INVACARE CORP
Form 10-K
March 09, 2018

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

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
or
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-15103

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

Ohio	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

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 ¨ Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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, 2017, the aggregate market value of the 31,816,530 Common Shares of the Registrant held by non-affiliates was $419,978,196 and the aggregate market value of the 18,357 Class B Common Shares of the Registrant held by non-affiliates was $242,312. 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, 2017, which was $13.20. For purposes of this information, the 1,031,950 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 6, 2018, there were 32,874,804 Common Shares and 6,357 Class B Common Shares outstanding.

Documents Incorporated By Reference

Portions of the Registrant’s definitive Proxy Statement to be filed in connection with its 2018 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, 2017.

INVACARE CORPORATION
2017 ANNUAL REPORT ON FORM 10-K CONTENTS

Part I Item 1. Business

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Item 1. Business.

GENERAL

Invacare Corporation (“Invacare,” “company,” including its subsidiaries, unless otherwise noted) is a leading manufacturer and distributor in its markets for medical products used in non-acute care settings. At its core, the company designs, manufactures and distributes medical products that help people to move, breathe, rest and perform essential hygiene. The company provides medical product 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, independence, active lifestyles and support long-term conditions and palliative 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 and their care providers. 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 2017 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 product categories: custom power wheelchairs; custom manual wheelchairs; electromotive technology to augment wheelchairs and recreational products; recreational adaptive sports products; non-acute bed systems; patient transfer and bathing equipment; and supplementary respiratory therapy devices.

THE NON-ACUTE DURABLE MEDICAL EQUIPMENT INDUSTRY

The non-acute durable medical equipment market includes a broad range of equipment and services that enable the care and lifestyle needs of individuals with a broad range of conditions. With expected long-term pressure on controlling healthcare spending per capita, the company believes the market for equipment and services that support higher acuity care in lower acuity settings will continue to grow. Healthcare payors and providers continue to optimize therapies for improved outcomes and reduced cost protocols which result in earlier discharge, including recovery and treatment at non-acute settings. Care in these settings may reduce exposure to concomitant issues and be preferred by patients.

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.

Macro trends are occurring to the global aging population. While institutional care will likely remain an important part of healthcare systems in the wealthiest economies, the company believes care settings other than traditional hospitals will increasingly provide higher acuity care. With a broad product offering, diversified channels of trade, and infrastructure serving many of the largest healthcare economies, the company believes it is well positioned to benefit from these demographic trends and changes to the provision of healthcare.

North America Market

The United States' population is growing and aging. As a result, there is a greater prevalence of disability among major populations and a greater need for assistance and care. The U.S. Census Bureau has projected the U.S. population will continue to grow towards to an estimated 400 million by 2050. Along the way, the bolus of Baby Boomers will continue to raise the average age of the population. By 2030, the government estimates the percent of the U.S. population over the age of 65 will rise to be more than 20% of all residents, a 50% increase compared to 13% of the population in 2010.

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In the United States, healthcare provision is supported by reimbursement from the federal Centers for Medicare and Medicaid Services (“CMS”), the Veterans Administration, state agencies, private payors and healthcare recipients themselves. In total, CMS estimates U.S. national healthcare expenditures to grow by more than 5% annually between 2017 and 2026. At this rate, healthcare spending would exceed GDP growth by 1%, which will sustain pressure to deploy care in ways that deliver the best outcomes for lower cost.

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, Middle East and Africa Markets

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 and service requirements, regulations, distribution needs and reimbursement policies. These differences, as well as differences in the competitive landscape, 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, ability to reduce total cost of care, and customer service.

The company serves various markets in the Middle East and Africa. It approaches these markets with the global portfolio of products developed and manufactured elsewhere. Sales in these territories are made somewhat opportunistically to balance the changes in level of demand and specific products required. Often, sales are to fulfill episodic tenders and do not often represent consistent sustained trade. Sales reported in the European segment result

from business conducted principally in Western European markets.

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 China, Japan, Korea, India and Southeast Asia.

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 end-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® (Total Driving eXperience) brand name as well as the ROVI® X3 power base offered through the Motion Concepts subsidiary. The TDX line of power wheelchairs offers a combination of power, stability and maneuverability,

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including the 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, the company's Adaptive Switch Labs (ASL) subsidiary has developed alternative electronic control systems and human/machine input devices that enable wheelchair and environmental control via alternative interfaces to joysticks, such as sip/puff, eye-gaze, or head position inputs. The Motion Concepts subsidiary designs and produces custom powered seating and power 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 electronic control systems for power wheelchairs that enable users to operate the device and permit wireless programming, remote diagnostics, and touchscreen controls. 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 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 seating and positioning systems, custom molded and modular 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. 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 Invacare branded manual, semi-electric and fully-electric beds for both residential care and home use for a range of patient sizes. The company's offering includes bed accessories, such as bedside rails, overbed tables and trapeze bars. The company’s bed systems introduced the split-spring bed design, which is easier for home medical equipment 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, manufac-tures 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.

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- 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.

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 Platinum® and Perfecto2™ 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.
- Portable Oxygen Concentrators. The fastest growing modality of providing supplementary oxygen is the battery-powered portable category. Invacare's recently launched Platinum® Mobile Oxygen Concentrator has among the most competitive features in the four- and five-liter equivalent category, including the addition in 2017 of the industry's first wireless informatics platform in the five-pound category to support the needs of providers and end-users.
- Oxygen Refilling Devices. The Invacare® HomeFill® Oxygen System is an alternative source of ambulatory oxygen that allows patients to fill their own convenient

small portable oxygen cylinders from a stationary oxygen concentrator at home. This enables users to have high flow stationary oxygen while at home and an easy form of mobile oxygen while away. As a result, medical equipment providers can significantly reduce 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.

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. During 2017, manual wheelchair products were manufactured in Switzerland, Sweden and France with recently announced plans to consolidate these operations in 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 from company facilities in the U.S. In total, the Europe segment comprised 55.4%, 51.1% and 46.9% of the net sales from continuing operations in 2017, 2016 and 2015, respectively.

North America

North America includes the following segments combined for the United States and Canada:

- North America/Home Medical Equipment (NA/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 previously included Garden City Medical Inc. ("GCM"), which was sold on September 30, 2016. The NA/HME segment represented 33.2%, 38.5% and 41.6% of the net sales from continuing operations in 2017, 2016 and 2015, 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 undertaking renovation projects and new construction. The IPG segment comprised 6.2%, 6.1% and 7.6% of net sales from continuing operations in 2017, 2016 and 2015, respectively.

Asia/Pacific

The company’s Asia/Pacific segment combines two businesses - a sales and services business supporting customers principally in Australia and New Zealand and, to a lesser extent, other pan-Asian markets. The Asia/Pacific segment also includes Dynamic Controls Limited (DCL), the company's business that designs and manufactures control systems for Invacare respiratory and powered mobility products and supplies components for other third-party devices. The Asia/Pacific segment represented 5.2%, 4.3% and 3.9% of the net sales from consolidated continuing operations in 2017, 2016 and 2015, respectively.

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 NA/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.

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

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, principally wheelchair and bed frames, carry a lifetime warranty.

COMPETITION

The durable medical equipment markets are highly competitive, and Invacare products face significant competition from other well-established manufacturers and distributors. Each country has a set of unique conditions including healthcare coverage, forms and levels of reimbursement, presence of payor and provider structures and various competitors. Many factors may play a role in the selection of products and success of the company including specific features, aesthetics, quality, availability, service levels and price. 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 may persist in major markets, like the U.S. These pressures have and may again significantly alter market dynamics. Increasingly, customers have access to manufacturers in low cost locations and are able to source certain products directly in lieu of purchasing from Invacare or its traditional competitors, principally for less complex products where price is the prime selection criterion.

The company believes that successfully increasing market share is dependent on providing value to the customer based on clinical benefits, quality, performance, durability of the company’s products and services. Customers also value the technical and clinical expertise of the company’s sales force, the effectiveness of the company's distribution system, the strength of its dealer and distributor network, the availability of prompt and reliable service for its products, and the ease of doing business with the company. The company's focus on quality is paramount. By embracing quality in all aspects of the company’s activities, the company believes that its products will be better aligned to customer needs, more quickly brought to market and ultimately will result in a better customer experience and economic return. The company expects its focus on quality excellence to be a competitive advantage.

SALES, 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 2017, the NA/HME salesforce was primarily organized into two groups of specialized sales professionals focused on complex rehabilitation and post-acute care. Each team is focused on clinically complex products and solutions to support customer needs.

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The IPG post-acute sales organization consists of company 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 undertaking renovation projects 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. In 2017, the company sponsored Miss Wheelchair USA, a program promoting self-confidence, community service and celebrating the achievements of women with disabilities. Sponsorship of several individual wheelchair athletes and teams continued in 2017, including top-ranked male and female racers and handcyclists and wheelchair basketball teams. In addition, the company continued to support disabled veterans with its 37th year of continuous sponsorship of the National Veterans Wheelchair Games, the largest annual wheelchair sporting event in the world. The company also sponsored Invictus Games, a global sporting event, to inspire recovery in veterans from all over the world. These sporting events bring a competitive and recreational sports experience to military veterans who use various assistive technology devices 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, inventory 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 uses an employee sales force and independent distributors. In markets where the company has its own sales force, product sales are made to medical equipment dealers and 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 comprises revenue from two businesses. Invacare Asia/Pacific sells and rents durable medical equipment, principally in Australia and New Zealand. It uses an employee sales force and service representative to support this revenue. The other business, DCL, uses a global employee sales force to sell electronic controls systems and components to related parties in Invacare and to independent customers. Products are distributed throughout Asia from global sources via a network of distribution nodes designed to optimize cost, inventory and delivery performance.

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 2017, Invacare Australia sponsored the Summer Down Under Series, which culminated in the Oz Day 10K classic wheelchair race on Australia Day. In 2017, Invacare New Zealand sponsored the Halberg Junior Disability Games and worked with local organizations to improve access for people with disabilities. Invacare supports a number of sporting organizations in the region, including Invictus 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 unreported 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

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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 claim settlements. While actuarial analysis is used to help determine adequate reserves, the company is responsible for determining and recording adequate reserves in accordance with accepted loss reserving standards and practices.

PRODUCT DEVELOPMENT AND ENGINEERING

The company's strategy includes developing a cadence of meaningful new products in key markets and product areas. As the results of work among the company's development groups in N. America, Europe and Asia, Invacare launched a series of new innovations in 2017, including the following:

- The Invacare® TDX® SP2 Power Wheelchair with LiNX® Technology and Ultra Low Maxx Seating. The TDX SP2 power wheelchair builds on several of Invacare's core patented technologies, including SureStep® suspension, Stability Lock and G-Trac™ tracking technology, which ensure smooth driving and maneuverability. LiNX is revolutionary technology that allows high-end complex rehabilitation needs to be met with exceptional functionality and ease of use. The LiNX electronics system includes a touch screen display, wireless programming and remote monitoring for better clinical evaluations, easy, intuitive programming and great connected functionality for providers.

- The company expanded its healthcare informatics offering via the launch of the enhanced Invacare® Platinum® Mobile Oxygen Concentrator with Connectivity. This product brings new technology to respiratory end-users and home medical equipment providers that helps build patient confidence, offers a lightweight portable oxygen solution, and allows the end-user and provider to share product data easily for improved usability.

- Invacare Europe launched the new Orion and Comet Scooters. Built from high-quality robust materials, the new scooters offer maximum durability, strength and reliability. Featuring ten new interchangeable shroud colors and an extensive range of accessories, these scooters are adaptable to individual needs.

- The küschall K-Series attract, küschall Champion, and küschall Advance active manual wheelchairs were launched in the United States in February 2017. Featuring a minimalist aesthetic philosophy, küschall products are designed to be lighter and sleeker with fewer parts so that people see the individual in the chair, not the chair itself.

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 inputs from Invacare facilities, contract manufacturers and key suppliers.

The company continues to emphasize quality excellence and efficiency across 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 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 of internal and external sources. The company utilizes regional sourcing offices to identify, develop and manage its external 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 used to optimize cost 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, inventory and cost.

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. The Europe segment uses these internal sources and some external sources of finished goods and components to create the portfolio of products it distributes. Products distributed in Europe are used by internal and external customers worldwide.

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Asia/Pacific

Invacare Asia/Pacific manufactures control systems and components used primarily in mobility and respiratory devices that serve global markets through the company's wholly-owned factory in Suzhou, Jiangsu Province, China. The company operates distribution nodes in several countries to supply customer needs while optimizing cost, inventory and service levels.

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 payor's budgets have impacted reimbursement levels for healthcare programs. Private insurance companies often mimic changes in government programs. Reimbursement guidelines in the home healthcare industry have a substantial 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 typically the medical equipment providers to end-users.

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, distribution and marketing 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. In general, Class I devices must comply with general controls, including, but not limited to, requirements related to

establishment registration and device listing, labeling, medical device reporting, and the Quality System Regulation (QSR). In addition to general controls, certain Class II devices must comply with design controls, premarket notification, and applicable special controls. Domestic and foreign manufacturers of medical devices sold in the U.S. are subject to being inspected by FDA. In addition, some foreign governments have adopted regulations relating to the design, manufacture and marketing of health care products.

Other Medical Device Regulators

Outside the U.S., it is customary for foreign governments to have a ministry of health or similar body that regulates and enforces regulations relating to the design, manufacture, distribution and marketing of medical devices. In some cases, there are common standards for design and testing. In some cases, there are country-specific requirements. These regulations are not always harmonized with those from other jurisdictions and in some cases, the consequence in costs, time to enter a market or support a product may be significant.

2012 Consent Decree, Taylor Street and Corporate Facilities

In December 2012, the company became subject to a consent decree of injunction filed by FDA with respect to the company's Corporate facility and its Taylor Street manufacturing facility in Elyria, Ohio, which was an exhibit to the company's Form 8-K filed on December 20, 2012. The consent decree initially limited the company's (i) manufacture and distribution of power and manual wheelchairs, wheelchair components and wheelchair sub-assemblies at or from its Taylor Street manufacturing facility, except in verified cases of medical necessity, (ii) design activities related to wheelchairs and power beds that take place at the impacted Elyria facilities and (iii) replacement, service and repair of products already in use from the Taylor Street manufacturing facility. Under the terms of the consent decree, in order to resume full operations, the company had to successfully complete independent, third-party expert certification audits at the impacted Elyria facilities, comprised of three distinct certification reports separately submitted to, and accepted by, FDA; submit its own report to the FDA; and successfully complete a reinspection by FDA of the company’s Corporate and Taylor Street facilities.

On July 24, 2017, following its reinspection of the Corporate and Taylor Street facilities, FDA notified the company that it was in substantial compliance with the QSR and, at that time, the company was permitted to resume full operations at those facilities including the resumption of unrestricted sales of products made in those facilities.

The consent decree will continue in effect for a minimum of five years from July 24, 2017, during which time the company’s Corporate and Taylor Street facilities must

complete to two semi-annual and then four annual audits performed by a company-retained expert firm. The expert audit firm will determine whether the facilities remain in continuous compliance with the Federal Food, Drug and Cosmetic Act (FDA Act), regulations and the terms of the consent decree. The FDA has the authority to inspect these facilities and any other FDA registered facility, at any time. As of the date of the filing of this Form 10-K, the first expert audit of the Corporate and Taylor Street facilities has been completed and the result submitted to FDA.

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, FDA Act 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 FDA Act. FDA also may assess liquidated damages for shipments of adulterated or misbranded devices 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

As required, the company’s facilities which produce products for sale in the U.S. are registered with FDA. Those facilities are subject to inspections by FDA at any time. Recent inspections of company facilities by or on behalf of FDA are summarized in the following paragraphs.

In June 2017, FDA inspected the company's Corporate and Taylor Street facilities in connection with the consent decree, as described above, and issued an inspectional observation on Form 483. The company submitted its response to the agency in a timely manner. On July 24, 2017, the FDA notified the company that it was in substantial compliance with the QSR and that it was permitted to resume full operations at those facilities.

In September 2017, Alber GmbH, a wholly owned subsidiary of the company, received a warning letter from the FDA. The warning letter required completion of corrective actions to address FDA Form 483 observations issued following an inspection of Alber’s facility in Albstadt, Germany in May 2017. As a consequence of the warning letter, all Alber devices could not be imported into the United States until all findings were corrected to FDA’s satisfaction. On January 3, 2018, FDA notified the company that Alber’s responses to the warning letter were adequate, and that FDA had, as of that date, removed the import suspension. FDA is expected to conduct a follow-up inspection of Alber’s facility in Q2 2018 and the warning letter cannot be fully resolved until successful completion of the inspection. The company cannot predict the outcome of this inspection.

In October 2017, FDA inspected the Corporate and Taylor Street facilities to investigate an anonymous complaint concerning one of the company’s Verification of Medical Necessity documents under the consent decree. There were no Form 483 observations issued by FDA at the conclusion of the inspection.

In November 2017, FDA inspected the company’s facility in Pinellas Park, Florida and issued its observations on Form 483, one of which was annotated as corrected and verified at the conclusion of the inspection. The company has submitted its response to the agency in a timely manner.

In November 2017, the FDA inspected the company's facility in Sanford, Florida and issued its observations on Form 483, and the company submitted its response to the agency in a timely manner. The Sanford facility is the subject of a warning letter from the FDA issued in December 2010 related to quality systems processes and procedures and the company continues to work on addressing the FDA's citations.

In November 2017, the FDA inspected the company's facility in Porta Westfalica, Germany, and there were no inspectional observations issued at the end of the inspection.

In December 2017, the California Department of Public Health, on behalf of FDA, inspected the company's facility in Simi Valley, California and there were no inspectional observations issued at the end of the inspection.

The company will continue working to resolve outstanding matters with FDA including issues raised in inspectional observations. It is expected that all facilities will continue to be inspected by FDA or other agencies. The frequency, duration, scope, findings and consequences of these inspections cannot be predicted.

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

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

National Competitive Bidding

In the United States, 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, 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. 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. In 2016, CMS 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. The company’s exposure to effects of NCB rate reductions and any similar reductions from private payors or state agencies can increase the company's credit risk associated with 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.

In addition, the consequence of reduced reimbursement has and may continue to compel customers to consider alternative sources of supply, which may be available at lower purchase prices, thereby reducing sales of the company or the price at which customers will transact for certain products.

Although reductions in CMS payments are disruptive to the homecare industry, the company believes it can grow and thrive in this environment. The company intends to continue productivity initiatives to lower the costs to serve customers, thereby enabling the company to profitably meet lower customer price targets. The company also produces certain solutions, which can provide lower total cost of business for its customers. 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 system, Platinum Mobile oxygen concentrator, as well as 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. Similarly, the informatics capabilities the company launched for power wheelchairs and respiratory devices in 2017 enable customers to more cost effectively provide service and support their end-user customers. The company intends to continue developing solutions that help providers improve profitability and reduce the overall cost of care for payors.

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, 2017, the company had approximately 4,200 employees.

FOREIGN OPERATIONS AND EXPORT SALES

The company also markets its products for export to other foreign countries. In 2017, 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, One Invacare Way, Elyria, OH 44035. The contents of the company's website are not part of this Annual Report on Form 10-K.

Part I Item 1. Business

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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, inability to bid on or win certain contracts, inability to rebuild negatively impacted customer relationships, unabsorbed capacity utilization, including fixed costs and overhead; any circumstances or developments that might adversely impact the third-party expert auditor’s required audits of the company’s quality systems at the facilities impacted by the consent decree, including any possible failure to comply with the consent decree or FDA regulations; 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 warning letters or 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; possible adverse effects on the company's liquidity that may result from delays in the implementation or realization of benefits of its current business initiatives, or from any requirement to settle conversions of its outstanding convertible notes in cash; product liability or warranty claims; product recalls, including more extensive warranty or recall experience than expected; 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 United States administration’s policies, and any legislation or regulations that may result from those policies, and of new United States tax laws, rules, regulations or policies; 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 U.S. 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 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.

In December 2012, the company became subject to a consent decree of injunction filed by FDA with respect to the company's Corporate facility and its Taylor Street manufacturing facility in Elyria, Ohio. The consent decree initially limited the company's (i) manufacture and distribution of power and manual wheelchairs, wheelchair components and wheelchair sub-assemblies at or from its Taylor Street manufacturing facility, except in verified cases of medical necessity, (ii) design activities related to wheelchairs and power beds that take place at the impacted Elyria facilities and (iii) replacement, service and repair of products already in use from the Taylor Street manufacturing facility. Under the terms of the consent decree, in order to resume full operations, the company had to successfully complete independent, third-party expert certification audits at the impacted Elyria facilities, comprised of three distinct certification reports separately submitted to, and accepted by, FDA; submit its own report to the FDA; and successfully complete a reinspection by FDA of the company’s Corporate and Taylor Street facilities.

On July 24, 2017, following its reinspection, FDA notified the company that it was in substantial compliance with the QSR and, at that time, the company was permitted to resume full operations at those facilities including the resumption of unrestricted sales of products made in those facilities.

The consent decree will continue in effect for a minimum of five years from July 24, 2017, during which time the company's Corporate and Taylor Street facilities must complete two semi-annual and then four annual audits

performed by a company retained expert firm. The expert audit firm will determine whether the facilities remain in continuous compliance with the FDA Act, regulations and the terms of the consent decree. The FDA has the authority to inspect these facilities and any other FDA registered facility, at any time. The FDA also has the authority to order the company to take a wide variety of remedial actions if the FDA finds that the company is not in compliance with the consent decree or FDA regulations. The FDA also has authority under the consent decree to assess liquidated damages for any violations of the consent decree, FDA regulations or the FDA Act. 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 the 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.

The limitations previously imposed by the FDA consent decree negatively affected net sales in the NA/HME segment and, to a certain extent, the Asia/Pacific segment beginning in 2012. The limitations led to delays in new product introductions. Further, uncertainty regarding how long the limitations would be in effect limited the company’s ability to renegotiate and bid on certain customer contracts and otherwise led to a decline in customer orders.

Although the company has been permitted to resume full operations at the Corporate and Taylor Street facilities, the negative effect of the consent decree on customer orders and net sales in the NA/HME and Asia/Pacific segments has been considerable, and it is uncertain as to whether, or how quickly, the company will be able to rebuild net sales to more typical historical levels, irrespective of market conditions. Accordingly, when compared to the company's 2010 results, the previous limitations in the consent decree had, and likely may continue to have, a material adverse effect on the company's business, financial condition and results of operations. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

The company’s medical devices are subject to extensive regulation in the United States by 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

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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. The inability to obtain export certificates for products produced at its Sanford facility 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.

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 facilities of medical device companies and has continued to actively inspect the company's facilities, other than through the processes established under the consent decree. Recent inspections for which follow-up remains ongoing are summarized in Item 1. Business-Government Regulation-FDA-Other FDA Matters. The FDA has informed the company of further upcoming inspections to its facilities, and the company believes that additional inspections beyond those for which it has been notified will likely occur in the near future. Accordingly, the company expects that the FDA will from time to time, inspect substantially all the company's domestic and foreign FDA-registered operational facilities and may do so repeatedly. The results of regulatory claims, proceedings or investigations are difficult to predict. An unfavorable resolution or outcome of any matter that may arise out of any FDA inspection of the company's facilities, 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 European Union member states, 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.

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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 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 FDA warning letters related to its Sanford, Florida and Albstadt, Germany facilities.

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.

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

Reduced government reimbursement levels and changes in reimbursement policies have in the past added, and could continue to add, significant pressure to the company's revenues and profitability. For example, in 100 metropolitan areas, the CMS introduced its NCB program which set new, lower payment rates for medical equipment and supplies. Round 1 of NCB for nine metropolitan areas in

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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 2 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 U.S., 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 U.S. 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 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 U.S. 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 has been immaterial for the company. 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. In January 2018, Congress passed a moratorium to suspend the excise tax until January 2020.

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.

If the company’s business transformation efforts are ineffective, the company’s strategic goals, business plans, financial performance or liquidity 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

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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, or 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 or may not be able to attract and retain the necessary talent, 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.

If the company's business transformation efforts prove ineffective and it continues to experience negative cash flows and losses, the company may require additional financing. Under these circumstances, such financing may be difficult or expensive to obtain, and the company can make no assurances that it would be available on terms acceptable to the company, if at all.

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 U.S. 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, during 2017, the devaluation of the Euro 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. had 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.

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

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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; cybersecurity 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.

Increased IT security threats and more sophisticated and targeted computer crime could pose a risk to the company’s systems, networks, products and services.

Increased global IT security threats and more sophisticated and targeted computer crime pose a risk to the security of the company’s systems and networks as well as the confidentiality, availability and integrity of the company’s data, including potential general data protection regulation and Health Insurance Portability and Accountability Act risks. While the company attempts to mitigate these risks by employing a number of measures, including employee training, monitoring of its networks and systems, and maintenance of backup and protective systems, the company’s systems, networks, products and services remain potentially vulnerable to advanced persistent threats. Through its sales channels, the company may collect and store confidential information that customers provide to, among other things, purchase products or services, enroll in promotional programs and register on the company’s website. The company may also acquire and retain information about suppliers and employees in the normal course of business. The company also creates and maintains proprietary information that is critical to its business, such as its product designs and manufacturing processes.

Despite the company’s efforts to secure its systems and networks, the company could experience a significant data security breach. Computer hackers may attempt to penetrate the company’s or its vendors’ information systems and, if successful, misappropriate confidential customer, supplier, employee or other business information, such as company intellectual property. Third parties could also gain control of company systems and use them for criminal purposes. Depending on their nature and scope, such threats could result

in the loss of existing customers, difficulty in attracting new customers, exposure to claims from customers, financial institutions, payment card associations, employees and other persons, imposition of regulatory sanctions or penalties, in additional expenses or lost revenues, or in other adverse consequences, any of which could have a material adverse effect on the company’s business and results of operations.

The company is dependent upon its processes and procedures to ensure essential operational functions can continue during events that disrupt normal operations.

A major natural or manmade disaster such as terrorist attack, fire, hurricane, tornado, earthquake, or flood could cause damage to the company or key supplier facilities, limiting the company’s ability to sustain operations. The damage could result in an inability to meet customer demands resulting in the loss of associated sales and profits, and in property losses in excess of insurance coverage. While the company has put in place procedures to ensure essential functions continue in the event of a crisis, there is no guarantee that its procedures will be adequate or sufficient to handle a given unforeseen event.

The industry in which the company operates is highly competitive and some of the company’s competitors may have greater financial resources, a more effective 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 or potential new market entrants. 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. new or disruptive products which compete with the company's products may be introduced in the market or may find higher level or customer acceptance than the company's products. 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

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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. For example, the company's closure of it Suzhou, China facility requires the transfer of cash to settle intercompany balances and the eventual repatriation of cash upon legal dissolution. Any financial institution failure or repatriation delay could adversely impact the company's ability to fund normal operations, capital expenditures, or service debt, which could adversely affect the company's results.

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 new United States tax laws, rules, regulations or policies;
- 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 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 dispositions the

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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.

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. For example, the recently announced proposed tariffs on steel and aluminum to be imposed by the U.S. could have a significant on the company's cost of product. 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.

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The company's ability to manage an effective supply chain is a key success factor.
The company needs to manage its supply chain from sourcing to manufacturing and distribution. Successful supply chain management is based on building strong supplier relationships, and built on conforming, quality products delivered on-time and at a fair price. Cost reduction efforts depend on the company's execution of global and regional product platforms that create leverage in sourcing. If the company's supply chain management or cost reduction efforts are ineffective, the company's revenues and profitability can be negatively impacted.
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 more substantially focused on quality remediation activities displacing activities relating to the design of new products.

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 and to differentiate the company's brands from its 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 (the “2021 Notes”) and $120,000,000 aggregate principal amount of 4.50% Convertible Senior Notes due 2022 (the

“2022 Notes”) 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 the company's domestic and Canadian assets, other than real estate, and by substantially all 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.

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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, 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, 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.

The company may not have the ability to raise the funds necessary to settle conversions of the 2021 Notes or 2022 Notes.

Upon any conversion of the 2021 Notes or 2022 Notes prior to the company’s receipt of shareholder approval to issue upon conversion of the notes more than 19.99% of the outstanding common shares, the company will be required to make cash payments in respect of the notes being converted. Unless the company obtains shareholder approval and elects to deliver solely common shares to settle such conversion (other than paying cash in lieu of delivering any fractional share), the company will be required to make cash payments in respect of the notes being converted. Any requirement to deliver cash upon conversion of the notes could adversely affect the company’s liquidity, and the company may not have enough available cash or be able to obtain financing at the time it is required to pay cash in settlement of notes being converted.

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

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

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

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

The company's research and development and manufacturing processes are subject to federal, state, local and foreign environmental requirements, including requirements governing the discharge of pollutants into the air or water, the use, handling, storage and disposal of

hazardous substances and the responsibility to investigate and clean up contaminated sites. Under some of these laws, the company also could be held responsible for costs relating to any contamination at the company's past or present facilities and at third-party waste disposal sites. These could include costs relating to contamination that did not result from any violation of law and, in some circumstances, contamination that the company did not cause. The company may incur significant expenses relating to the failure to comply with environmental laws. The enactment of stricter laws or regulations, the stricter interpretation of existing laws and regulations or the requirement to undertake the investigation or remediation of currently unknown environmental contamination at the company's own or third-party sites may require the company to make additional expenditures, which could be material.

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

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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 new United States tax laws, rules, regulations or policies, and any legislation or regulations which may result from those policies.

The Tax Cuts and Jobs Act ("Tax Act") was enacted on December 22, 2017. The Tax Act significantly revamped U.S. taxation of corporations, including a reduction of the federal income tax rate from 35% to 21%, a limitation on interest deductibility, and a new tax regime for foreign earnings. The limitation on interest deductibility, the new U.S. taxes on accumulated and future foreign earnings, other adverse changes resulting from the Tax Act, or a change in the mix of domestic and foreign earnings, might offset the benefit from the reduced tax rate, and the company's future effective tax rates and/or cash taxes may increase, even significantly, or not decrease much, compared to recent or historical trends. Many of the provisions of the Tax Act are highly complex and may be subject to further interpretive guidance from the IRS or others. Some of the provisions of the Tax Act may be changed by a future Congress or challenged by the World Trade Organization ("WTO") or be subject to trade or tax retaliation by other countries. Although the company cannot predict the nature or outcome of such future interpretive guidance, or actions by a future Congress, WTO or other countries, they could adversely impact the company's financial condition, results of operations and cash flows.

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 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.

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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 and may undertake further deployment of systems in other geographies of parts of the business. The complexities and business process changes associated with such an ERP upgrade can 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.

The Company May Experience Volatility in the Market Price of its Common Shares

The market price of the company's common shares may be influenced by lower trading volume and concentrated ownership relative to many other publicly-held companies. Because several of the company's shareholders own significant amounts of the company's outstanding common shares, the common shares are relatively less liquid and therefore more susceptible to price fluctuations than many other companies' shares. If any one or more of these shareholders were to sell all or a portion of their holdings of company common shares at once or within short periods of time, or there was an expectation that such a sale was imminent, then the market price of the company's common shares could be negatively affected.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

The company owns or leases its manufacturing facilities, warehouses and offices 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, 2017 is set forth in Leases and Commitments in the Notes to the Consolidated Financial Statements of the company included in this report. The company's corporate headquarters is in Elyria, Ohio and a summary of the company's materially important properties by segment is as follows:

	Owned		Leased	
	Number	Square Feet	Number	Square Feet
Manufacturing Facilities				
Europe	3	349,612	6	513,601
NA/HME	1	152,256	10	520,417
Asia/Pacific	—	—	2	30,518
	4	501,868	18	1,064,536
Warehouse and Office Facilities				
Europe	3	39,289	48	445,391
NA/HME	—	—	11	469,831
IPG	—	—	1	10,786
Asia/Pacific	—	—	4	76,221
	3	39,289	64	1,002,229

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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 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 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. On July 24, 2017, following its reinspection of the Corporate and Taylor Street facilities, FDA notified the company that it was in substantial compliance with the QSR and, at that time, the company was permitted to resume full operations at those facilities, including the resumption of unrestricted sales of products made in those facilities.

The consent decree will continue in effect for a minimum of five years from July 24, 2017, during which time the company’s Corporate and Taylor Street facilities must complete to two semi-annual and then four annual audits performed by a company-retained expert firm. The expert audit firm will determine whether the facilities remain in continuous compliance with the FDA Act, regulations and the terms of the consent decree.

The FDA has the authority to inspect the Corporate and Taylor Street facilities, and any other FDA registered facility, at any time. The FDA also has the authority to order the company to take a wide variety of actions if the FDA finds that the company is not in compliance with the consent decree, FDA Act or FDA regulations, including requiring the company to cease all operations relating to Taylor Street products. The 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 the 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 Act or FDA regulations. FDA also may assess liquidated damages for shipments of adulterated or misbranded devices 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.

Additional information regarding the consent decree is included in Item 1. Business - Government Regulation; Item 1A. Risk Factors; Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; and in Contingencies in the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures.
None.

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Part I Executive Officers of the Registrant

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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	50	Chairman, President and Chief Executive Officer
Kathleen P. Leneghan	54	Senior Vice President and Chief Financial Officer
Dean J. Childers	51	Senior Vice President and General Manager, North America
Anthony C. LaPlaca	59	Senior Vice President, General Counsel and Secretary
Ralf Ledda	50	Senior Vice President and General Manager, Europe, Middle East & Africa

* 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 Syneos Health (NASDAQ: SYNH), a contract research organization serving the needs of pharmaceutical clients.

Kathleen P. Leneghan was appointed Senior Vice President and Chief Financial Officer on February 22, 2018, after having served as Interim Chief Financial Officer since November 2017. She served as Vice President and Corporate Controller of the company since 2003. Ms. Leneghan has been employed by the company for 27 years, serving in various financial roles in North America and Europe. Prior to joining the Company, Ms. Leneghan was an audit manager with Ernst &Young LLP.

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 through 2014, Mr. Childers served as Vice President, Logistics at Zimmer, Inc. (now Zimmer Biomet NYSE: ZBH), 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 in November 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.

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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 6, 2018 was 2,074 and 16, respectively. The closing sale price for the Common Shares on March 6, 2018 as reported by NYSE was $17.60. 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.

	2017			2016		
	High	Low	Cash Dividends Declared	High	Low	Cash Dividends Declared
Quarter Ended:						
December 31	$17.95	$13.95	$ 0.0125	$13.45	$8.00	$ 0.0125
September 30	16.35	12.35	0.0125	13.66	10.76	0.0125
June 30	16.65	10.25	0.0125	14.06	9.89	0.0125
March 31	13.75	9.90	0.0125	17.25	11.67	0.0125

During 2017 and 2016, 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*.

	12/12	12/13	12/14	12/15	12/16	12/17
Invacare Corporation	$100.00	$142.94	$103.54	$107.73	$81.17	$105.10
S&P 500	100.00	132.39	150.51	152.59	170.84	208.14
Russell 2000	100.00	138.82	145.62	139.19	168.85	193.58
S&P Healthcare Equipment & Supplies	100.00	127.32	153.92	165.62	178.63	234.97

* 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, 2012 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, 2017.

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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, 2017.

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)
10/1/2017 - 10/31/17	—	$—	—	2,453,978
11/1/2017 - 11/30/17	3,115	17.62	—	2,453,978
12/1/2017 - 12/31/17	—	—	—	2,453,978
Total	3,115	$17.62	—	2,453,978

(1) All 3,115 shares repurchased between October 1, 2017 and December 31, 2017 were surrendered to the company by employees for minimum tax withholding purposes in conjunction with the vesting of restricted shares awarded to the employees or exercise of non-qualified options 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 2017.

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 2018 Annual Meeting of Shareholders.

Under the terms of the company's senior credit facilities, 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, 2017, 2016 and 2015, and the consolidated balance sheets as of December 31, 2017 and 2016 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, 2014 and 2013 and consolidated balance sheet data for the fiscal years ended December 31, 2015, 2014 and 2013 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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	2017 *	2016 **	2015 ***	2014 ****	2013 *****
	(In thousands, except per share and ratio data)				
Earnings					
Net sales from continuing operations	$966,497	$1,047,474	$1,142,338	$1,270,163	$1,334,505
Loss from continuing operations	(76,541)	(42,856)	(26,450)	(68,760)	(54,334)
Net Earnings from Discontinued Operations	—	—	260	12,690	87,385
Net Earnings (Loss)	(76,541)	(42,856)	(26,190)	(56,070)	33,051
Net Earnings (Loss) per Share—Basic:					
Net loss from continuing operations	(2.34)	(1.32)	(0.82)	(2.15)	(1.70)
Net earnings from discontinued operations	—	—	0.01	0.40	2.74
Net Earnings (Loss) per Share—Basic	(2.34)	(1.32)	(0.81)	(1.75)	1.04
Net Earnings (loss) per Share—Assuming Dilution:					
Net loss from continuing operations	(2.34)	(1.32)	(0.82)	(2.15)	(1.70)
Net earnings from discontinued operations	—	—	0.01	0.39	2.73
Net Earnings (Loss) per Share—Assuming Dilution	(2.34)	(1.32)	(0.81)	(1.75)	1.04
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	$456,914	$409,072	$362,299	$405,987	$419,539
Total Assets	1,066,033	903,743	838,143	963,731	1,096,434
Current Liabilities	218,064	220,861	247,644	290,232	276,165
Working Capital	238,850	188,211	114,655	115,755	143,374
Long-Term Debt	241,405	146,088	45,092	19,732	31,184
Other Long-Term Obligations	183,270	114,407	82,589	88,805	118,276
Shareholders' Equity	423,294	422,387	462,818	565,322	670,809
Other Data					
Research and Development Expenditures	$17,796	$17,123	$18,677	$23,149	$24,075
Capital Expenditures	14,569	10,151	7,522	12,327	14,158
Depreciation and Amortization	14,631	14,635	18,204	30,941	34,399
Key Ratios					
Return on Sales % from continuing operations	(7.9)	(4.1)	(2.3)	(5.4)	(4.1)
Return on Average Assets %	(7.8)	(4.9)	(2.9)	(5.4)	2.8
Return on Beginning Shareholders' Equity %	(18.1)	(9.3)	(4.6)	(8.4)	5.3
Current Ratio	2.1:1	1.9:1	1.5:1	1.4:1	1.5:1
Debt-to-Equity Ratio	0.58:1	0.38:1	0.10:1	0.04:1	0.07:1

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* Reflects charges related to restructuring from continuing operations of $12,274,000 ($11,872,000 after-tax expense or $0.36 per share assuming dilution), net loss on convertible debt derivatives of $3,657,000 ($3,657,000 after-tax income or $0.11 per share assuming dilution), an intangible asset impairment of $320,000 ($237,000 after-tax expense or $0.01 per share assuming dilution) and a non-cash tax benefit of $1,580,000 ($0.05 per share assuming dilution) related to the revaluation of net deferred tax liabilities as a result of the new U.S. tax reform legislation.

** 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), intangible asset impairments 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), intangible asset impairments 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.

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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.

2017 was a tremendous year of progress in the company's transformation across the company. In quality milestones, the company had a major step forward with the consent decree. As of July 24, 2017, the company was able to sell without restrictions from its Elyria, Ohio power wheelchair manufacturing facility. The company launched over ten new products, including two products that move Invacare into the world of informatics - the new Invacare® TDX® SP2 Power Wheelchair with LiNX® Technology and the Invacare® Platinum® Mobile Oxygen Concentrator with Connectivity. The company also made significant investments to begin to resize its infrastructure around its new business model, as reflected in the reduction of SG&A expense.

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In 2017, Europe overcame foreign currency headwinds from the beginning of the year and delivered solid performance. Asia/Pacific demonstrated continued improvement. NA/HME continued to stabilize constant currency sequential net sales in the fourth quarter compared to the third quarter 2017 with growth in mobility and seating and respiratory products. The increase in respiratory sales was largely driven by promotional activities for the company's new portable oxygen concentrator that launched in October 2017.

The company will continue to make significant investments in its 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 providing returns. The company expects to see improved results in 2018 with Phase Two actions continuing as the company continues 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.

As a result of anticipated commercial effectiveness, the company expects increased working capital to support growth, especially of NA/HME mobility and seating products, which would include investments in demonstration units and the working capital needed to support the extended quote-to-cash process for power wheelchairs. Also, the company will make additional restructuring and capital investments as it continues to reshape the business over the course of 2018. The company expects spending on capital expenditures to increase from recent low levels to approximately $20,000,000 to $25,000,000 in 2018. As a result, the company anticipates its cash flow usage for 2018 will be similar to the cash used in 2017, including consideration of seasonality of cash flow usage during the year.

As noted previously, the company is gradually applying the transformation to the Europe segment, which may slightly reduce the segment's net sales as it begins to shift its product mix toward more clinically valued, higher-margin products. Regarding the IPG segment, the company expects its new strategic selling approach in the capital selling environment to continue to take time to yield growth. In its pursuit of increased shareholder value, the company continues to prioritize its emphasis on a culture of quality excellence and achieving its long-term earnings potential.

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.

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RESULTS OF OPERATIONS

The company has completed various divestitures over the past few years as part of its focus on other lines of business where the company’s resources can best generate returns. The most recent divested operations are explained below.

On September 30, 2016, the company completed the sale of its subsidiary, Garden City Medical Inc. for approximately $13,829,000 in cash ("GCM"), to Compass Health Brands. GCM, doing business as PMI and Pinnacle Medsource, sourced and distributed primarily single-use products under the brand ProBasics™ by PMI. GCM was part of the North America/Home Medical Equipment (NA/HME) segment. 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 sale of GCM was dilutive to the company's results. 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 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.

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 sale of the rentals businesses was not dilutive to the company's results. 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.

Reclassifications & Other Changes- During the first quarter of 2017, a subsidiary, formerly included in the Europe segment, was transferred to the NA/HME segment as the subsidiary is managed by the NA/HME segment manager effective January 1, 2017. Segment results for 2016 and 2015 have been changed accordingly. 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.

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NET SALES

2017 Versus 2016

($ in thousands USD)	2017	2016	Reported % Change	Foreign Exchange % Impact	Constant Currency % Change
Europe	535,326	534,801	0.1	(0.5)	0.6
NA/HME	320,818	402,914	(20.4)	0.1	(20.5)
IPG	59,472	64,413	(7.7)	—	(7.7)
Asia/Pacific	50,881	45,346	12.2	1.8	10.4
Consolidated	966,497	1,047,474	(7.7)	(0.1)	(7.6)
NA/HME less divested GCM	320,818	376,306	(14.7)	0.2	(14.9)
Consolidated less divested GCM	966,497	1,020,866	(5.3)	(0.1)	(5.2)

The table above provides net sales change 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, which was sold in September 2016 and not deemed a discontinued operation from an external reporting perspective. “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 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.

Consolidated net sales for 2017 decreased 7.7% for the year, to $966,497,000 from $1,047,474,000 in 2016. Foreign currency translation decreased net sales by 0.1 percentage points. Constant currency net sales decreased 7.6% compared to 2016. Higher constant currency net sales in the Europe and Asia/Pacific segments were offset by lower constant currency net sales in the North America / Home Medical Equipment (NA/HME) and Institutional Products (IPG) segments. Constant currency net sales for the company, excluding the impact of all the divested Garden City Medical (GCM) businesses, decreased 5.2% compared to 2016. Constant currency net sales is a non-GAAP financial measure - see the reconciliation table above and later in this section for 2016.

Europe - European net sales increased 0.1% in 2017 compared to 2016 to $535,326,000 from $534,801,000 as foreign currency translation decreased net sales by 0.5 of a percentage point. Constant currency net sales increased 0.6% compared to 2016. The improvements in constant currency net sales were driven primarily by increased sales of mobility and seating products partially offset by respiratory and lifestyle products. Changes in exchange rates have had, and

may continue to have, a significant impact on sales in this segment.

NA/HME - NA/HME net sales decreased 20.4% in 2017 versus the prior year to $320,818,000 from $402,914,000 with foreign currency translation increasing net sales by 0.1 of a percentage point. Constant currency net sales

decreased 20.5% compared to the prior year. Excluding the net sales impact of the divested GCM business, reported net sales decreased by 14.7% and by 14.9% on a constant currency basis. The decreases in constant currency net sales were primarily driven by reduced sales of lifestyle and respiratory products and to a lesser extent mobility and seating as well as reduced net sales into China as result of the closure of one of the company's Suzhou, China facilities. Excluding consumer product discontinued in the fourth quarter of 2016, mobility and seating net sales were flat year-over-year.

IPG - IPG net sales decreased 7.7% in 2017 over the prior year to $59,472,000 from $64,413,000 with foreign currency translation having no material impact. The decrease in constant currency net sales was driven by sales declines in the major product categories.

Asia/Pacific - Asia/Pacific net sales increased 12.2% in 2017 from the prior year to $50,881,000 from $45,346,000. Foreign currency translation increased net sales by 1.8 percentage points. Constant currency net sales increased 10.4% compared to 2016 due to net sales increases in mobility and seating products. 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.

Part II Management Discussion & Analysis Net Sales

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The following tables provide net sales at reported rates for the quarters ended December 31, September 30, June 30, and March 31, 2017, respectively, and net sales for the quarters ended December 31, September 30 and June 30, 2017, respectively, as translated at the foreign exchange rates for the quarter ended March 31, 2017 with each then compared to the net sales for the most recent prior period (constant currency sequential net sales).

	Q4 17 at Reported Foreign Exchange Rates	Foreign Exchange Translation Impact	Q4 17 at Q1 17 Foreign Exchange Rates	Q3 17 at Q1 17 Foreign Exchange Rates	Sequential Growth $	Sequential Growth %
Europe	$ 144,052	$ (12,999)	$ 131,053	$ 133,350	$ (2,297)	(1.7)%
NA/HME	79,351	(301)	79,050	79,069	(19)	—
IPG	13,804	(15)	13,789	13,941	(152)	(1.1)
Asia Pacific	13,144	44	13,188	13,686	(498)	(3.6)
Consolidated	$ 250,351	$ (13,271)	$ 237,080	$ 240,046	$ (2,966)	(1.2)%

	Q3 17 at Reported Foreign Exchange Rates	Foreign Exchange Translation Impact	Q3 17 at Q1 17 Foreign Exchange Rates	Q2 17 at Q1 17 Foreign Exchange Rates	Sequential Growth $	Sequential Growth %
Europe	$ 143,281	$ (9,931)	$ 133,350	$ 126,226	$ 7,124	5.6 %
NA/HME	79,516	(447)	79,069	77,791	1,278	1.6
IPG	13,975	(34)	13,941	15,335	(1,394)	(9.1)
Asia Pacific	14,134	(448)	13,686	12,114	1,572	13.0
Consolidated	$ 250,906	$ (10,860)	$ 240,046	$ 231,466	$ 8,580	3.7 %

	Q2 17 at Reported Foreign Exchange Rates	Foreign Exchange Translation Impact	Q2 17 at Q1 17 Foreign Exchange Rates	Q1 17 at Reported Foreign Exchange Rates	Sequential Growth $	Sequential Growth %
Europe	$ 128,485	$ (2,259)	$ 126,226	$ 119,508	$ 6,718	5.6 %
NA/HME	77,689	102	77,791	84,262	(6,471)	(7.7)
IPG	15,320	15	15,335	16,373	(1,038)	(6.3)
Asia Pacific	12,023	91	12,114	11,580	534	4.6
Consolidated	$ 233,517	$ (2,051)	$ 231,466	$ 231,723	$ (257)	(0.1)%

	Q1 17 at Reported Foreign Exchange Rates	Q2 17 at Q1 17 Foreign Exchange Rates	Q3 17 at Q1 17 Foreign Exchange Rates	Q4 17 at Q1 17 Foreign Exchange Rates	Q2 17 vs Q1 17 Sequential Growth %	Q3 17 vs Q2 17 Sequential Growth %	Q4 17 vs Q3 17 Sequential Growth %
Europe	$ 119,508	$ 126,226	$ 133,350	$ 131,053	5.6 %	5.6 %	(1.7)%
NA/HME	84,262	77,791	79,069	79,050	(7.7)	1.6	—
IPG	16,373	15,335	13,941	13,789	(6.3)	(9.1)	(1.1)
Asia Pacific	11,580	12,114	13,686	13,188	4.6	13.0	(3.6)
Consolidated	$ 231,723	$ 231,466	$ 240,046	$ 237,080	(0.1)%	3.7 %	(1.2)%

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The net sales amounts in the above table are converted at Q1 2017 foreign exchange rates so that the sequential change in net sales can be shown, excluding the impact of changes in foreign currency exchange rates.

Results for 2017 reflected the company's efforts to stabilize net sales sequentially, specifically in its NA/HME segment through new product introduction and focus on clinically complex products, and increased productivity from its new commercial salesforce. Sequential sales reflect the

general improvement for NA/HME in the second half of 2017.

Sequentially, net sales for Europe also showed improvement in the second half of 2017 as compared to the first half, which has historically been typical for this segment. The Asia Pacific segment showed strong sequential growth throughout the year while IPG sequential sales declined as the segment continued to work through its customer mix shift with the long-term care channel.

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The company realized a favorable impact from sales mix year-to-date attributable to mobility and seating products, which comprise most of the company's clinically complex product portfolio. This favorable net sales mix shift is the result of the company's continued transformation and, in particular, the implementation of Phase One of the

transformation, where the company focused on shifting and narrowing the product portfolio and alignment of resources to focus on clinically complex solutions. Declines in lifestyle products are expected with the transformation while the company is focused on reversing the declines in respiratory products.

2016 Versus 2015

($ in thousands USD)	2016	2015	Reported % Change	Foreign Exchange % Impact	Constant Currency % Change
Europe	534,801	535,372	(0.1)	(3.1)	3.0
NA/HME	402,914	475,287	(15.2)	(0.2)	(15.0)
IPG	64,413	87,137	(26.1)	(0.2)	(25.9)
Asia/Pacific	45,346	44,542	1.8	(1.7)	3.5
Consolidated	1,047,474	1,142,338	(8.3)	(1.6)	(6.7)
NA/HME less divested GCM	376,306	440,468	(14.6)	(0.3)	(14.3)
IPG less divested Rentals	64,413	72,794	(11.5)	(0.2)	(11.3)
Consolidated less all divested	1,020,866	1,093,176	(6.6)	(1.7)	(4.9)

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 NA/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.

Europe - European net sales decreased 0.1% in 2016 compared to the prior year to $534,801,000 from $535,372,000 as foreign currency translation decreased net sales by 3.1 percentage points. Constant currency net sales increased 3.0% compared to 2015. The improvements in constant currency net sales were driven by increased sales of mobility and seating and lifestyle products.

NA/HME - NA/HME net sales decreased 15.2% in 2016 versus the prior year to $402,914,000 from $475,287,000 with foreign currency translation decreasing net sales by 0.2 of a percentage point. Constant currency net sales decreased 15.0% compared to the prior year. Excluding

the net sales impact of the divested GCM business, reported net sales decreased by 14.6% and by 14.3% 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.

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.

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GROSS PROFIT

2017 Versus 2016
Consolidated gross profit as a percentage of net sales was 27.9% in 2017 as compared to 27.1% in 2016. Excluding the impact of the divested GCM business, gross profit as a percentage of net sales for 2017 increased by 0.5 of a percentage point as compared to 2016. The gross margin improvement was principally a result of the strategic shift toward mobility and seating products and reduced freight costs partially offset by increased manufacturing costs, including unfavorable impact from foreign exchange. Gross profit as a percentage of net sales increased for all segments. Gross profit dollars increased for the Europe and Asia/Pacific segments but declined in NA/HME and IPG principally due to lower net sales.

Europe - Gross profit as a percentage of net sales increased 0.4 of a percentage point in 2017 from the prior year and gross margin dollars increased by $2,547,000. The increase in margin dollars was principally due to favorable net sales mix and reduced warranty expense partially offset by unfavorable manufacturing variances, including negative impact from foreign exchange, and R&D expenses.

NA/HME - Gross profit as a percentage of net sales increased by 0.8 of a percentage point in 2017 from the prior year while gross margin dollars decreased by $16,293,000. Excluding the impact of the divested GCM business, gross margin as a percentage of net sales increased by 0.5 of a percentage point, while gross profit dollars decreased by $10,796,000. The decrease in gross profit dollars was primarily due to net sales volume declines and partially offset by reduced freight, warranty and R&D expenses as well as favorable net sales mix.

IPG - Gross profit as a percentage of net sales increased 1.3 percentage points in 2017 from the prior year and gross margin dollars decreased $681,000. The decrease in gross profit dollars was driven by volume declines partially offset by favorable sales mix and reduced freight expense.

Asia/Pacific - Gross profit as a percentage of net sales increased 0.9 of a percentage point in 2017 from the prior year and gross margin dollars increased $950,000. The increase was primarily attributable to volume increases, favorable net sales mix and reduced research and development expense partially offset by unfavorable manufacturing variances and increased warranty expense.
Sequential gross margin as a percentage of net sales and gross margin dollars stabilized during 2017 with the decline in the fourth quarter of 2017 driven by the liquidation of inventories built up over the year to facilitate smooth transitions in 2017 related to plant closures and manufacturing costs related to product transfers, and year-end promotional activities.

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The increase in gross profit dollars during the second half of 2017 was driven by volume increases, favorable sales mix, and favorable foreign currency partially offset by unfavorable manufacturing variances and increased freight and warranty expense. Sequential gross margin dollars increased in the Europe and Asia/Pacific segments but declined in the NA/HME and IPG segments.

Research and development

The company continued to invest in research and development activities in 2017. 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, increased to $17,796,000 in 2017 from $17,123,000 in 2016. The expenditures, as a percentage of net sales, were 1.8% and 1.6% in 2017 and 2016, respectively.

2016 Versus 2015
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 NA/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 NA/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 0.7 of a percentage point in 2016 from the prior year and gross margin dollars decreased by $2,937,000. 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.

NA/HME gross profit as a percentage of net sales increased by 0.5 of a percentage point in 2016 from the prior year while gross margin dollars decreased by $12,890,000 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.

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 Annual Report on Form 10-K for the total warranty provision amounts and a reconciliation of the changes in the warranty accrual.

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.

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SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

2017 Versus 2016

($ in thousands USD)	2017	2016	Reported Change	Foreign Exchange Impact	Constant Currency Change
SG&A Expenses - $	296,816	303,781	(6,965)	72	(7,037)
SG&A Expenses - % change			(2.3)	—	(2.3)
% to net sales	30.7	29.0			
Consolidated less divested GCM - $	296,816	300,252	(3,436)	72	(3,508)
Consolidated less divested GCM - % change			(1.1)	0.1	(1.2)
% to net sales	30.7	29.4			

The table above provides selling, general and administrative (SG&A) expense change as reported and as adjusted to exclude the impact of foreign exchange translation (constant currency SG&A) as well as SG&A expense further adjusted to exclude the impact of the sale of GCM, which was sold in September 2016 and not deemed a discontinued operation from an external reporting perspective. “Constant currency SG&A" is a non-GAAP financial measure, which is defined as SG&A expenses excluding the impact of foreign currency translation. The current year's functional currency SG&A expenses are translated using the prior year's foreign exchange rates. These amounts are then compared to the prior year's SG&A expenses to calculate the constant currency SG&A expense change. Management believes that this financial measure provides meaningful information for evaluating the core operating performance of the company.

Consolidated SG&A expenses as a percentage of net sales were 30.7% in 2017 and 29.0% in 2016. The overall dollar decrease was $6,965,000, or 2.3%, with foreign currency translation increasing expense by $72,000. Excluding the impact of foreign currency translation, SG&A expenses decreased $7,037,000, or 2.3%. Excluding the impact of the divested GCM business and foreign currency translation, SG&A expense decreased $3,508,000, or 1.2%, compared to 2016, primarily driven by reduced product liability and legal costs partially offset by negative impact of foreign currency transactions and higher bad debt expense.

Europe - European SG&A expenses increased by 2.9%, or $3,510,000, in 2017 compared to 2016. Foreign currency translation decreased expense by approximately $409,000 or 0.4%. Excluding the foreign currency translation impact, SG&A expenses increased by $3,919,000, or 3.3%, primarily attributable to increased employment and information technology expense.

NA/HME - SG&A expenses for NA/HME decreased 8.4%, or $11,341,000, in 2017 compared to 2016 with foreign currency translation increasing expense by $186,000 or 0.1%. Excluding the foreign currency translation, SG&A expense decreased $11,527,000, or 8.5%, Excluding the impact of the divested GCM business and foreign currency translation, SG&A expense decreased $7,998,000, or 6.0%, compared to 2016 driven primarily by decreased employment, legal and product liability costs partially offset by unfavorable foreign currency transactions.

IPG - SG&A expenses for IPG decreased by 7.1%, or $826,000, in 2017 compared to 2016. Excluding the impact of foreign currency translation, SG&A expenses decreased by $835,000, or 7.2%, primarily related to lower employment costs.

Asia/Pacific - Asia/Pacific SG&A expenses decreased 2.9%, or $459,000, in 2017 compared to 2016. Foreign currency translation increased expense by $286,000 or 1.8%. Excluding the foreign currency translation impact, SG&A expenses decreased $745,000, or 4.7%, principally related to lower employment costs and favorable foreign currency transactions.

Other - SG&A expenses related to the Other Segment increased by 10.7% or $2,151,000 in 2017 as compared to 2016 primarily related to increased employment costs.

Part II Management Discussion & Analysis SG&A

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2016 Versus 2015

($ in thousands USD)	2016	2015	Reported Change	Foreign Exchange Impact	Constant Currency Change
SG&A Expenses - $	303,781	318,646	(14,865)	(4,226)	(10,639)
SG&A Expenses - % change			(4.7)	(1.4)	(3.3)
% to net sales	29.0	27.9			
Consolidated less divested - $	300,252	302,266	(2,014)	(4,226)	2,212
Consolidated less divested - % change			(0.7)	(1.4)	0.7
% to net sales	29.4	27.7			

Consolidated 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%. 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 NA/HME IT strategy.

Europe - European SG&A expenses increased by 2.4%, or $2,810,000, in 2016 compared to 2015. Foreign currency translation decreased expense by approximately $3,224,000 or 2.7%. Excluding the foreign currency translation impact, SG&A expenses increased by $6,034,000, or 5.1%, principally related to increased employment costs.

NA/HME - SG&A expenses for NA/HME decreased 3.1%, or $4,334,000, in 2016 compared to 2015 with foreign currency translation decreasing expense by $722,000 or 0.5%. Excluding the foreign currency translation, SG&A expense decreased $3,612,000, or 2.6%, principally as a result of reduced regulatory costs in 2016, a $4,031,000 write-off of costs for a canceled legacy software program in 2015, and a reduction in expense in 2016 resulting from the GCM divestiture.

IPG - 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 - 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%. 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.

Other - 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.

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OPERATING INCOME (LOSS)

($ in thousands USD)				2017 vs. 2016		2016 vs. 2015	
	2017	2016	2015	$ Change	% Change	$ Change	% Change
Europe	33,160	34,122	39,869	(962)	(2.8)	(5,747)	(14.4)
NA/HME	(42,831)	(37,876)	(29,320)	(4,955)	(13.1)	(8,556)	(29.2)
IPG	5,839	5,693	7,834	146	2.6	(2,141)	(27.3)
Asia/Pacific	(27)	(1,436)	(3,493)	1,409	98.1	2,057	58.9
All Other	(23,706)	(20,657)	(20,712)	(3,049)	(14.8)	55	0.3
Gains on sale of businesses	—	7,386	24	(7,386)	(100.0)	7,362	30,675
Charges related to restructuring	(12,274)	(2,447)	(1,971)	(9,827)	(401.6)	(476)	(24.2)
Impairment of an intangible asset	(320)	—	—	(320)	(100.0)	—	—
Consolidated Operating Income (Loss)	(40,159)	(15,215)	(7,769)	(24,944)	(163.9)	(7,446)	(95.8)

2017 Versus 2016

Consolidated operating loss increased by $24,944,000 to a loss of $40,159,000 in 2017 from a loss of $15,215,000 in 2016. Excluding a $7,386,000 gain on sale of the GCM business in 2016, the loss increased by $17,558,000 compared to 2016 primarily due to increased restructuring costs of $9,827,000 and lower net sales.

Europe - Operating income decreased in 2017 compared to 2016 primarily related to unfavorable manufacturing costs, including unfavorable foreign exchange, and increased information technology, R&D and employment costs, partially offset by increased constant currency net sales, favorable net sales mix and reduced warranty expense.

NA/HME - Operating loss increased in 2017 compared to 2016 primarily related to net sales declines partially offset by favorable sales mix and reduced freight, employment, product liability, warranty, legal and R&D expenses. In addition, 2016 included $1,969,000 in operating income for GCM.

IPG - Operating income increased in 2017 compared to 2016 primarily related to reduced SG&A, related to employment costs, and favorable product mix principally offset by net sales declines.

Asia/Pacific - Operating loss decreased in 2017 compared to 2016 primarily related to increased constant currency net sales, favorable sales mix, reduced R&D expense, and favorable foreign exchange.

All Other - Operating loss increased in 2017 compared to 2016 due to increased employment costs.

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.

Charge Related to Restructuring Activities

The company's restructuring charges were primarily originally necessitated 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 due to the outsourcing by competitors to lower cost locations. Restructuring decisions were also the result of reduced profitability in the NA/HME and Asia/Pacific segments. In addition, as a result of the company's transformation strategy, additional restructuring actions were incurred in 2016 and continued in 2017. The company expects any near-term cost savings from restructuring will be offset by other costs because of pressures on the business.

Charges for the year ended December 31, 2017 totaled $12,274,000 which were related to NA/HME segment ($8,889,000), Europe ($1,975,000) and the Asia/Pacific segment ($1,410,000). The 2017 charges relate to plant closures/transfers and general reduction in force. In NA/HME, costs were incurred related to severance ($8,162,000) and lease termination costs ($727,000). The European charges were incurred related to severance ($1,753,000) and lease termination costs ($222,000). The Asia/Pacific charges were for severance costs. Payments for the year ended December 31, 2017 were $10,438,000 and the cash payments were funded with company's cash on hand.

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

Impairment of intangible asset

In accordance with ASC 350, Intangibles - Goodwill and Other, the company reviews intangibles for impairment. As a result of the company's 2017 intangible review, the company recognized an intangible impairment charge in the IPG segment of $320,000 ($237,000 after-tax) related to a trademark with an indefinite life. The fair value of the trademark was calculated using a relief from royalty payment methodology which requires applying an estimated market royalty rate to forecasted net sales and discounting the resulting cash flows to determine fair value.

2016 Versus 2015

Consolidated operating loss increased by $7,446,000 to a loss of $15,215,000 in 2016 from a loss of $7,769,000 in 2015. Excluding gains on sales of business in both periods, the loss increased by $14,808,000 compared to 2016 primarily due to lower net sales.

Europe - Operating income decreased in 2016 compared to 2015 primarily related to unfavorable foreign currency, pricing, warranty and R&D expense as well as increased employment costs.

NA/HME - Operating loss increased in 2016 compared to 2015 primarily related to net sales declines, increased warranty expense and reduced operating income resulting from divesting GCM, partially offset by reduced regulatory costs.

IPG - Operating income decreased in 2016 compared to 2015 primarily related to net sales declines, unfavorable sales mix and increased warranty expense partially offset by reduced SG&A, primarily related to lower employment costs.

Asia/Pacific - Operating loss decreased in 2016 compared to 2015 primarily related to increased constant currency net sales, favorable sales mix, reduced manufacturing costs, favorable foreign currency transactions and reduced employment costs partially offset by higher R&D expense.

All Other - Operating loss was relatively unchanged in 2016 compared to 2015.

Gains on Sale of Businesses

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 net assets of the rentals businesses.

Charge Related to Restructuring Activities

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

Charges for the year ended December 31, 2015 totaled $1,971,000 including charges for severance ($1,678,000) and charges primarily in the NA/HME segment ($293,000) principally related to a building lease termination. Severance charges were incurred in the NA/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. Payments for the year ended December 31, 2015 were $3,723,000 and were funded with cash on hand. The 2015 charges have been paid out.

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OTHER ITEMS

2017 Versus 2016

Net Gain (Loss) on Convertible Debt Derivatives

($ in thousands USD)	Change in Fair Value - Gain (Loss)	
	2017	2016
Convertible Note Hedge Assets	43,344	(2,504)
Convertible Debt Conversion Liabilities	(47,001)	3,772
Net gain (loss) on convertible debt derivatives	(3,657)	1,268

The company recognized a net loss of $3,657,000 in 2017 compared to a net gain of $1,268,000 in 2016 related to the fair value of convertible debt derivatives. See "Long-Term Debt" in the notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

Interest

($ in thousands USD)	2017	2016	$ Change	% Change
Interest Expense	22,907	15,875	7,032	44.3
Interest Income	(473)	(265)	(208)	(78.5)

Interest expense increased due to the convertible debt issuance in the second quarter of 2017.

Income Taxes

The company had an effective tax rate charge of 15.5% and 45.0% on losses before taxes in 2017 and 2016, respectively, compared to an expected benefit at the U.S. statutory rate of 35.0% on the pre-tax losses for each period. The company's effective tax rate in 2017 and 2016 was unfavorable compared to the U.S. federal statutory rate expected benefit, principally due to the negative impact of the company's inability to record tax benefits related to the significant losses in countries which had tax valuation allowances. During the fourth quarter of 2017, the company's effective tax rate also provisionally benefited by 2.4% due to the U.S. federal tax legislation rate reduction. The effective tax rate was reduced by certain taxes outside the United States, excluding countries with tax valuation allowances, that were at an effective rate lower than the U.S. statutory rate. During 2016, installment payments were made related to a previously disclosed liability for uncertain tax positions including accelerating the balance of the installment obligation, in order to reduce interest costs. See “Income Taxes” in the Notes to the Consolidated Financial Statements included elsewhere in this report for more detail.

2016 Versus 2015

Interest

($ in thousands USD)	2016	2015	$ Change	% Change
Interest Expense	15,875	4,136	11,739	283.8

Interest Income	(265)	(165)	(100) (60.6)

Interest expense increased 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.

Income Taxes

The company had an effective tax rate of 45.0% in 2016 compared to an expected benefit of 35.0% on the continuing operations pre-tax loss and an effective tax rate of 125.3% in 2015 compared to an expected benefit of 35.0% 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.

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.

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LIQUIDITY AND CAPITAL RESOURCES

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

Key balances on the company's balance sheet and related metrics:

($ in thousands USD)	December 31, 2017	December 31, 2016	$ Change	% Change
Cash and cash equivalents	176,528	124,234	52,294	42.1
Working capital [1]	238,850	188,211	50,639	26.9
Total debt [2]	301,415	196,501	104,914	53.4
Long-term debt [2]	299,375	181,240	118,135	65.2
Total shareholders' equity	423,294	422,387	907	0.2
Credit agreement borrowing availability [3]	39,949	44,260	(4,311)	(9.7)

(1) Current assets less current liabilities.

(2) Long-term debt and Total debt include debt issuance costs recognized as a deduction from the carrying amount of debt liability and debt discounts classified as debt or equity.

(3) Reflects the combined availability of the company's North American and European asset-based revolving credit facilities. The change is borrowing availability is due to changes in the calculated borrowing base.

The company's cash and cash equivalents were $176,528,000 and $124,234,000 at December 31, 2017 and December 31, 2016, respectively. The increase in cash balances at December 31, 2017 compared to December 31, 2016 was primarily the result of the net proceeds received from the issuance of the 2022 Notes in the second quarter of 2017 partially offset by cash utilized for normal operations and by the February 2, 2017 repurchase of all the outstanding principal amount of convertible senior subordinated debentures due 2027 (the "debentures") totaling $13,350,000 as the holders exercised their February 1, 2017 right to require the company to repurchase their debentures.

Debt repayments, acquisitions, divestitures, the timing of vendor payments, the timing of customer rebate 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 cash reported at the end of a given period may be materially different than cash 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, 2017 was approximately $1,596,000.

The company's total debt outstanding, inclusive of the debt discount related to the debentures included in equity in accordance with FSB APB 14-1 as well as the debt discount and fees associated with the company's Convertible Senior
Notes due 2021 and 2022 ("the Notes"), increased by $104,914,000 to $301,415,000 at December 31, 2017 from $196,501,000 as of December 31, 2016.

The company's balance sheet reflects the impact of ASC 470-20, which reduced debt and increased equity by $311,000 as of December 31, 2016 related to the debentures. The debt discount and fees associated with the 2021 and

2022 Notes reduced the company's reported debt balance by $57,970,000 and $34,841,000 as of December 31, 2017 and December 31, 2016, respectively. The debt increase in 2017 was principally a result of issuing $120,000,000 aggregate principal amount of 2022 Notes. At December 31, 2017 and December 31, 2016, the company had zero borrowings outstanding under its revolving credit facility.

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.

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, 2017 under the U.S. and Canadian Credit Facility of the Credit Agreement was approximately $46,431,000, with aggregate borrowing availability of approximately $26,453,000, 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

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including the period ending December 31, 2017 under the European Credit Facility of the Credit Agreement was approximately $19,871,000, with aggregate borrowing availability of approximately $13,496,000, considering the $3,000,000 minimum availability reserve and the $3,375,000 dominion trigger amount noted below. As of December 31, 2017, the combined aggregate borrowing availability under the U.S. and Canadian Credit Facility and the European Credit Facility of the Credit Agreement was $39,949,000.

As a result of entering into the Credit Agreement, the company incurred fees which were capitalized and are being amortized as interest expense through January 16, 2021 of which $1,184,000 are yet to be amortized as of December 31, 2017. 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, 2017, 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 which 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. The 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 fees which were capitalized and are being amortized as interest expense through February 2021 of which $3,745,000 have yet to be amortized as of December 31, 2017.

In the second quarter of 2017, the company issued $120,000,000 aggregate principal amount of the 2022 Notes in a private offering which bear interest at a rate of 4.50% per year payable semi-annually and will mature in June 2022,

unless repurchased or converted in accordance with their terms prior to such date. Prior to December 1, 2021, the 2022 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. The net proceeds from the offering of the 2022 notes were approximately $115,289,000, after deducting fees and offering expenses of $4,711,000. These debt issuance costs were capitalized and are being amortized as interest expense through June 2022 of which $3,947,000 have yet to be amortized as of December 31, 2017. 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 $10,680,000.

Unless and until the company obtains shareholder approval of the issuance of the company's common shares upon conversion of the Notes 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.

In connection with the Notes offerings, the company entered into privately negotiated convertible note hedge

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transactions with certain 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 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 company has used, and intends to continue to use the remaining net proceeds from the Notes offerings 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 2017 and 2016, the weighted average interest rate on all borrowings, excluding capital leases, was 4.84% and 4.85%, respectively.

See Long-Term Debt in the Notes to the Consolidated Financial Statements for more details regarding the company's credit facilities.

CAPITAL EXPENDITURES

There were no individually material capital expenditure commitments outstanding as of December 31, 2017. The company estimates that capital investments for 2018 will be approximately $20,000,000 to $25,000,000 compared to actual capital expenditures of $14,569,000 in 2017. 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.

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 2017, 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.

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CASH FLOWS

Cash flows used by operating activities were $25,774,000 in 2017, compared to cash used of $56,613,000 in the previous year. The 2017 operating cash flows were negatively impacted by net loss and declines in accrued expenses and accounts payable. Operating cash flows in 2017 were positively impacted by reduced inventory and accounts receivable. In 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 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.

Cash flows used by investing activities were $14,648,000 in 2017, compared to cash flows provided by investing activities of $3,649,000 in 2016. Cash flow used by investing activities in 2017 included an increase of approximately $5,250,000 in demonstration equipment

classified as purchases of property and equipment. The company determined the 2017 investment in certain demonstration equipment should be recorded as fixed assets and depreciated over their estimated useful life considering their estimated recoverable values. This determination was based on the company deciding to place the equipment in provider locations for longer periods of time versus historically, selling the units. Cash flows provided by investing activities in 2016 included net proceeds of $13,829,000 from the sale of GCM.

Cash flows provided by financing activities in 2017 were $88,097,000 compared to $118,549,000 in 2016. Cash flows provided in 2017 reflect net proceeds received as a result of the issuance of the 2022 Notes, including the net proceeds used for the related convertible note hedge transactions and payment of financing costs. These proceeds were partially offset by the repayment of $13,350,000 in aggregate principal amount of the 2027 Debentures. 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.

Free cash flow is a non-GAAP financial measure and is reconciled to the corresponding GAAP measure as follows:

($ in thousands USD)	Twelve Months Ended December 31,	
	2017	2016
Net cash used by operating activities	$(25,774)	$(56,613)
Plus: Sales of property and equipment	369	42
Less: Purchases of property and equipment	(14,569)	(10,151)
Free Cash Flow	$(39,974)	$(66,722)

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Free cash flow was negative $39,974,000 in 2017 compared to $66,722,000 in 2016. Free cash flow was impacted in both years by the same items affecting cash flows used by operation activities. Excluding the negative impact of $12,500,000 in tax payments, free cash flow in 2016 was negative $54,222,000. Free cash flow is a non-GAAP financial measure 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.).

Free cash flow for 2017 improved sequentially during 2017 primarily because of improved working capital management related to the benefits of inventory and accounts receivable partially offset by accounts payable, and a reduced sequential net loss. In addition, the third quarter of 2017 reflects negative free cash flow related to the closure of the company's Suzhou, China, manufacturing facility as compared to positive free cash flow generated by the facility in the second quarter of 2017. Historically, the company realizes stronger cash flow in the second half of the year versus the first half of the year and the company anticipates its cash flow usage and seasonality for 2018 will be similar to 2017.

The company's approximate cash conversion days at December 31, 2017 and December 31, 2016 are as follows:

The days in inventory increase from year end 2016 was due to lower than expected net sales and inventory build primarily related to plant closures. The increase in days in receivables compared to 2016 was driven primarily by higher sales in the last quarter of 2017 compared to the last quarter of 2016.

Days in receivables are equal to current quarter net current receivables divided by trailing four quarters of net sales multiplied by 365 days. Days in inventory and accounts payable are equal to current quarter net inventory and accounts payable, respectively, divided by trailing four quarters of cost of sales multiplied by 365 days. Total cash conversion days are equal to days in receivables plus days in inventory less days in accounts payable.

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ACCOUNTING ESTIMATES AND PRONOUNCEMENTS

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.

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.