INVACARE CORP
Form 10-Q
August 08, 2007

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from______ to______

Commission File Number 001-15103

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

Ohio	**95-2680965**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No)
One Invacare Way, P.O. Box 4028, Elyria, Ohio	**44036**
(Address of principal executive offices)	(Zip Code)

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

____
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 (the "Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes_X_ No__

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check One). Large accelerated filer _X_ Accelerated filer ___ Non-accelerated filer __

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

As of August 6, 2007, the company had 30,857,451 Common Shares and 1,110,565 Class B Common Shares outstanding.

INVACARE CORPORATION

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements.

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	June 30, 2007 (unaudited)	December 31, 2006
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 35,546	$ 82,203
Marketable securities	274	190
Trade receivables, net	264,322	261,606
Installment receivables, net	9,973	7,097
Inventories, net	197,144	201,756
Deferred income taxes	13,365	13,512
Other current assets	70,478	89,394
TOTAL CURRENT ASSETS	591,102	655,758
OTHER ASSETS	84,888	67,443
OTHER INTANGIBLES	100,739	102,876
PROPERTY AND EQUIPMENT, NET	167,491	173,945
GOODWILL	506,640	490,429
TOTAL ASSETS	$ 1,450,860	$ 1,490,451
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 139,229	$ 163,041
Accrued expenses	133,354	147,776
Accrued income taxes	1,861	12,916
Short-term debt and current maturities of long-term obligations	5,161	124,243
TOTAL CURRENT LIABILITIES	279,605	447,976
LONG-TERM DEBT	565,721	448,883
OTHER LONG-TERM OBLIGATIONS	116,528	108,228
SHAREHOLDERS' EQUITY		
Preferred shares	-	-
Common shares	8,013	8,013
Class B common shares	278	278
Additional paid-in-capital	144,945	143,714
Retained earnings	258,502	276,750
Accumulated other comprehensive earnings	119,987	99,188
Treasury shares	(42,719)	(42,579)
TOTAL SHAREHOLDERS' EQUITY	489,006	485,364
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,450,860	$ 1,490,451

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statement of Operations - (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands except per share data)	2007	2006	2007	2006
Net sales	$ 393,267	$ 371,764	$ 768,172	$ 733,468
Cost of products sold	283,321	266,199	559,170	526,607
Gross profit	109,946	105,565	209,002	206,861
Selling, general and administrative expense	93,851	88,369	181,617	171,976
Charge related to restructuring activities	1,661	2,840	4,813	5,997
Charges, interest and fees associated with debt refinancing	8	-	13,381	-
Interest expense	11,770	8,224	22,113	15,919
Interest income	(523)	(716)	(997)	(1,316)
Earnings (loss) before income taxes	3,179	6,848	(11,925)	14,285
Income taxes	3,125	1,895	5,525	4,125
NET EARNINGS (LOSS)	$ 54	$ 4,953	$ (17,450)	$ 10,160
DIVIDENDS DECLARED PER COMMON SHARE	.0125	.0125	.0250	.0250
Net earnings (loss) per share – basic	$ 0.00	$ 0.16	$ (0.55)	$ 0.32
Weighted average shares outstanding - basic	31,838	31,789	31,832	31,760
Net earnings (loss) per share – assuming dilution	$ 0.00	$ 0.15	$ (0.55)	$ 0.32
Weighted average shares outstanding - assuming dilution	31,844	32,113	31,832	32,155

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows - (unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
OPERATING ACTIVITIES	(In thousands)	
Net earnings (loss)	$ (17,450)	$ 10,160
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Debt finance charges, interest and fees associated with debt refinancing	13,381	-
Depreciation and amortization	21,880	19,096
Provision for losses on trade and installment receivables	4,100	4,224
Provision for other deferred liabilities	1,371	1,919
Provision for deferred income taxes	1,583	1,790
Gain on disposals of property and equipment	281	558
Changes in operating assets and liabilities:		
Trade receivables	(2,299)	3,591
Installment sales contracts, net	(4,192)	(2,569)
Inventories	7,874	(9,632)
Other current assets	21,126	(992)
Accounts payable	(25,061)	6,239
Accrued expenses	(25,188)	(10,909)
Other deferred liabilities	336	1,338
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	(2,258)	24,813
INVESTING ACTIVITIES		
Purchases of property and equipment	(7,770)	(9,789)
Proceeds from sale of property and equipment	462	63
Other long term assets	(187)	62
Other	(1,590)	(912)
NET CASH USED FOR INVESTING ACTIVITIES	(9,085)	(10,576)
FINANCING ACTIVITIES		
Proceeds from revolving lines of credit, securitization facility and long-term borrowings	550,940	430,840
Payments on revolving lines of credit, securitization facility and long-term debt and capital lease obligations	(566,215)	(468,507)
Proceeds from exercise of stock options	-	1,835
Payment of financing costs	(20,384)	-
Payment of dividends	(798)	(795)
NET CASH USED BY FINANCING ACTIVITIES	(36,457)	(36,627)
Effect of exchange rate changes on cash	1,143	(2,500)
Decrease in cash and cash equivalents	(46,657)	(24,890)
Cash and cash equivalents at beginning of period	82,203	25,624
Cash and cash equivalents at end of period	$ 35,546	$ 734

See notes to condensed consolidated financial statements.

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INVACARE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated
Financial Statements
(Unaudited)
June 30, 2007

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

Principles of Consolidation - The consolidated financial statements include the accounts of the company, its majority owned subsidiaries and a variable interest entity for which the company is the primary beneficiary. Certain foreign subsidiaries, represented by the European segment, are consolidated using a May 31 quarter end in order to meet filing deadlines. No material subsequent events have occurred related to the European segment, which would require disclosure or adjustment to the company's financial statements. All significant intercompany transactions are eliminated.

Reclassifications - Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the period ended June 30, 2007.

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

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

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

The company evaluates performance and allocates resources based on profit or loss from operations before income taxes for each reportable segment. The accounting policies of each segment are the same as those described in the summary of significant accounting policies for the company's consolidated financial statements. Intersegment sales and transfers are based on the costs to manufacture plus a reasonable profit element. Therefore, intercompany profit or loss on intersegment sales and transfers is not considered in evaluating segment performance.

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

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Revenues from external customers				
North America / HME	$ 166,351	$ 171,198	$ 327,883	$ 342,892
Invacare Supply Group	62,696	56,165	124,372	111,250
Institutional Products Group	21,746	22,743	45,470	45,939
Europe	119,213	104,687	226,243	200,233
Asia/Pacific	23,261	16,971	44,204	33,154
Consolidated	$ 393,267	$ 371,764	$ 768,172	$ 733,468
Intersegment Revenues				
North America / HME	$ 11,098	$ 11,736	$ 22,389	$ 25,808
Invacare Supply Group	35	68	121	81
Europe	2,496	2,906	4,904	5,675
Asia/Pacific	7,409	9,256	13,498	17,282
Consolidated	$ 21,038	$ 23,966	$ 40,912	$ 48,846
Charge related to restructuring before income taxes				
North America / HME	$ 381	$ 2,034	$ 2,811	$ 4,840
Invacare Supply Group	(29)	-	14	-
Institutional Products Group	5	-	9	25
Europe	1,155	1,100	1,941	1,438
Asia/Pacific	277	482	283	766
Consolidated	$ 1,789	$ 3,616	$ 5,058	$ 7,069
Earnings (loss) before income taxes				
North America / HME	$ 2,341	$ 6,190	$ (567)	$ 12,468
Invacare Supply Group	556	1,447	1,611	2,786
Institutional Products Group	538	952	1,133	2,505
Europe	6,596	5,941	10,520	9,633
Asia/Pacific	(909)	(1,967)	(2,019)	(3,365)
All Other *	(5,943)	(5,715)	(22,603)	(9,742)
Consolidated	$ 3,179	$ 6,848	$ (11,925)	$ 14,285

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(In thousands, except per share data)			
Basic				
Average common shares outstanding	31,838	31,789	31,832	31,760
Net earnings (loss)	$ 54	$ 4,953	$ (17,450)	$ 10,160
Net earnings (loss) per common share	$ .00	$ .16	$ (.55)	$ .32
Diluted				
Average common shares outstanding	31,838	31,789	31,832	31,760
Stock options and awards	6	324	-	395
Average common shares assuming dilution	31,844	32,113	31,832	32,155
Net earnings (loss)	$ 54	$ 4,953	$ (17,450)	$ 10,160
Net earnings (loss) per common share	$ .00	$ .15	$ (.55)	$ .32

At June 30, 2007, 3,933,034 shares were excluded from the average common shares assuming dilution for the three months ended June 30, 2007 as they were anti-dilutive while all of the company's shares associated with stock options were anti-dilutive for the six months ended June 30, 2007 because of the company's net loss in the first half of the year. At June 30, 2006, 2,452,771 and 2,467,175 shares were excluded from the average common shares assuming dilution for the three and six months ended June 30, 2006, respectively, as they were anti-dilutive. For the three months ended June 30, 2007, the majority of the anti-dilutive shares were granted at exercise prices of $41.87 which was higher than the average fair market value prices of $18.25. For the three and six months ended June 30, 2006, the majority of the anti-dilutive shares were granted at an exercise price of $41.87 which was higher than the average fair market value prices of $28.80 and $30.46, respectively.

Concentration of Credit Risk - The company manufactures and distributes durable medical equipment and supplies to the home health care, retail and extended care markets. The company performs credit evaluations of its customers' financial condition. Prior to December 2000, the company financed equipment to certain customers for periods ranging from 6 to 39 months. In December 2000, Invacare entered into an agreement with De Lage Landen, Inc. ("DLL"), a third party financing company, to provide the majority of future lease financing to Invacare's customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The company retains a limited recourse obligation ($38,343,000 at June 30, 2007) to DLL for events of default under the contracts (total balance outstanding of $100,612,000 at June 30, 2007). FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, requires the company to record a guarantee liability as it relates to the limited recourse obligation. As such, the company has recorded a liability for this guarantee obligation within accrued expenses. The company monitors the collections status of these contracts and has provided amounts for estimated losses in its allowances for doubtful accounts in accordance with SFAS No. 5, *Accounting for Contingencies.* Credit losses are provided for in the financial statements.

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

Goodwill and Other Intangibles - The change in goodwill reflected on the balance sheet from December 31, 2006 to June 30, 2007 was entirely the result of foreign currency translation.

All of the company's other intangible assets have definite lives and are amortized over their useful lives, except for $33,835,000 related to trademarks, which have indefinite lives.

As of June 30, 2007 and December 31, 2006, other intangibles consisted of the following (in thousands):

	June 30, 2007		December 31, 2006	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer lists	$ 72,123	$ 17,736	$ 71,106	$ 14,373
Trademarks	33,835	-	33,034	-
License agreements	4,560	4,247	4,489	3,821
Developed technology	6,897	1,178	6,819	