

INVACARE CORP  
Form 10-K  
February 25, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2010

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)

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**Ohio**  
(State or other jurisdiction of  
incorporation or organization)  
**One Invacare Way, P.O. Box 4028, Elyria, Ohio 44036**  
(Address of principal executive offices) (Zip Code)

**95-2680965**  
(I.R.S. Employer  
Identification Number)

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

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

<b>Title of Each Class</b>	<b>Name of Exchange on which Registered</b>
Common Shares, without par value	New York Stock Exchange
Rights to Purchase Preferred Shares, without par value	New York Stock Exchange

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to the filing requirements for the past 90 days. Yes  No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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As of June 30, 2010, the aggregate market value of the 28,334,691 Common Shares of the Registrant held by non-affiliates was \$587,661,491 and the aggregate market value of the 17,342 Class B Common Shares of the Registrant held by non-affiliates was \$359,673. 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, 2010, which was \$20.74. For purposes of this information, the 2,954,236 Common Shares and 1,080,174 Class B Common Shares which were held by Executive Officers and Directors of the Registrant were deemed to be the Common Shares and Class B Common Shares held by affiliates.

As of February 23, 2011, 31,316,801 Common Shares and 1,084,947 Class B Common Shares were outstanding.

### **Documents Incorporated By Reference**

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

Except as otherwise stated, the information contained in this Annual Report on Form 10-K is as of December 31, 2010.

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**PART I**

**Item 1. Business.**

**GENERAL**

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

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

designing and developing innovative and technologically superior products;

ensuring continued focus on the company's primary market—the non-acute health care market;

marketing the company's broad range of products;

driving efficiency and innovation through the use of the company's global resources;

providing a professional and cost-effective sales, customer service and distribution organization;

supplying innovative provider support and aggressive product line extensions;

building a strong referral base among health care professionals;

continuously advancing and recruiting top management candidates;

empowering all employees;

providing a performance-based reward environment; and

continually striving for total quality throughout the organization.

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When the company was acquired in December 1979 by a group of investors, including some of its current officers and Directors, it had \$19.5 million in net sales and a limited product line of standard wheelchairs and patient aids. In 2010, Invacare reached approximately \$1.7 billion in net sales, representing a 16% compound average sales growth rate since 1979, and, based upon the company's distribution channels, breadth of product line and net sales, currently is the leading company in each of the following major, non-acute, medical equipment categories: power and manual wheelchairs, home care bed systems and home oxygen systems.

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

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**THE HOME MEDICAL EQUIPMENT INDUSTRY**

***North America Market***

The home medical equipment (HME) market includes home health care products, physical rehabilitation products and other non-disposable products used for the recovery and long-term care of patients. The company believes that patients overwhelmingly prefer care and treatment in their home. There is a growing body of evidence that homecare generally results in faster recovery and better outcomes. Homecare is often more cost-effective and comfortable than institutional care by a considerable factor. A principal reason is that homecare patients are not exposed to today's increasingly virulent strains of hospital-borne pathogens. Invacare, through its diverse product and service offerings, delivers what the company refers to as a "medical trifecta": patient satisfaction; better outcomes; and lower costs. The company's view is an adequately equipped home is a better recovery option for a significant number of patients who face hospitalization. Accordingly, demand for domestic home medical equipment products is expected to grow during the next decade and beyond as a result of the factors mentioned above and more, including:

*Growth in Population over Age 65.* Globally, overall life expectancy continues to increase. Recent reports from the U.S. Department of Health and Human Services (DHHS) state that the average life expectancy in the United States for men and women who reach the age of 65 is now 82 and 85, respectively. Furthermore, life expectancy in the United States at birth is now an average of 78 for men and women together, a record high. The DHHS also reports that people age 75 or older represent the vast majority of home health care patients and will increase to 12% of the population by the year 2050. The oldest of the "Baby Boomer" generation, which numbers roughly 78 million people, will begin to turn 65 in 2011 and for the next 18 years.

*Treatment Trends.* The company believes that many medical professionals and patients prefer home health care over institutional care because home health care results in greater patient independence, increased patient responsibility and improved responsiveness to treatment. Further, health care professionals, public payors and private payors appear to favor home care as a cost-effective, clinically appropriate alternative to facility-based care. Recent surveys show that approximately 70% of adults would rather recover from an accident or illness in their home, and approximately 90% of the population aged 65 and over showed a preference for home-based, long-term care. In addition, the number of hospital beds per capita has fallen over the past twenty-five years in the United States, a trend which is expected to continue. This decline has coincided with the reduction in average length of stays in hospitals.

*Technological Trends.* Technological advances have made medical equipment increasingly adaptable for use in the home. Current hospital procedures often allow for earlier patient discharge, thereby lengthening recuperation periods outside of the traditional institutional setting. In addition, continuing medical advances prolong the lives of adults and children, thus increasing the demand for home medical care equipment.

*Health Care Cost Containment Trends.* Health care expenditures in the United States for 2009 were estimated to be \$2.5 trillion dollars or approximately 17.6% of the Gross Domestic Product (GDP), the highest among industrialized countries. It is now estimated that federal, state and local government spending on health care in the U.S. will soon exceed private health care spending for the first time. By 2019, the nation's health care spending is projected to increase to \$4.5 trillion, growing at an average annual rate of 7.0%. Over this same period, spending on health care is expected to be approximately 19.3% of GDP. The rising cost of health care has caused many payors of health care expenses to look for ways to contain costs. The company believes that home health care and home medical equipment will play a significant role in reducing health care costs. In fact, a recent study conducted by Frank Lichtenberg, the Courtney C. Brown Professor of Business at the Columbia University Graduate School of Business and a Research Associate with the National Bureau of Economic Research, found that a nationwide increase in the use of home health care can save the U.S. billions of dollars in hospital costs. The study estimates the United States may have

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saved as much as \$25 billion in total hospital payroll costs in 2008 alone thanks to the growth of the home health care sector during the previous 10 years. The study mentions that it is a reasonable calculation that further savings will be realized in the years ahead if the use of home care continues to grow.

*Society's Mainstreaming of People with Disabilities.* People with disabilities are increasingly a part of the fabric of society, in part due to the 1991 Americans with Disabilities Act, or the ADA. This legislation provides mainstream opportunities to people with disabilities. The ADA imposes requirements on certain components of society to make reasonable accommodations to integrate people with disabilities into the community and the workplace.

*Distribution Channels.* The changing home health care market continues to provide new ways of reaching the consumer. The distribution network for products has expanded to include not only specialized home health care providers and extended care facilities but also retail drug stores, surgical supply houses, rental, hospital and HMO-based stores, home health agencies, mass merchandisers and the Internet.

### ***Europe/Asia/Pacific Market***

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

### ***United States/Europe Market***

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

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

## **GEOGRAPHICAL SEGMENTS AND PRODUCT CATEGORIES**

### ***North America***

North America includes: North America/Home Medical Equipment (NA/HME), Invacare Supply Group (ISG) and Institutional Products Group (IPG).

#### ***NA/HME***

This segment includes: Rehab, Standard and Respiratory product lines as discussed below.



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### **REHAB PRODUCTS**

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

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

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

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

### **STANDARD PRODUCTS**

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

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

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

*Low Air Loss Therapy Products.* Invacare distributes a complete line of mattress overlays and replacement products, under the Invacare® Solace® and microAIR® brand names. These products, which use either pressure reducing foam or air flotation to redistribute weight and move moisture away from patients, assist in the total care of those who are immobile and spend a great deal of time in bed.

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

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### **RESPIRATORY PRODUCTS**

*Non-Delivery Oxygen.* Trends in the industry continue to be towards a non-delivery oxygen model. The Invacare® HomeFill® Oxygen System is the standard in ambulatory oxygen technology. Approaching 200,000 units in the field, it is the basis for a non-delivery model and allows patients to fill their own high-pressure cylinders from a concentrator in their home. With some upfront investment, the long-term benefits are unmatched, allowing providers to virtually eliminate time-consuming and costly service calls associated with cylinder and/or liquid oxygen deliveries.

Rounding out Invacare's non-delivery oxygen offerings are the Invacare® SOLO<sub>2</sub>® Transportable Concentrator and the Invacare® XPO<sub>2</sub> Portable Concentrator, which are now both approved by the FAA for use in flight. The SOLO<sub>2</sub>® offers continuous flow oxygen up to 3 LPM or pulse dose oxygen in settings 1-5. It is a flexible, reliable and clinically robust system that is easy to operate. Named for its extreme portability, the XPO<sub>2</sub> weighs just 6 pounds with pulse dose settings 1-5 to meet the needs of a broad range of patients.

*Stationary Oxygen Concentrators.* Invacare oxygen concentrators are manufactured under the Perfecto<sub>2</sub> name and are available in five and 10 liter models. All Invacare stationary concentrators provide patients with durable equipment and reliable oxygen either at home or in a healthcare setting.

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

### **OTHER PRODUCTS**

Other products include various services, including repair services, equipment rentals, accounts receivable collections and external contracting.

#### ***Invacare Supply Group (ISG)***

Invacare distributes numerous lines of branded medical supplies including ostomy, incontinence, diabetic, interals, wound care and urology products as well as home medical equipment, including aids for daily living.

#### ***Institutional Products Group (IPG)***

Invacare, operating as Invacare Continuing Care, Invacare Continuing Care Canada and Champion, is a manufacturer and marketer of healthcare furnishings including beds, case goods and patient handling equipment for the long-term care markets, specialty clinical recliners for dialysis and oncology clinics and certain other home medical equipment and accessory products.

#### ***Asia/Pacific***

The company's Asia/Pacific operations consist of Invacare Australia, which distributes the Invacare range of products which includes: manual and power wheelchairs, lifts, ramps, beds, furniture and pressure care products; Dynamic Controls, a manufacturer of electronic operating components used in power wheelchairs, scooters, respiratory and other products; and Invacare New Zealand, a distributor of a wide range of home medical equipment.

#### ***Europe***

The company's European operations operate as a common market company with sales throughout Europe. The European operations currently sell a line of products providing room for growth as Invacare continues to broaden its product line offerings in line with its globalization strategy.

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

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

### **WARRANTY**

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

### **COMPETITION**

#### ***North America and Asia/Pacific***

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

#### ***Europe***

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

### **MARKETING AND DISTRIBUTION**

#### ***North America and Asia/Pacific***

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

Invacare's domestic sales and marketing organization consists primarily of a homecare sales force, which markets and sells Invacare® branded products to HME providers. Each member of Invacare's home care sales force functions as a Territory Business Manager (TBM) and handles all product and service needs for an account, thus saving customers' valuable time. The TBM also provides training and servicing information to providers, as well as product literature, point-of-sale materials and other advertising and merchandising aids. In Canada, products are sold by a sales force and distributed through regional distribution centers to health care providers throughout Canada.

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The Inside Sales Department provides increased sales coverage of smaller accounts and complements the efforts of the field sales force. Inside Sales offers cost-effective sales coverage through a targeted telesales effort, and has delivered solid sales growth since its existence.

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

Additionally, Invacare is the only manufacturer with a breadth of service offerings that includes the ability to assist providers in the collection of outstanding co-pays, rental capabilities, software and technology to streamline efficiencies, repair services and replacement parts. These tools and resources assist home and long-term care providers in maximizing efficiency and furthering their business success.

The company markets products and services to the institutional care market through IPG. IPG products include beds and furnishings, patient handling, bathing, durable medical equipment and clinical therapies, such as therapeutic support surfaces. IPG sales and marketing organizations consist of field sales representatives and independent rep agencies supported by a marketing group that generates awareness and demand at institutions for Invacare products and services. IPG also provides interior design services for nursing homes and assisted living facilities involved with renovation and new construction.

In 2010, Invacare continued to focus on a growing suite of programs and services designed to simplify business for HME providers, reduce their costs, optimize their resources and improve their bottom line. Invacare is working to help HME providers respond to the challenges associated with competitive bidding, escalating operating costs and changes in Medicare reimbursement through products, services and business consulting.

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

Invacare continues to improve performance and usability on [www.invacare.com](http://www.invacare.com). In 2010, the company implemented a new global website platform with the goal of creating a highly usable web presence and one central destination for all Invacare web users. Invacare also increased participation in online forums and engaged customers by utilizing social media tools, including a corporate blog ([www.invacareconnects.com](http://www.invacareconnects.com)), Facebook page and YouTube channel. These moves toward a more customer-centric approach allow the company to provide a user interface that better addresses customer needs.

Also in 2010, the company continued its strategic advertising campaign in key business to business publications that reach Invacare's respective customers. The company contributed extensively to editorial coverage in trade publications concerning the products the company manufactures; and company representatives attended numerous trade shows and conferences on a national and regional basis in which Invacare products were displayed to providers, health care professionals, managed care professionals and consumers. Yes, you can® continues to be Invacare's global tagline, and it remains steadfast in company ads and on the Invacare global website and is indicative of the company's can do attitude.

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The company continues to generate greater consumer awareness of its products. This was evidenced by the company's sponsorship of a variety of wheelchair sporting events and support of various philanthropic causes benefiting the consumers of the company's products. The company continued its sponsorships of individual wheelchair athletes and teams, including several of the top-ranked male and female racers, hand cyclists, and wheelchair tennis players in the world. The company also continued its support of disabled veterans through its sponsorship of the 30th National Veterans Wheelchair Games, the largest annual wheelchair sports event in the world. The games bring a competitive and recreational sports experience to military service veterans who use wheelchairs for their mobility needs due to spinal cord injury, neurological conditions or amputation.

### ***Europe***

The company's European operations consist primarily of manufacturing, marketing and distribution operations in Western Europe and export sales activities through local distributors elsewhere in the world. The company has a sales force and where appropriate, distribution centers, in Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom, and sells through distributors elsewhere in Europe and in the Middle East. In markets where the company has its own sales force, product sales are typically made through dealers of medical equipment and, in certain markets, directly to government agencies. In 2010, the continued consolidation of big buying groups tending to develop their business on a European scale has continued. As a result, Invacare is generalizing the application of pan-European pricing policies.

In 2010, Invacare was the title sponsor for the fifteenth year in a row of the Invacare World Team Cup, a wheelchair tennis tournament, which was in Antalya, Turkey.

### **PRODUCT LIABILITY COSTS**

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

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

### **PRODUCT DEVELOPMENT AND ENGINEERING**

Invacare is committed to continuously improving upon and renewing its product offerings. Invacare's key globalization initiative is moving from a local product development approach to address local markets, to a global product development approach, aimed at developing global product platforms. This strategy is designed to

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enable the company to increase the number of new products it introduces and offer more innovative product solutions, while at the same time reducing complexity within the business. By leveraging its engineering and product development capabilities on a global basis, Invacare expects to further increase its industry leadership in the broadest range of product offerings in both home care and continuing care medical device equipment.

2010's marquee global product was the *Invacare® FDX® Front-Wheel Drive Power Wheelchair*. Launched in May in the United States and July in Europe, this wheelchair completes Invacare's power wheelchair offerings with a solution for substantially all custom rehab needs. Invacare now offers its customers a full range of power bases and drive wheel configurations, including center-wheel, rear-wheel and now front-wheel drive. The FDX® Wheelchair features core technologies such as the Single Stage Drive (SSD) motor-gearbox combination, Invacare® MK6i Electronics and Invacare® G-Trac true-tracking technology.

Also globally, Invacare expanded the presence of its European Jazz Rollator by introducing it as the *Invacare® FR300 Rollator* into the United States. This rollator combines a high-end, streamlined look with the clinical benefits associated with walking more inside the rollator frame. Other features include a curb climber, or integrated pedal that makes it easier to negotiate obstacles and a unique x-brace and folding mechanism which allows the rollator to be folded easily and with one hand for portability.

The following are some of Invacare's other notable product developments and updates:

### ***Global Products***

The new *Single Stage Drive (SSD) motor-gearbox* combination has several inherent advantages over current drive technology. The new SSD drive system is more efficient than previous designs and consolidates motor-gearbox combinations globally, reducing SKUs. As a two piece unit, the new SSD motor is easier to service because the motor-gearbox modules can be replaced separately. In addition, the SSD drive technology will be completely designed and manufactured by Invacare, further enhancing overall quality.

The *Invacare® PCS (positioning-comfort-stability) back* is designed for optimal comfort and function. Single-point mounting hardware with quick-release latch provides secure mounting, while allowing height, depth and back angle adjustments with easy installation and removal. The spacer fabric cover improves airflow between the user and the back, increasing comfort and preventing heat and moisture build-up. Three inches of contour depth allow for centering and postural stability without interfering with hip placement. For customizable support, the PCS back comes with optional pelvic stabilizers and thoracic lateral supports to provide additional pelvic and trunk control and stability.

The *Invacare® Leo Scooter* offers a stable four-wheel base that provides a smooth, safe drive and handles varying surfaces with ease. Features include a full lighting package, built-in splash guards to protect the electronics and transaxle, comfortable seating that swivels and slides and flat free tires. There are many add-on accessories available such as a rear basket or oxygen holder.

Made from robust, yet lightweight plastic, the new *Invacare® Bathboard* has been developed to fit most types of baths and provides a stable and ergonomic surface for showering and personal hygiene.

The *Invacare® Roze Stand Assist Lift* is for clients who require help in standing up or in transfers from one location to another. With the ability to handle up to 200 kg, the *Roze lift* perfectly fits the requirements for a lift system for everyday use. In addition to delivering safe client handling, it reduces the burden of lifting for the caregiver. Of particular note is the wide-opening base, which together with a removable footplate and an intelligent control box makes it easy for any caregiver to accomplish transfers, quickly and safely, on a daily basis.

The *Invacare® Jasmine Mobile Lift* is a flexible solution that offers high comfort for all clients. The lift provides safe patient handling with up to 200 kg weight capacity. With its expansive, wide-opening base

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and high lifting mechanism, *Jasmine* makes life easier for caregivers operating this new Invacare lift system. The control box features an intelligent service monitoring system that enables a safe operating environment for the caregiver, while allowing maximum comfort for the client during each transfer.

The new *Invacare® Top End® Pro* chair is designed for aspiring athletes who want durability in a chair, but also need to be able to make quick and easy adjustments. Available in two versions, as suitable for basketball or tennis, the new *Top End® Pro* chair is available in both a short and tall frame to accommodate a range of differing body shapes.

The *Invacare® Top End® Twirl wheelchair* allows one to have fun, exercise and compete in wheelchair dancing with its specially developed dancing anti-tip ability and robust center-of-gravity positioning.

### ***Local Products***

The *Invacare® TDX® SI-2* power wheelchair in Europe provides excellent TDX power and performance. It has 14 drive wheels to handle aggressive terrain with ease, while its integrated rear suspension offers a smooth ride. Center wheel drive and a narrow footprint provide excellent indoor maneuverability, while its clean lines and brightly painted frame combine for a simple yet elegant design. The end result is an eye-catching power wheelchair with a go-anywhere attitude.

With the new *Invacare Storm®4 X-plore* power wheelchair in Europe, the demanding user can enjoy all the benefits of Storm®4, combined with a four-wheel-suspension for enhanced outdoor performance, increased shock absorption / comfort and better traction on uneven ground. The G-Trac option is also available for the ultimate driving performance. The new *Storm®4 X-plore* offers the same advantages as the Storm®4 in terms of configurability, adaptability and functionality. The stylish look of Storm®4 has been conserved, with its modularity, flexible seat concept and the trouble-free servicing.

In the United States, Invacare introduced the *Invacare® Insignia® Wheelchair*. This high-strength lightweight chair offers height adjustable arms that convert from desk to full length, allowing providers to stock one chair instead of two, as well as a robust wheel lock, simple adjustable head tube design, sleek caster fork, adjustable angle back and quick release axles. It is a stylish, lightweight chair that is easy to use and adjusts to a patient's specific needs.

The European *küschall® K-Series family* has grown with the latest addition: the *K-Series Titanium*. The newest K-Series features a rigid titanium wheelchair, is available in a 75° or 90° front frame angle. Available with titanium footrest, backrest and hand rims as well as a carbon axle to experience a highly active and dynamic wheelchair which is ideal for the active user.

The *Invacare® Rea Spirea4NG* in Europe is a dynamic and durable lightweight folding wheelchair ideal for everyday use. By incorporating user feedback into the design, the *Spirea4NG* offers light handling, minimal adjustment requirements, high technical quality and low maintenance, making it a perfect choice for users and care givers.

The European *Invacare® SoftAIR dynamic mattresses* are designed for patients at very high risk of developing pressure ulcers. There are two options available within the *SoftAIR* range, the *SoftAIR Super*, and the *SoftAIR Excellence*.

The newly designed *Invacare® Knee Walker* from the United States is a great alternative for those who are weary of discomfort related to crutches. The new design enhances stability, tracking control and patient comfort and sets a new standard for the market. The Knee Walker comes with a convenient basket and folds easily for transport and storage.

Invacare added a low-cost stationary concentrator to its product portfolio with the *Invacare® Perfecto<sub>2</sub> V Concentrator*. This concentrator meets a patient's oxygen needs easily and effectively and is equipped with an oxygen sensor to ensure oxygen purity levels are monitored and appropriate. An alarm will also alert the patient of low flow or any issues with kinked or loose tubing. It also features easy-to-access and clean filters, which prolong the life of the equipment, as well as easy-to-access circuit breakers which allow the system to be reset easily after power surges or outages.

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### **MANUFACTURING AND SUPPLIERS**

The company's objective is to continue to reduce costs through cost reductions and possibly facility consolidation while maintaining the highest quality supply chain in the industry. The company seeks to achieve this objective through a strategic combination of Invacare manufacturing facilities, contract manufacturing facilities and key suppliers. The operational strategy further supports the marketing strategy with flexible providers of new and modified products that respond to the demands of the market.

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

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

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

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

#### ***North America***

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

#### ***Asia/Pacific***

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

#### ***Europe***

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



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**GOVERNMENT REGULATION**

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

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

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

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

As part of its regulatory function, the FDA routinely inspects the sites of medical device companies, and in 2010, the FDA inspected certain of the company's facilities. In December 2010, the company received a warning letter from the FDA related to documentation and procedures at the company's Sanford, Florida facility. The letter does not call into question the safety or efficacy of Invacare products, and production has not been impacted. The company is taking these issues very seriously and has added resources to ensure it is addressing all of the FDA's concerns in a timely manner.

The quality management system of all locations required to meet ISO 13485 requirements for the US, Canada, Europe and other foreign markets were inspected by a third party quality system registrar during 2010. All facilities were found to be in compliance and were issued new quality system certificates.

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

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

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In regards to reimbursement, the company is mindful of three key issues. In the United States, the Centers for Medicaid and Medicare Services is moving forward with National Competitive Bidding in the first nine metropolitan areas. While the company expects this to be neutral to earnings in 2011, it will remain judicious in its extension of credit to customers and it will monitor whether other payors begin to model their payments on this system. The company also will closely watch State Medicaid budgets and how deficits may impact coverage and payments for home medical equipment and institutional care products. In the European segment, there is discussion by the French government of reduced wheelchair reimbursement in the second half of 2011. This issue was originally anticipated to occur in 2010, but it was delayed.

Last year's health care reform law in the U.S., the Patient Protection and Accountable Care Act, included a number of provisions affecting the HME industry. First, the health care law expanded Round 2 of the Medicare competitive bid program from 70 to 91 bid areas. Second, the law eliminated the Medicare program's first month purchase option for standard power wheelchairs effective January 1, 2011. Instead, Medicare now makes rental payments for 13 months before the beneficiary assumes ownership of the standard power wheelchair. Finally, the new health care law imposed a productivity adjustment to the annual fee schedules of all Medicare providers, including HME providers, that limits any annual cost of living increases applied to the fee schedules. The 2010 health care reform law also includes a new tax on U.S. sales of medical device manufacturers or importers, such as Invacare. The law will impose a yearly 2.3% sales-based excise tax on medical device manufacturers starting in 2013. The excise tax will be deductible by the manufacturer on its federal tax return. The excise tax will not apply to medical devices that the Secretary of Treasury determines are generally purchased by the general public at retail for individual use. At this point, it is unclear whether any of Invacare products will be determined to be exempt from the tax by the Department of Treasury.

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

### **BACKLOG**

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

### **EMPLOYEES**

As of December 31, 2010, the company had approximately 6,300 employees.

### **FOREIGN OPERATIONS AND EXPORT SALES**

The company also markets its products for export to other foreign countries. In 2010, the company had product sales in over 80 countries worldwide. For information relating to net sales, operating income and identifiable assets of the company's foreign operations, see Business Segments in the Notes to the Consolidated Financial Statements.

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

**FORWARD-LOOKING INFORMATION**

*This Form 10-K contains forward-looking statements within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Terms such as will, should, could, plan, intend, expect, continue, forecast, believe, anticipate and seek, as well as similar comments, are forward-looking in nature. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Actual results and events may differ significantly from those expressed or anticipated as a result of risks and uncertainties which include, but are not limited to, the following: adverse changes in government and other third-party payor reimbursement levels and practices (such as, for example, the Medicare bidding program covering nine metropolitan areas beginning in 2011 and an additional 91 metropolitan areas beginning in 2013), impacts of the U.S. health care reform legislation that was recently enacted (such as, for example, the excise tax beginning in 2013 on medical devices, together with further regulations to be promulgated by the U.S. Secretary of Treasury, if adopted); the uncertain impact on the Company's providers, on the Company's suppliers and on the demand for the Company's products resulting from the current global economic conditions and general volatility in the credit and stock markets; loss of key health care providers; exchange rate and tax rate fluctuations; inability to design, manufacture, distribute and achieve market acceptance of new products with higher functionality and lower costs; consolidation of health care providers and the Company's competitors; lower cost imports; uncollectible accounts receivable; difficulties in implementing/upgrading Enterprise Resource Planning systems; risks inherent in managing and operating businesses in many different foreign jurisdictions; ineffective cost reduction and restructuring efforts;*