts for these rebates as a reduction of revenue when the products are sold in accordance with the guidance in ASC 605-50, Customer Payments and Incentives.

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

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

| | 2016 | 2015 |
|---|---|---|
| Balance as of January 1 | $ 22,820 | $ 30,738 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Warranties provided during the period | 12,019 | | | 11,561 | | |
| Settlements made during the period | (15,461 | | ) | (17,817 | | ) |
| Changes in liability for pre-existing warranties during the period, including expirations | 3,924 | | | (1,662 | | ) |
| Balance as of December 31 | $ | 23,302 | | $ | 22,820 | |

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The company's warranty expense for 2016 includes $2,856,000 principally driven by two specific issues. First, an expense of $1,366,000 for a product recall which was related to a component on a lifestyles product, recorded in the North America/HME segment. Second, an additional warranty expense of $1,490,000 for a component of a lifestyles product which was recorded in the European segment.

The company's warranty expense for 2015 includes reversals of $2,325,000 principally driven by a $2,000,000 reversal as a result of changes in the company's estimate of costs related to a recall for a component in a stationary oxygen concentrator that was manufactured in the company’s facility in Suzhou, China, and sold globally, which is no longer used in production.

The company's warranty expense for 2014 includes $11,493,000 for three specific product issues. First, an expense of $6,559,000 for a recall related to a component in a stationary oxygen concentrator that was manufactured in the company’s facility in Suzhou, China, and sold globally, which is no longer used in production. This expense was recorded in the European segment ($3,395,000) and North America/HME segment ($3,164,000). Second, an expense of $2,057,000 for the recall of a sieve bed component used within stationary oxygen concentrators manufactured during August 2014, which was recorded in the North America/HME segment. Third, an incremental expense of $2,877,000 related to the company's joystick recall as a result of higher than previously anticipated response rates from larger customers in the U.S. and Canada and a shift in the product mix toward higher cost joysticks, which was recorded in the North America/HME segment ($1,612,000) and the Asia/Pacific segment ($1,265,000).

Warranty reserves are subject to adjustment in future periods as new developments change the company's estimate of the total cost.

Long-Term Debt

Debt as of December 31, 2016 and 2015 consisted of the following (in thousands):

| | 2016 | 2015 |
|---|---|---|
| Senior secured revolving credit facility, due in January 2021 | $— | $— |
| Convertible senior notes at 5.00%, due in February 2021 | 115,159 | — |
| Convertible senior subordinated debentures at 4.125%, due in February 2027 | 13,039 | 12,147 |
| Other notes and lease obligations | 33,151 | 34,973 |
| | 161,349 | 47,120 |
| Less current maturities of long-term debt | (15,261) | (2,028) |
| | $146,088 | $45,092 |

The company had outstanding letters of credit of $2,853,000 and $3,230,000 as of December 31, 2016 and 2015, respectively. There were no borrowings denominated in foreign currencies as of December 31, 2016 or December 31, 2015. For 2016 and 2015, the weighted average interest rate on all borrowings, excluding capital leases, was 4.85% and 3.83%, respectively.

On September 30, 2015, the company entered into an Amended and Restated Revolving Credit and Security Agreement, which was subsequently amended on February 16, 2016 and November 30, 2016 (the “Credit Agreement”) and which matures on January 16, 2021. The Credit Agreement was entered into by and among the company, certain of the company’s direct and indirect U.S. and Canadian subsidiaries and certain of the company’s European subsidiaries (together with the company, the “Borrowers”), certain other of the company’s direct and indirect U.S., Canadian and European subsidiaries (the “Guarantors”), and PNC Bank, National Association (“PNC”), JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, KeyBank National Association, and Citizens Bank, National Association (the “Lenders”).

PNC is the administrative agent (the “Administrative Agent”) and J.P. Morgan Europe Limited is the European agent (the “European Agent”) under the Credit Agreement.

In connection with entering into the company's Credit Agreement, the company incurred fees which were capitalized and are being amortized as interest expense. As of December 31, 2016, debt fees yet to be amortized through January 2021 totaled $1,282,000. In addition, as a result of terminating the previous credit agreement, which was scheduled to mature in October 2015, the company wrote-off $668,000 in previously capitalized fees in the first quarter of 2015, which is reflected in the expense of the North America / HME segment. In comparison, the company wrote-off $1,070,000 in fees previously capitalized in the first quarter of 2014 as a result of a reduction in the borrowing capacity under the company's previous credit agreement, which was scheduled to mature in October 2015. This was also reflected in the North America/HME segment.

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INVACARE CORPORATION AND SUBSIDIAIRIES
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U.S. and Canadian Borrowers Credit Facility

For the company's U.S. and Canadian Borrowers, the Credit Agreement provides for an asset-based-lending senior secured revolving credit facility which is secured by substantially all of the company's U.S. and Canadian assets, other than real estate. The Credit Agreement provides the company and the other Borrowers with a credit facility in an aggregate principal amount of $100,000,000, subject to availability based on a borrowing base formula, under a senior secured revolving credit, letter of credit and swing line loan facility (the "U.S. and Canadian Credit Facility"). Up to $25,000,000 of the U.S. and Canadian Credit Facility will be available for issuance of letters of credit. The aggregate principal amount of the U.S. and Canadian Credit Facility may be increased by up to $25,000,000 to the extent requested by the company and agreed to by any Lender or new financial institution approved by the Administrative Agent. The aggregate borrowing availability under the U.S. and Canadian Credit Facility is determined based on a borrowing base formula set forth in the Credit Agreement and summarized below.

Under the Credit Agreement, the aggregate usage under the U.S. and Canadian Credit Facility may not exceed an amount equal to the sum of (a) 85% of eligible U.S. accounts receivable plus (b) the lesser of (i) 70% of eligible U.S. inventory and eligible foreign in-transit inventory and (ii) 85% of the net orderly liquidation value of eligible U.S. inventory and eligible foreign in-transit inventory (not to exceed $4,000,000), plus (c) the lesser of (i) 85% of the net orderly liquidation value of U.S. eligible machinery and equipment and (ii) $2,484,500 (subject to reduction as provided in the Credit Agreement), plus (d) 85% of eligible Canadian accounts receivable, plus (e) the lesser of (i) 70% of eligible Canadian inventory and (ii) 85% of the net orderly liquidation value of eligible Canadian inventory, less (f) swing loans outstanding under the U.S. and Canadian Credit Facility, less (g) letters of credit issued and undrawn under the U.S. and Canadian Credit Facility, less (h) a $5,000,000 minimum availability reserve, less (i) other reserves required by the Administrative Agent, and in each case subject to the definitions and limitations in the Credit Agreement. As of December 31, 2016, the company was in compliance with all covenant requirements and had borrowing capacity on the U.S. and Canadian Credit Facility under the Credit Agreement of $32,031,000, taking into account the minimum availability reserve, then-outstanding letters of credit, other reserves and the $11,250,000 dominion trigger amount described below.

Interest will accrue on outstanding indebtedness under the Credit Agreement at the LIBOR rate, plus a margin ranging from 2.25% to 2.75%, or at the alternate base rate, plus a margin ranging from 1.25% to 1.75%, as selected by the company. Borrowings under the U.S. and Canadian Credit Facility are subject to commitment fees of 0.25% or 0.375% per year, depending on utilization.

The Credit Agreement contains customary representations, warranties and covenants. Exceptions to the operating covenants in the Credit Agreement provide the company with flexibility to, among other things, enter into or undertake certain sale and leaseback transactions, dispositions of assets, additional credit facilities, sales of receivables, additional indebtedness and intercompany indebtedness, all subject to limitations set forth in the Credit Agreement, as amended. The Credit Agreement also contains a covenant requiring the company to maintain minimum availability under the U.S. and Canadian Credit Facility of not less than the greater of (i) 11.25% of the maximum amount that may be drawn under the U.S. and Canadian Credit Facility for five (5) consecutive business days, or (ii) $5,000,000 on any business day. The company also is subject to dominion triggers under the U.S. and Canadian Credit Facility requiring the company to maintain borrowing capacity of not less than $11,250,000 on any business day or $12,500,000 for five consecutive days in order to avoid triggering full control by an agent for the lenders of the company's cash receipts for application to the company's obligations under the agreement.

The Credit Agreement contains customary default provisions, with certain grace periods and exceptions, which provide that events of default that include, among other things, failure to pay amounts due, breach of covenants,

representations or warranties, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical reimbursement program, and an interruption of any material manufacturing facilities for more than 10 consecutive days. The initial borrowings under the U.S. and Canadian Credit Facility were used to repay and terminate the company's previous credit agreement, which was scheduled to mature in October 2015.

European Credit Facility

The Credit Agreement also provides for a revolving credit, letter of credit and swing line loan facility which gives the European Borrowers the ability to borrow up to an aggregate principal amount of $30,000,000, with a $5,000,000 sublimit for letters of credit and a $2,000,000 sublimit for swing line loans (the "European Credit Facility"). Up to $15,000,000 of the European Credit Facility will be available to each of Invacare Limited (the "UK Borrower") and Invacare Poirier SAS (the "French Borrower" and, together with the UK Borrower, the "European Borrowers"). The European Credit Facility matures in January 2018, together with the U.S. and Canadian Credit Facility. The aggregate borrowing availability for each European Borrower under the European Credit Facility is determined based on a borrowing base formula set forth in the Credit Agreement and summarized below. Under the Credit Agreement, the aggregate borrowings of each of the European Borrowers under the European Credit Facility may not

exceed an amount equal to (a) 85% of the European Borrower's eligible accounts receivable, less (b) the European Borrower's borrowings and swing line loans outstanding under the European Credit Facility, less (c) the European Borrower's letters of credit issued and undrawn under the European Credit Facility, less (d) a $3,000,000 minimum availability reserve, less (e) other reserves required by the European Agent, and in each case subject to the definitions and limitations in the Credit Agreement. As of December 31, 2016, the aggregate borrowing availability to the European Borrowers under the European Credit Facility was approximately $12,229,000, considering the $3,000,000 minimum availability reserve and a $3,375,000 dominion trigger amount described below.

The aggregate principal amount of the European Credit Facility may be increased by up to $10,000,000 to the extent requested by the company and agreed to by any Lender or Lenders that wish to increase their lending participation or, if not agreed to by any Lender, a new financial institution that agrees to join the European Credit Facility and that is approved by the Administrative Agent and the European Agent.

Interest will accrue on outstanding indebtedness under the European Credit Facility at an adjusted LIBOR rate, plus a margin ranging from 2.50% to 3.00%, or for swing line loans, at the overnight LIBOR rate, plus a margin ranging from 2.50% to 3.00%. The margin will be adjusted quarterly based on utilization. Borrowings under the European Credit Facility are subject to commitment fees of between 0.25% and 0.375% per year, depending on utilization.

The European Credit Facility is secured by substantially all of the personal property assets of the UK Borrower and its in-country subsidiaries, and all of the receivables of the French Borrower and its in-country subsidiaries. The UK and French facilities (which comprise the European Credit Facility) are cross collateralized, and the U.S. personal property assets previously pledged under the U.S. and Canadian Credit Facility also serve as collateral for the European Credit Facility.

The European Credit Facility is subject to customary representations, warranties and covenants generally consistent with those applicable to the U.S. and Canadian Credit Facility. Exceptions to the operating covenants in the Credit Agreement provide the company with flexibility to, among other things, enter into or undertake certain sale/leaseback transactions, dispositions of assets, additional credit facilities, sales of receivables, additional indebtedness and intercompany indebtedness, all subject to limitations set forth in the Credit Agreement. The Credit Agreement also contains a covenant requiring the European Borrowers to maintain undrawn availability under the European Credit Facility of not less than the greater of (i) 11.25% of the maximum amount that may be drawn under the European Credit Facility for five (5) consecutive business days, or (ii) $3,000,000 on any business day. The European Borrowers also are subject to cash dominion triggers under the European Credit Facility requiring the European Borrower to maintain borrowing capacity of not less than $3,375,000 on any business day or 12.50% of the maximum amount that may be drawn under the European Credit Facility for five (5) consecutive business days in order to avoid triggering full control by an agent for the Lenders of the European Borrower's cash receipts for application to its obligations under the European Credit Facility.

The European Credit Facility is subject to customary default provisions, with certain grace periods and exceptions, consistent with those applicable to the U.S. and Canadian Credit Facility, which provide that events of default include, among other things, failure to pay amounts due, breach of covenants, representations or warranties, cross-default, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical reimbursement program, and an interruption in the operations of any material manufacturing facility for more than 10 consecutive days.

The proceeds of the European Credit Facility will be used to finance the working capital and other business needs of the company.

Convertible senior subordinated debentures due in 2027

In 2007, the company issued $135,000,000 principal amount of 4.125% Convertible Senior Subordinated Debentures due 2027 (the "debentures"), of which $13,350,000 principal amount remained outstanding at December 31, 2016. The debentures were unsecured senior subordinated obligations of the company, pay interest at 4.125% per annum on each February 1 and August 1, and were 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. As of December 31, 2016, the principal amount of the company’s Convertible Notes exceeded the if-converted value of those notes by $6,693,000.

The holders of the debentures exercised their right to require the company to repurchase all of the debentures on February 1, 2017 at a price equal to 100% of the principal amount. Accordingly, the company classified the debentures as short-term as of

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December 31, 2016. The company satisfied the accreted value of the debentures using cash on February 2, 2017, and no debentures remained outstanding following that date.

The company included 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 as was the case in 2016, 2015 and 2014. The initial conversion rate was 40.3323 shares per $1,000 principal amount of debentures, which represented an initial conversion price of approximately $24.79 per share. Holders of the debentures had the right to convert the debt to common stock if the company's common stock price was 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 thirty 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 convertible debt equated to 539,000 shares. The debentures were redeemable at the company's option, subject to specified conditions, on or after February 6, 2012 through February 1, 2017. 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 debentures and common shares issuable upon conversion of the debentures were registered under the Securities Act.

The components of the company's convertible debt as of December 31, 2016 and 2015 consist of the following (in thousands):

| | 2016 | 2015 |
|---|---|---|
| Carrying amount of equity component | $25,381 | $25,381 |
| | | |
| Principal amount of liability component | $13,350 | $13,350 |
| Unamortized discount | (311) | (1,203) |
| Net carrying amount of liability component | $13,039 | $12,147 |

In the first quarter of 2016, the company executed a release, acknowledged by Wells Fargo Bank, N.A., as trustee, effecting the release as guarantors of all of the company's subsidiaries that were guarantors of the debentures, issued pursuant to the terms of the indenture, dated as of February 12, 2007, between the company and the trustee.
The unamortized discount of $311,000 is to be amortized through February 2017. The effective interest rate on the liability component was 11.5% for 2007 through 2014. Non-cash interest expense of $892,000, $796,000 and $710,000 was recognized in 2016, 2015 and 2014, respectively, in comparison to actual interest expense paid of $551,000, $551,000 and $551,000 based on the stated coupon rate of 4.125%, for each of the same periods. The debentures were not convertible as of December 31, 2016 nor was the conversion price threshold of $32.23 met during 2016.
Convertible senior notes due 2021
In the first quarter of 2016, the company issued $150,000,000 aggregate principal amount of 5.00% Convertible Senior Notes due 2021 (the "notes") in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The notes bear interest at a rate of 5.00% per year payable semi-annually in arrears on February 15 and August 15 of each year, beginning August 15, 2016. The notes will mature on February 15, 2021, unless repurchased or converted in accordance with their terms prior to such date. Prior to August 15, 2020, the notes will be convertible only upon satisfaction of certain conditions and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. Unless and until the company obtains shareholder approval under applicable New York Stock Exchange rules, the notes will be convertible, subject to certain conditions, into cash. If the company obtains such shareholder approval, the notes may be settled in cash, the company's common shares or a combination of cash and the company's common shares, at the company's election. Holders of the notes will have the right to require the company to repurchase all or some of their notes at 100% of their principal, plus any accrued and unpaid interest, upon the occurrence of certain fundamental

changes. The initial conversion rate is 60.0492 common shares per $1,000 principal amount of notes (equivalent to an initial conversion price of approximately $16.65 per common share). The company evaluated the terms of the conversion features under the applicable accounting literature, including Derivatives and Hedging, ASC 815, and determined that the features did require separate accounting as a derivative. This derivative was capitalized on the balance sheet as a long-term liability and will be adjusted to reflect fair value each quarter. The fair value of the convertible debt conversion liability related to the notes at issuance was $34,480,000. The fair value of the convertible debt conversion liability at December 31, 2016 was $30,708,000. The company recognized a gain of $3,772,000 in 2016 related to the convertible debt conversion liability.

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In connection with the offering of the notes, the company entered into privately negotiated convertible note hedge transactions with two financial institutions (the “option counterparties”). These transactions cover, subject to customary anti-dilution adjustments, the number of the company’s common shares that will initially underlie the notes, and are expected generally to reduce the potential equity dilution, and/or offset any cash payments in excess of the principal amount due, as the case may be, upon conversion of the notes. The company evaluated the note hedges under the applicable accounting literature, including Derivatives and Hedging, ASC 815, and determined that the note hedges should be accounted for as derivatives. These derivatives were capitalized on the balance sheet as long-term assets and will be adjusted to reflect fair value each quarter. The fair value of the convertible note hedge assets at issuance was $27,975,000. The fair value of the convertible note hedge asset at December 31, 2016 was $25,471,000. The company recognized a loss of $2,504,000 in 2016 related to the convertible note hedge asset.

The company entered into separate, privately negotiated warrant transactions with the option counterparties at a higher strike price relating to the same number of the company’s common shares, subject to customary anti-dilution adjustments, pursuant to which the company sold warrants to the option counterparties. The warrants could have a dilutive effect on the company’s outstanding common shares and the company’s earnings per share to the extent that the price of the company’s common shares exceeds the strike price of those warrants. The initial strike price of the warrants is $22.4175 per share and is subject to certain adjustments under the terms of the warrant transactions. The company evaluated the warrants under the applicable accounting literature, including Derivatives and Hedging, ASC 815, and determined that the warrants meet the definition of a derivative, are indexed to the company's own stock and should be classified in shareholder's equity. The amount paid for the warrants and capitalized in shareholder's equity was $12,376,000.

The net proceeds from the offering of the notes were approximately $144,034,000, after deducting fees and offering expenses of $5,966,000. These debt issuance costs were capitalized and are being amortized as interest expense through February 2021. As of December 31, 2016, all $5,966,000 of these costs were paid. In accordance with ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, these debt issuance costs are presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability. Approximately $5,000,000 of the net proceeds from the offering were used to repurchase the company’s common shares from purchasers of notes in the offering in privately negotiated transactions. A portion of the net proceeds from the offering were used to pay the cost of the convertible note hedge transactions (after such cost is partially offset by the proceeds to the company from the warrant transactions), which net cost was $15,600,000.

The liability components of the notes consist of the following (in thousands):

| | December 31, 2016 |
|---|---|
| Principal amount of liability component | $ 150,000 |
| Unamortized discount | (29,919) |
| Debt fees | (4,922) |
| Net carrying amount of liability component | $ 115,159 |

The unamortized discount of $29,919,000 is to be amortized through February 2021. The effective interest rate on the liability component was 11.1%. Non-cash interest expense of $4,562,000 was recognized in 2016, in comparison to actual interest expense accrued in 2016 of $6,378,000, based on the stated coupon rate of 5.0%. The notes were not convertible as of December 31, 2016 nor was the applicable conversion threshold met.