

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2005

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 0-12938

Invacare Corporation

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

95-2680965

(IRS Employer Identification No)

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

(Address of principal executive offices)

(440) 329-6000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 12 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 No

Indicate by check mark if the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

As of August 1, 2005, the Company had 30,566,121 Common Shares and 1,111,965 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 Sheet

	June 30, <u>2005</u> (unaudited)	December 31, <u>2004</u>
(In thousands)		
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,390	\$32,567
Marketable securities	214	199
Trade receivables, net	284,931	287,950
Inventories, net	183,504	175,883
Deferred income taxes	22,776	21,730
Other current assets	<u>42,634</u>	<u>46,822</u>
TOTAL CURRENT ASSETS	540,449	565,151
OTHER ASSETS	48,986	55,634
OTHER INTANGIBLES	115,581	98,212
PROPERTY AND EQUIPMENT, NET	181,017	191,163
GOODWILL	<u>720,937</u>	<u>717,964</u>
TOTAL ASSETS	<u>\$1,606,970</u>	<u>\$1,628,124</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable	\$141,044	\$149,413
Accrued expenses	90,309	98,850
Accrued income taxes	4,747	7,816
Current maturities of long-term obligations	<u>1,707</u>	<u>2,062</u>
TOTAL CURRENT LIABILITIES	237,807	258,141
LONG-TERM DEBT	552,760	547,974
OTHER LONG-TERM OBLIGATIONS	75,257	68,571
SHAREHOLDERS' EQUITY		
Preferred shares	-	-
Common shares – par \$0.25	7,906	7,803
Class B common shares – par \$0.25	278	278
Additional paid-in-capital	135,709	123,793
Retained earnings	576,419	550,753
Accumulated other comprehensive earnings	61,218	104,629
Unearned compensation on stock awards	(2,138)	(1,557)
Treasury shares	<u>(38,246)</u>	<u>(32,261)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>741,146</u>	<u>753,438</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$1,606,970</u>	<u>\$1,628,124</u>

See notes to condensed consolidated financial statements.

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Earnings - (unaudited)

(In thousands except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net sales	\$396,267	\$339,288	\$767,211	\$660,631
Cost of products sold	<u>282,983</u>	<u>237,164</u>	<u>544,083</u>	<u>465,128</u>
Gross profit	113,284	102,124	223,128	195,503
Selling, general and administrative expense	88,352	74,201	172,314	144,984
Interest expense	6,785	2,295	13,771	5,054
Interest income	<u>(811)</u>	<u>(1,070)</u>	<u>(1,805)</u>	<u>(2,274)</u>
Earnings before Income Taxes	18,958	26,698	38,848	47,739
Income taxes	<u>6,050</u>	<u>8,675</u>	<u>12,395</u>	<u>15,515</u>
NET EARNINGS	<u>\$ 12,908</u>	<u>\$ 18,023</u>	<u>\$ 26,453</u>	<u>\$ 32,224</u>
DIVIDENDS DECLARED PER COMMON SHARE	<u>.0125</u>	<u>.0125</u>	<u>.0250</u>	<u>.0250</u>
Net Earnings per Share – Basic	<u>\$ 0.41</u>	<u>\$ 0.58</u>	<u>\$.84</u>	<u>\$ 1.04</u>
Weighted Average Shares Outstanding - Basic	<u>31,553</u>	<u>31,145</u>	<u>31,456</u>	<u>31,119</u>
Net Earnings per Share – Assuming Dilution	<u>\$ 0.40</u>	<u>\$ 0.56</u>	<u>\$.81</u>	<u>\$ 1.00</u>
Weighted Average Shares Outstanding - Assuming Dilution	<u>32,530</u>	<u>32,239</u>	<u>32,533</u>	<u>32,259</u>

See notes to condensed consolidated financial statements.

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Cash Flows - (unaudited)

	Six Months Ended June 30,	
	2005	2004
	(In thousands)	
OPERATING ACTIVITIES		
Net earnings	\$ 26,453	\$ 32,224
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	19,877	15,019
Provision for losses on trade and installment receivables	6,027	4,945
Provision for deferred income taxes	4,559	209
Provision for other deferred liabilities	1,390	1,367
Changes in operating assets and liabilities:		
Trade receivables	(691)	(8,544)
Installment sales contracts, net	(3,687)	(1,160)
Inventories	(17,062)	(7,524)
Other current assets	6,591	4,818
Accounts payable	(450)	9,953
Accrued expenses	(14,386)	(12,657)
Other deferred liabilities	570	5,979
NET CASH PROVIDED BY OPERATING ACTIVITIES	29,191	44,629
INVESTING ACTIVITIES		
Purchases of property and equipment	(15,374)	(18,333)
Proceeds from sale of property and equipment	4,937	-
Other long term assets	(2)	(2,467)
Business acquisitions, net of cash acquired	(58,216)	(32,713)
Other	(3,352)	(1,891)
NET CASH USED FOR INVESTING ACTIVITIES	(72,007)	(55,404)
FINANCING ACTIVITIES		
Proceeds from revolving lines of credit and long-term borrowings	295,695	297,789
Payments on revolving lines of credit, long-term debt and capital lease obligations	(279,814)	(295,700)
Net proceeds from exercise of stock options	1,202	4,366
Purchases of treasury stock	-	(4,430)
Payment of dividends	(787)	(778)
NET CASH PROVIDED BY FINANCING ACTIVITIES	16,296	1,247
Effect of exchange rate changes on cash	343	(468)
Decrease in cash and cash equivalents	(26,177)	(9,996)
Cash and cash equivalents at beginning of period	32,567	16,074
Cash and cash equivalents at end of period	\$ 6,390	\$ 6,078

See notes to condensed consolidated financial statements.

INVACARE CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated

Financial Statements

(Unaudited)

June 30, 2005

Nature of Operations - Invacare Corporation and its subsidiaries (“Invacare” or the “Company”) is the leading home medical equipment manufacturer in the world based on its distribution channels, the breadth of its product line and net sales. The Company designs, manufactures and distributes an extensive line of medical equipment for the home health care, retail and extended care markets. The Company’s products include standard manual wheelchairs, motorized and lightweight prescription wheelchairs, seating and positioning systems, motorized scooters, patient aids, home care beds, low air loss therapy products, respiratory products and distributed products. The Company is directly affected by government regulation and reimbursement policies in virtually every country in which it operates. 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.

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 and include all adjustments, which were of a normal recurring nature, necessary to present fairly the financial position of the Company as of June 30, 2005 and the results of its operations for the three months and six months ended June 30, 2005 and 2004, respectively, and changes in its cash flows for the six months ended June 30, 2005 and 2004, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using a May 31 quarter end. The results of operations for the three and six months ended June 30, 2005, are not necessarily indicative of the results to be expected for the full year. 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, 2005.

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 reports its results of operations through three primary business segments based on geographical area: North America, Europe and Asia/Pacific. The three reportable segments represent operating groups that sell products in different geographic regions.

The North America segment sells each of five primary product lines, which includes: standard, rehab, distributed, respiratory, and continuing care products. Europe and Asia/Pacific sell the same product lines with the exception of distributed products. Each business segment sells to the home health care, retail and extended care markets.

The Company evaluates performance and allocates resources based on profit or loss from operations before income taxes for each reportable segment. The accounting policies of each segment are the same as those for the Company’s consolidated financial statements. Intersegment net sales and transfers are based on the costs to manufacture plus a reasonable profit element. Therefore, intercompany profit or

loss on intersegment net sales and transfers are not considered in evaluating segment performance. Intersegment net sales for reportable segments was \$26,674,000 and \$49,432,000 for the three and six months ended June 30, 2005, respectively, and \$21,036,000 and \$40,379,000 for the same periods in the preceding year.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues from external customers				
North America	\$264,854	\$249,040	\$515,794	\$486,323
Europe	110,331	75,406	212,422	144,744
Asia/Pacific	<u>21,082</u>	<u>14,842</u>	<u>38,995</u>	<u>29,564</u>
Consolidated	<u>\$396,267</u>	<u>\$339,288</u>	<u>\$767,211</u>	<u>\$660,631</u>
Earnings (loss) before income taxes				
North America	\$14,066	\$25,713	\$33,471	\$45,763
Europe	7,359	3,303	11,241	4,443
Asia/Pacific	(1,600)	240	(3,304)	677
All Other *	<u>(867)</u>	<u>(2,558)</u>	<u>(2,560)</u>	<u>(3,144)</u>
Consolidated	<u>\$18,958</u>	<u>\$26,698</u>	<u>\$38,848</u>	<u>\$47,739</u>

* Consists of the domestic export unit, unallocated corporate selling, general and administrative costs, the Invacare captive insurance unit, and intercompany profits which do not meet the quantitative criteria for determining reportable segments.

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		Six Months Ended	
	June 30,		June 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(In thousands, except per share data)			
Basic				
Average common shares outstanding	31,553	31,145	31,456	31,119
Net earnings	\$ 12,908	\$ 18,023	\$ 26,453	\$ 32,224
Net earnings per common share	\$.41	\$.58	\$.84	\$ 1.04
Diluted				
Average common shares outstanding	31,553	31,145	31,456	31,119
Stock options and awards	<u>977</u>	<u>1,094</u>	<u>1,077</u>	<u>1,140</u>
Average common shares assuming dilution	32,530	32,239	32,533	32,259
Net earnings	\$ 12,908	\$ 18,023	\$ 26,453	\$ 32,224
Net earnings per common share	\$.40	\$.56	\$.81	\$ 1.00

At June 30, 2005, 400,812 and 50,023 shares were excluded from the average common shares assuming dilution for the three and six months ended June 30, 2005, as they were anti-dilutive. For the three and six months ended June 30, 2005, the majority of the anti-dilutive shares were granted at exercise prices of \$44.30 and \$47.35 which was higher than the average fair market value prices of \$44.01 and \$45.05, respectively. At June 30, 2004, 25,000 and 17,374 shares were excluded from the average common shares assuming dilution for the three and six months ended June 30, 2004, as they were anti-dilutive. For the three and six months ended June 30, 2004, the majority of the anti-dilutive shares were granted at an exercise price of \$44.42 which was higher than the average fair market value prices of \$42.16 and \$42.83, 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 (\$39,973,000 at June 30, 2005) to DLL for events of default under the contracts (total balance outstanding of \$93,502,000 at June 30, 2005). Financial Accounting Standards Board (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. 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 FASB Statement No. 5, *Accounting for Contingencies*. Credit losses are provided for in the financial statements.

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, Asia 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, 2004 to June 30, 2005 was the result of acquisitions representing an increase in goodwill of \$7,265,000 in Asia/Pacific, \$16,557,000 in Europe and \$12,910,000 in North America with the remaining change attributable to currency translation.

Motion Concepts, Inc. (“Motion”) was acquired in 2003. Pursuant to the Motion purchase agreement, the Company agreed to pay contingent consideration based upon earnings before interest and taxes over the three years subsequent to the acquisition up to a maximum of approximately \$16,000,000. Based upon 2004 results, no such consideration was paid and the company does not anticipate any payment in 2005 based upon results to date. When the contingency related to the acquisition is settled, any such consideration paid will increase the purchase price and reported goodwill.

All of the Company's other intangible assets have definite lives and are amortized over their useful lives, except for \$31,053,000 related to trademarks, which have indefinite lives. An increase in patents of \$6,664,000 was recorded in the first quarter of 2005 as part of the North American segment, which was a result of the consolidation of the Company's variable interest in NeuroControl. As a result of acquisitions in the second quarter, \$7,980,000 was recorded as part of the North American segment, primarily attributable to developed technology, and the following intangibles were recorded for the European segment: trademarks with indefinite lives of \$4,840,000, customer lists of \$5,500,000 and patents of \$502,000.

As of June 30, 2005 and December 31, 2004, other intangibles consisted of the following (in thousands):

	<u>June 30, 2005</u>		<u>December 31, 2004</u>	
	<u>Historical Cost</u>	<u>Accumulated Amortization</u>	<u>Historical Cost</u>	<u>Accumulated Amortization</u>
Customer lists	\$60,169	\$5,309	\$ 57,788	\$2,737
Trademarks	31,053	-	27,732	-
License agreements	7,441	5,522	6,518	5,051
Developed technology	5,433	259	5,842	80
Patents	11,540	1,684	4,137	1,443
Other	<u>15,335</u>	<u>2,616</u>	<u>7,348</u>	<u>1,842</u>
	<u>\$130,971</u>	<u>\$15,390</u>	<u>\$109,365</u>	<u>\$11,153</u>

Amortization expense related to other intangibles was \$4,237,000 in the first half of 2005 and is estimated to be \$9,090,000 in 2006, \$8,921,000 in 2007, \$8,483,000 in 2008, \$8,258,000 in 2009 and \$8,143,000 in 2010.

Investment in Affiliated Company - In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* ("FIN 46"), which was revised in December 2003 and, which among other things, deferred the implementation date of FIN 46 until periods after March 15, 2004. This interpretation requires consolidation of an entity if the company is subject to a majority of the risk of loss from the variable interest entity's ("VIE") activities or entitled to receive a majority of the entity's residual returns, or both. A company that consolidates a VIE is known as the primary beneficiary of that entity.

The Company has an investment in NeuroControl, a development stage company, which is currently pursuing FDA approval to market in the United States a product focused on the treatment of post-stroke shoulder pain. The amount of net advances and investment recorded on the Company's books was approximately \$3,000,000 at December 31, 2004. Certain of the Company's officers and directors (or their affiliates) have minority equity ownership positions in NeuroControl. Subsequent to December 31, 2004, the Company's board of directors approved an additional investment by the Company in NeuroControl. Accordingly, the Company has consolidated this investment prospectively beginning with the quarter ended March 31, 2005, as the Company is now deemed the primary beneficiary of this VIE based on the provisions of FIN 46. The other beneficial interest holders have no recourse against the Company.

Accounting for Stock-Based Compensation – The Company utilizes the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. Accordingly, the Company has not recognized compensation cost for non-qualified stock options. However, the Company does record compensation cost on restricted common shares based on the vesting periods. Had compensation cost for the Company’s stock option plans been determined based on the fair value at the grant date for awards in 2005 and 2004 consistent with the provisions of SFAS No. 123, the Company’s net earnings and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Net earnings – as reported *	\$12,908	\$18,023	\$26,453	\$32,224
Less: compensation expense determined based on the fair-value method for all awards granted at market value, net of related tax effects	<u>1,125</u>	<u>854</u>	<u>2,201</u>	<u>1,806</u>
Net earnings – pro forma	<u>\$11,783</u>	<u>\$17,169</u>	<u>\$24,252</u>	<u>\$30,418</u>
Earnings per share as reported – basic	\$.41	\$.58	\$.84	\$1.04
Earnings per share as reported – assuming dilution	\$.40	\$.56	\$.81	\$1.00
Pro forma earnings per share – basic	\$.37	\$.55	\$.77	\$.98
Pro forma earnings per share – assuming dilution	\$.36	\$.53	\$.75	\$.94
* Includes stock compensation expense, net of tax, on restricted awards granted without cost to recipients of:	\$145	\$138	\$283	\$252

Warranty Costs - Generally, the Company’s products are covered by warranties against defects in material and workmanship for periods up to six years from the date of sale to the customer. Certain components carry a lifetime warranty. A provision for estimated warranty cost is recorded at the time of sale based upon actual experience. The Company continuously assesses the adequacy of its product warranty accrual and makes adjustments as needed. Historical analysis is primarily used to determine the Company’s warranty reserves. Claims history is reviewed and provisions are adjusted as needed. However, the Company does consider other events, such as a product recall, which could warrant additional warranty reserve provision. No material adjustments to warranty reserves were necessary in the first half of 2005.

The following is a reconciliation of the changes in accrued warranty costs for the reporting period (in thousands):

Balance as of January 1, 2005	\$ 13,998
Warranties provided during the period	5,486
Settlements made during the period	(5,450)
Changes in liability for pre-existing warranties during the period, including expirations	<u>394</u>
Balance as of June 30, 2005	<u>\$ 14,428</u>

Comprehensive Earnings - Total comprehensive earnings (losses) were as follows (in thousands):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net earnings	\$12,908	\$18,023	\$26,453	\$32,224
Foreign currency translation gain (loss)	(35,759)	(9,701)	(39,084)	623
Unrealized gain (loss) on available for sale securities	(42)	(7)	10	3
Current period unrealized loss on cash flow hedges	<u>(4,910)</u>	<u>(1,298)</u>	<u>(4,337)</u>	<u>(2,353)</u>
Total comprehensive earnings (loss)	<u>\$<u>(27,803)</u></u>	<u>\$<u>7,017</u></u>	<u>\$<u>(16,958)</u></u>	<u>\$<u>30,497</u></u>

Inventories - Inventories consist of the following components (in thousands):

	June 30,	December 31,
	<u>2005</u>	<u>2004</u>
Raw materials	\$ 60,688	\$ 60,548
Work in process	14,993	16,156
Finished goods	<u>107,823</u>	<u>99,179</u>
	<u>\$183,504</u>	<u>\$175,883</u>

The final inventory determination under the LIFO method is made at the end of each fiscal year based on the inventory levels and cost at that point; therefore, interim LIFO determinations are based on management's estimates of expected year-end inventory levels and costs.

Property and Equipment - Property and equipment consist of the following (in thousands):

	June 30,	December 31,
	<u>2005</u>	<u>2004</u>
Machinery and equipment	\$247,726	\$ 243,335
Land, buildings and improvements	86,276	95,041
Furniture and fixtures	27,847	27,494
Leasehold improvements	<u>15,302</u>	<u>14,275</u>
	377,151	380,145
Less allowance for depreciation	<u>(196,134)</u>	<u>(188,982)</u>
	<u>\$181,017</u>	<u>\$191,163</u>

Acquisitions – In the first half of 2005, Invacare Corporation acquired the following businesses, which were individually immaterial, at a total cost of \$58,216,000, which was paid in cash:

- Australian Healthcare Equipment Pty Ltd, an Australian based company, and manufacturer of beds, related furniture and pressure care products for home care and non-acute institutional care.
- Altimate Medical, Inc., a U.S. company, and manufacturer of standing frames and mobility aids for the rehabilitation market.
- Medical Support Systems Holdings Limited, a U.K. company, and manufacturer of high quality, foam pressure-reducing products for the healthcare market.

Goodwill recognized in these transactions amounted to approximately \$36,732,000, the majority of which is not expected to be deductible for tax purposes. Goodwill of \$16,557,000 was assigned to the European segment, \$12,910,000 was assigned to the North American segment and \$7,265,000 was assigned to the Asia/Pacific segment.

On September 9, 2004 the Company acquired 100% of the shares of WP Domus GmbH (Domus), a European-based holding company that manufactures several complementary product lines to Invacare's product lines, including power add-on products, bath lifts and walking aids, from WP Domus LLC. Domus has three divisions: Alber, Aquatec and Dolomite. The acquisition allows the Company to expand its product line and reach new markets. The preliminary purchase price was \$227,382,000, including acquisition costs of \$3,670,000, which was paid in cash, and is subject to final determination of the estimated costs of possible office closures, sales agency transfers and other consolidation efforts expected to be finalized during the third quarter of 2005. Invacare's reported results reflect the operating results of Domus since the date of the acquisition.

Supplemental pro forma information is presented below as though the business combination had been completed as of the beginning of the period ended June 30, 2004. The pro forma information does not necessarily reflect the results of operations that would have occurred if Domus had been a wholly owned entity of Invacare as of the beginning of the three and six-month periods ended June 30, 2004 (in thousands).

	Three Months Ended <u>June 30, 2004</u>	Six Months Ended <u>June 30, 2004</u>
Net sales	\$366,058	\$714,949
Net earnings	21,800	39,081
Earnings per share – assuming dilution	\$.68	\$1.21

Income Taxes – The Company had an effective tax rate of 31.9% for the three and six-month periods ended June 30, 2005 compared with 32.5% for the same periods a year ago. The effective tax rate declined due to a change in estimate in the mix of earnings and permanent deductions. The Company's effective tax rate is lower than the U.S. federal statutory rate primarily due to tax credits and earnings abroad being taxed at rates lower than the U.S. federal statutory rate.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our Condensed Consolidated Financial Statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and in our Current Report on Form 8-K as furnished to the Securities and Exchange Commission on July 28, 2005.

OUTLOOK

Reimbursement uncertainties that impacted the first quarter of 2005 continue to affect the core North American rehab and standard businesses in the second quarter. The power wheelchair market is unlikely to return to growth until the Centers for Medicare and Medicaid Services (CMS) implements its plan for 49 new codes and related fees at the beginning of 2006. The uncertainty has particularly impacted Medicare power wheelchair sales and will likely continue to pressure results in 2005. In terms of Medicaid, there was in general no improvement in terms of reimbursement levels or approvals for home medical equipment.

In order to adjust the cost base to the lower anticipated revenue growth levels, the Company has identified cost reductions and profit improvement actions totaling \$9 million in the second half of 2005. These actions include:

- reducing global headcount by 230 personnel,
- outsourcing improvements utilizing the Company's China manufacturing capability and third parties,
- shifting substantial resources from product development to manufacturing cost reduction activities and product rationalization,
- reducing freight exposure through freight auctions and changing the freight policy,
- general expense reductions, and
- exiting four facilities.

As a result of these actions, the Company anticipates recognizing a \$3 million to \$5 million charge in the third quarter of this year. These initial actions are expected to result in annualized savings of \$20 million as Invacare enters 2006.

In addition to these actions, the Company is reviewing its global manufacturing and distribution strategy. The Company is in the early stages of evaluating a multi-year plan to exit a number of manufacturing and distribution locations, resulting in annualized savings of up to \$21 million. These plans would lead to restructuring charges over the next two years estimated at \$22 million. While plans are not complete, the Company currently believes that the financial benefits from the restructuring in any one-year will minimize the net income impact from the charge incurred in that year. The Company will provide additional details on these plans when it announces third quarter results.

For the full year, the Company anticipates a net sales increase of between 14% and 15% and earnings per share of between \$2.20 and \$2.40. This guidance anticipates foreign currency to account for one percent of the net sales increase and acquisitions to account for 9% of the net sales increase. Excluding the impact of foreign currency and acquisitions, the net sales increase is expected to be between 4% and 5%. The Company anticipates operating cash flows of between \$90 million and \$100 million and net purchases of property and equipment of approximately \$35 million. The earnings per share guidance does not include the impact of the \$3 million to \$5 million charge mentioned above on a pre-tax basis or \$0.06 to \$0.10 per share after tax.

For the third quarter, the Company expects a net sales increase of between 16% and 18% and earnings per share of between \$0.53 and \$0.63. This guidance anticipates foreign currency to account for one percent of the net sales increase and acquisitions to account for 12% of the net sales increase. Excluding the impact of foreign currency and acquisitions, the net sales increase would be between 4% and 5%. The earnings per share guidance does not include the impact of the \$3 million to \$5 million charge mentioned above on a pre-tax basis or \$0.06 to \$0.10 per share after tax.

RESULTS OF OPERATIONS

NET SALES

Net sales for the three months ended June 30, 2005 were \$396,267,000, compared to \$339,288,000 for the same period a year ago, representing a 17% increase. Foreign currency translation and acquisitions accounted for 3% and 11% of the net sales increase for the quarter, respectively. Excluding the impact of currency and acquisitions, net sales growth was driven primarily by volume increases in the North America and Asia/Pacific business segments. For the six months ended June 30, 2005, net sales increased 16% to \$767,211,000, compared to \$660,631,000 for the same period a year ago. Foreign currency translation and acquisitions accounted for 2% and 11% of the net sales increase for the first half, respectively. Excluding the impact of foreign currency and acquisitions, net sales growth was driven primarily by volume increases in the North America and Asia/Pacific business segments.

North American Operations

North American net sales increased 6% for the quarter to \$264,854,000 as compared \$249,040,000 for the same period a year ago with foreign currency accounting for 1% of the net sales increase and acquisitions contributing an additional 1%. For the first half, net sales increased 6% to \$515,794,000 as compared \$486,323,000 for the same period a year ago, with foreign currency accounting for 1% of the net sales increase and acquisitions contributing an additional 2%. These sales consist of Rehab (power wheelchairs, custom manual wheelchairs, personal mobility and seating and positioning), Standard (manual wheelchairs, personal care, home care beds, low air loss therapy and patient transport), Continuing Care (beds and furniture), Respiratory (oxygen concentrators, aerosol therapy, sleep, homefill and associated respiratory) and Distributed (ostomy, incontinence, diabetic, wound care and other medical supplies) products.

The increase for the quarter was principally due to net sales increases in Respiratory products (28%), Distributed products (8%) and Continuing Care products (23%), which were partially offset by declines in Standard products (6%) and Rehab products (4%). Acquisitions accounted for 17% of the Continuing Care product net sales increase and positively impacted Rehab product net sales by less than 1%.

Respiratory growth in the quarter was largely due to continued strong performance in the HomeFill™ oxygen system product line and strong sales of oxygen concentrators. Distributed products continued to grow, consistent with recent performance, while Continuing Care products growth was lead by the increases sales of institutional products. The net sales decline experienced in Rehab products for the quarter is attributable to continued Medicare power wheelchair eligibility pressures and Medicaid related reimbursement pressures. As a result of these pressures, consumer power wheelchairs net sales were down 11% for the quarter versus last year's second quarter. Standard products sales benefited from increasing unit volumes, which were more than offset by lower pricing.

The increase for the first six months was principally due to net sales increases in Respiratory products (22%), Continuing Care products (22%) and Distributed products (8%), which were partially offset by declines in Standard products (4%) and Rehab products (4%). Acquisitions accounted for 16% of the Continuing Care product net sales increase and positively impacted Rehab product net sales by 2%.

European Operations

European net sales increased 46% for the quarter to \$110,331,000 as compared to \$75,406,000 for the same period a year ago. European net sales for the first six months increased 47% to \$212,422,000 as compared to \$144,744,000 for the same period a year ago. Acquisitions and foreign currency translation accounted for 40% and 7% of the net sales increase, respectively, for both the three and six months ended June 30, 2005. The net 1% sales decline for the quarter and lack of growth for the first half, excluding foreign currency and acquisitions, was primarily due to German reimbursement challenges for the Invacare wheelchair product lines.

Asia/Pacific Operations

The Company's Asia/Pacific operations consist of Invacare Australia, which imports and distributes the entire range of Invacare products and manufactures and distributes Rollerchair custom power wheelchairs and Pro Med lifts; Dynamic Controls, a New Zealand manufacturer of electronic operating components used in power wheelchairs and scooters; and Invacare New Zealand, a manufacturer of wheelchairs and beds and a distributor of a wide range of home medical equipment.

Asia/Pacific net sales increased 42% to \$21,082,000 from \$14,842,000 in the second quarter and increased 32% to \$38,995,000 from \$29,564,000 year to date. For the quarter, acquisitions accounted for 19% of the net sales increase, while foreign currency translation contributed an additional 15%. For the first half of the year, acquisitions accounted for 16% of the net sales increase, while foreign currency translation contributed an additional 11%. The resulting 8% sales increase for the quarter and 5% sales increase for the first half, excluding foreign currency and acquisitions, were largely due to volume increases in all locations.

GROSS PROFIT

Gross profit as a percentage of net sales for the three and six-month periods ended June 30, 2005 were 28.6% and 29.1%, respectively, compared to 30.1% and 29.6%, respectively, in the same periods last year. The decline for both periods is primarily due to significant increases in freight costs, largely due to fuel surcharges driven by the high price of oil, and price reductions on standard products in North America, which started in July of last year and thus negatively impact the gross margin comparison to the first half of last year.

For the first six months, North American margins as a percentage of net sales declined to 29.2% compared with 30.3% in the same period last year principally as a result of the above-referenced increase in freight costs and decrease in pricing, especially in the Standard products category. In Europe, gross margin improved year to date by 1.3 percentage points, primarily due to the higher gross margins achieved by Domus. Gross margin in Asia/Pacific declined year to date by .4 percentage points, largely due to unfavorable foreign currency associated with normal operating transactions and cost increases. The negative currency impacts and cost increases were primarily responsible for the Asia/Pacific losses before income taxes for the quarter and first half of the year.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expense as a percentage of net sales for the three and six months ended June 30, 2005 was 22.3% and 22.5%, compared to 21.9% for both comparable periods a year ago. The dollar increases were \$14,151,000 and \$27,330,000, or 19.1% and 18.9%, respectively for the quarter and first half of the year. Acquisitions increased these expenses by \$11,639,000 in the quarter and \$22,476,000 in the first half, while foreign currency translation increased these expenses by \$2,226,000 in the quarter and \$3,948,000 in the first half compared to the same periods a year ago. Sales and marketing expenses, which resulted from higher revenues and program spending, increased by \$5,817,000 and \$11,725,000 for the second quarter and the first half, respectively. Excluding the impact of foreign currency translation and acquisitions, selling, general and administrative expense increased 0.4% for the quarter and 0.6% compared to the same period a year ago.

North American selling, general and administrative cost increased \$2,766,000 or 5.2% for the quarter and \$4,293,000 or 4.2% in the first half compared to the same periods a year ago. Acquisitions accounted for 1.5% and 2.0% of the increase in each period, respectively, while foreign currency translation accounted for approximately 0.7% in both periods. The additional costs incurred on a consolidated basis, were primarily related to North America.

European selling, general and administrative cost increased \$8,842,000 or 46.0% for the quarter and \$18,075,000 or 46.6% for the first half compared to the same periods a year ago. For the quarter, acquisitions and foreign currency translation increased SG&A expense by \$10,295,000 or 53.6%, and \$1,382,000 or 7.2%, respectively. For the first half of 2005, acquisition and foreign currency translation increased SG&A expense by \$19,385,000 or 50.0%, and \$2,624,000 or 6.8%, respectively. The decrease in spending, excluding acquisition and foreign currency translation, was primarily attributable to efforts to decrease spending.

Asia/Pacific selling, general and administrative cost increased \$2,543,000 or 139.6% for the quarter and \$4,962,000 or 138.6% in the first half compared to the same periods a year ago. For the quarter, acquisitions and foreign currency translation increased SG&A expense by \$540,000 or 29.6%, and \$484,000 or 26.6%, respectively. For the first half of 2005, acquisition and foreign currency translation increased SG&A expense by \$1,002,000 or 28.0%, and \$688,000 or 19.2%, respectively. The increase in spending, excluding acquisition and foreign currency translation, was primarily attributable to additional systems costs related to an Enterprise Resource Planning (ERP) implementation and foreign currency transactions.

INTEREST

Interest expense increased \$4,490,000 and \$8,717,000 for the second quarter and first half of 2005, respectively, compared to the same periods last year, primarily due to increased borrowings for acquisitions and higher average borrowing rates. Interest income for the second quarter and first half of 2005 was comparable to the same respective periods last year.

INCOME TAXES

The Company had an effective tax rate of 31.9% for the three and six-month periods ended June 30, 2005 compared with 32.5% for the same periods a year ago. The effective tax rate declined due to a change in estimate in the mix of earnings and permanent deductions. The Company's effective tax rate is lower than the U.S. federal statutory rate primarily due to tax credits and earnings abroad being taxed at rates lower than the U.S. federal statutory rate.

LIQUIDITY AND CAPITAL RESOURCES

The Company's reported level of debt increased \$4,431,000 from December 31, 2004 to \$554,467,000 as of June 30, 2005 as a result of acquisitions. The Company continues to maintain an adequate liquidity position to fund its working capital and capital requirements through its bank lines of credit and working capital management.

Effective April 4, 2005, Invacare requested, and the other parties to its revolving credit agreement consented to, an increase in the amount of the multi-currency, long-term revolving credit facility available to Invacare by \$50,000,000 to an aggregate amount of \$500,000,000. In March 2005, the Company entered into three treasury lock agreements with notional amounts of \$50,000,000 each, locking in rates of 4.60%, 4.62% and 4.68% to effectively hedge the forecasted receipt of proceeds resulting from the anticipated issuance of ten year, fixed rate debt by January 2006.

As of June 30, 2005, the Company had approximately \$143,743,000 available under its lines of credit, excluding debt covenant restrictions. The Company's borrowing arrangements contain covenants, which were unchanged by the \$50,000,000 increase in the revolver, with respect to interest coverage, net worth, dividend payments, working capital, and funded debt to capitalization, as defined in the Company's bank agreements and agreement with its note holders. As of June 30, 2005, the Company was in compliance with all covenant requirements. Under the most restrictive covenant of the Company's borrowing arrangements, the Company has the capacity to borrow up to an additional \$75,244,000 as of June 30, 2005.

CAPITAL EXPENDITURES

The Company had no individually material capital expenditure commitments outstanding as of June 30, 2005. The Company estimates that capital investments for 2005 could approximate up to \$35,000,000 as compared to \$41,400,000 in 2004. The Company believes that its balances of cash and cash equivalents, together with funds generated from operations and existing borrowing facilities will be sufficient to meet its operating cash requirements and to fund required capital expenditures for the foreseeable future.

CASH FLOWS

Cash flows provided by operating activities were \$29,191,000 for the first half of 2005 compared to \$44,629,000 in the first half of 2004. The decrease in operating cash flows for the first half of 2005 compared to the same period a year ago was largely due to lower earnings, higher inventory levels and reduced payables and accrued expenses. Inventory levels increased primarily due to building product for anticipated increases in sales growth that did not materialize. In addition, with increased shipments from the Far East, the Company had more products in transit than in previous years.

Cash used for investing activities was \$72,007,000 for the first half of 2005 compared to \$55,404,000 in the first half of 2004. The increase in cash used for investing is attributable to the higher level of acquisitions incurred in the first half of 2005 compared to the first half of 2004. In addition, cash used for investing activities benefited by \$4,633,000 from the sale of a manufacturing facility no longer used by the Company.

Cash provided by financing activities was \$16,296,000 for the first half of 2005 compared to cash provided of \$1,247,000 in the first half of 2004. Financing activities for the first half of 2005 were impacted by an increase in the Company's net long-term borrowings of \$15,881,000 as a result of acquisitions and the decrease in operating cash flows compared to the same period a year ago.

The effect of foreign currency translation and acquisitions may result in amounts being shown for cash flows in the Condensed Consolidated Statement of Cash Flows that are different from the changes reflected in the respective balance sheet captions.

During the first half of 2005, the Company generated free cash flow of \$18,754,000 compared to free cash flow of \$26,296,000 in the first half of 2004. The decrease was primarily attributable to changes in inventory and accounts payable and lower earnings as explained above. Free cash flow is a non-GAAP financial measure that is comprised of net cash provided by operating activities less net purchases of property and equipment. Management believes that this financial measure provides meaningful information for evaluating the overall financial performance of the Company and its ability to repay debt or make future investments (including acquisitions, etc.). The non-GAAP financial measure is reconciled to the GAAP measure as follows (in thousands):

	Six Months Ended June 30,	
	2005	2004
Net cash provided by operating activities	\$29,191	\$44,629
Less: Purchases of property and equipment - net	<u>(10,437)</u>	<u>(18,333)</u>
Free Cash Flow	<u>\$18,754</u>	<u>\$ 26,296</u>

DIVIDEND POLICY

On May 25, 2005, the Company's Board of Directors declared a quarterly cash dividend of \$0.0125 per Common Share to shareholders of record as of July 1, 2005, which was paid on July 15, 2005. At the current rate, the cash dividend will amount to \$0.05 per Common Share on an annual basis.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements 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 these 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.

Revenue Recognition

Invacare's revenues are recognized when products are shipped to unaffiliated customers. The Securities and Exchange Commission's Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition," as updated by SAB No. 104, 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 generally accepted accounting principles and SAB No. 101.

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

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

Distributed products sold by the Company are accounted for in accordance with EITF 99-19 *Reporting Revenue Gross as a Principal versus Net as an Agent*. 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. In December 2000, the Company entered into an agreement with DLL, a third party financing company, to provide the majority of future lease financing to Invacare customers. As such, interest income is recognized based on the terms of the installment agreements. Installment accounts are monitored and if a customer defaults on payments, interest income is no longer recognized. All installment accounts are accounted for using the same methodology, regardless of duration of the installment agreements.

Allowance for Uncollectible Accounts Receivable

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the Company's receivables are due from health care, medical equipment dealers and long term care facilities located throughout the United States, Australia, Canada, New Zealand, Asia 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 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. 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 with DLL, 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.

Inventories and Related Allowance for Obsolete and Excess Inventory

Inventories are stated at the lower of cost or market with cost principally determined for domestic manufacturing inventories by the last-in, first-out (LIFO) method and for non-domestic inventories and domestic finished products purchased for resale by the first-in, first-out (FIFO) method.

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

In general, we review inventory turns as an indicator of obsolescence or slow moving product as well as the impact of new product introductions. Depending on the situation, the individual item may be partially or fully reserved for. No inventory that was reserved for has been sold at prices above their new cost basis. The Company continued to increase its overseas sourcing efforts, increase its emphasis on the development and introduction of new products, and decrease the cycle time to bring new product offerings to market. These initiatives are potential sources of inventory obsolescence for both raw material and finished goods.

Goodwill, Intangible and Other Long-Lived Assets

Property, equipment, intangibles and certain other long-lived assets are amortized over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue. As a result of the adoption of Statement of Financial Accounting Standard (SFAS) No. 142, *Goodwill and Other Intangible Assets* in 2002, goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests in accordance with the Statement. Furthermore, goodwill and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company completes its annual impairment tests in the fourth quarter of each year and the results of these analyses have indicated no impairment of goodwill.

Product Liability

The Company's captive insurance company, Invatection Insurance Co., currently has a policy year that runs from September 1 to August 31 and insures annual policy losses of \$10,000,000 per occurrence and \$11,000,000 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 \$100,000,000 in annual aggregate losses arising from individual claims anywhere in the world that exceed the captive insurance company policy limits. 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 a third-party actuary. Additional reserves, in excess of the specific individual case reserves, are provided for incurred but not reported claims based upon third-party actuarial valuations at the time such valuations are conducted. Historical claims experience and other assumptions are taken into consideration by the third-party actuary to estimate the ultimate reserves. For example, the actuarial analysis assumes that historical loss experience is an indicator of future experience, 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 or settlements on claims. While actuarial analysis is used to help determine adequate reserves, the Company is responsible for the determination and recording of adequate reserves in accordance with accepted loss reserving standards and practices.

Warranty

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

Accounting for Stock-Based Compensation

The Company accounts for options under its stock-based compensation plans using the intrinsic value method proscribed in Accounting Principles Board Opinion (APBO) No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. The majority of the options awarded have been granted at exercise prices equal to the market value of the underlying stock on the date of grant; thus, no compensation cost has been reflected in the Consolidated Statement of Earnings for these options. In addition, restricted stock awards have been granted without cost to the recipients and are being expensed on a straight-line basis over the vesting periods.

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. This statement provides guidance for those companies wishing to voluntarily change to the fair value based method of accounting for stock-based compensation. The statement also amends the disclosure requirements of SFAS No. 123. While Invacare continues to utilize the disclosure-only provisions of SFAS No. 123, the Company has modified its disclosures to comply with the new statement. See Accounting for Stock-Based Compensation in the Notes to the Consolidated Financial Statements.

Income Taxes

As part of the process of preparing its financial statements, the Company is required to estimate income taxes in various jurisdictions. The process requires estimating the Company's current tax exposure, including assessing the risks associated with tax audits, as well as estimating temporary differences due to the different treatment of items for tax and accounting policies. The temporary differences are reported as deferred tax assets and or liabilities. The Company also must estimate the likelihood that its deferred tax assets will be recovered from future taxable income and whether or not valuation allowances should be established. In the event that actual results differ from its estimates, the Company's provision for income taxes could be materially impacted.

The Company does not believe that there is a substantial likelihood that materially different amounts would be reported related to its critical accounting policies.

RECENTLY ADOPTED ACCOUNTING POLICIES

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (“FIN 46”), which was revised in December 2003 and, which among other things, deferred the implementation date of FIN 46 until periods after March 15, 2004. This interpretation requires consolidation of an entity if the company is subject to a majority of the risk of loss from the variable interest entity’s (“VIE”) activities or entitled to receive a majority of the entity’s residual returns, or both. A company that consolidates a VIE is known as the primary beneficiary of that entity.

The Company has an investment in NeuroControl, a development stage company, which is currently pursuing FDA approval to market in the United States a product focused on the treatment of post-stroke shoulder pain. The amount of net advances and investment recorded on the Company’s books was approximately \$3,000,000 at December 31, 2004. Certain of the Company’s officers and directors (or their affiliates) have minority equity ownership positions in NeuroControl. Subsequent to December 31, 2004, the Company’s board of directors approved an additional investment by the Company in NeuroControl. Accordingly, the Company has consolidated this investment prospectively beginning with the quarter ended March 31, 2005, as the Company is now deemed the primary beneficiary of this VIE based on the provisions of FIN 46. The other beneficial interest holders have no recourse against the Company.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2004, FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 123 (Revised 2004), *Share-Based Payment* (“SFAS 123R”), which requires companies to expense stock options and other share-based payments. SFAS 123R supersedes SFAS No. 123, which permitted either expensing stock options or providing pro forma disclosure. In April 2005, the SEC announced that the adoption of SFAS 123R would be delayed. The provisions of SFAS 123R, which will become effective with respect to the Company on January 1, 2006, apply to all awards granted, modified, cancelled or repurchased after January 1, 2006 as well as the unvested portion of prior awards. The Company will adopt the standard as of the effective date and estimates that the impact to the Company’s reported results will be similar to the pro forma results shown in the Company’s note regarding Accounting for Stock-Based Compensation in the Notes to its Consolidated Financial Statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to market risk through various financial instruments, including fixed rate and floating rate debt instruments. The Company uses interest rate swap agreements and treasury locks to mitigate its current and future exposure to interest rate fluctuations. Based on the Company’s June 30, 2005 debt levels, a 1.0% change in interest rates would impact interest expense by approximately \$5,360,000 over the next twelve months. Additionally, the Company operates internationally and as a result is exposed to foreign currency fluctuations. Specifically, the exposure includes inter Company loans and third party sales or payments. In an attempt to reduce this exposure, the Company utilizes foreign currency forward contracts. The Company does not believe that any potential loss related to these financial instruments would have a material adverse effect on the Company’s financial condition or results of operations.

FORWARD-LOOKING STATEMENTS

This Form 10-Q 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,” “plan,” “intend,” “expect,” “continue,” “forecast,” “believe,” “anticipate” and “seek,” as well as similar comments, are forward-looking in nature. 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: pricing pressures, the success of the Company’s ongoing efforts to reduce costs, and achieve ongoing savings (including the recently announced and future-contemplated restructurings and initiatives), increasing raw material costs, the consolidations of health care customers and competitors, government reimbursement issues (including those that affect the sales of and margins on products, along with the viability of customers) both at the federal and state level, the ability to design, manufacture, distribute and achieve market acceptance of new products with higher functionality and lower costs, the effect of offering customers competitive financing terms, Invacare’s ability to successfully identify, acquire and integrate strategic acquisition candidates, the difficulties in managing and operating businesses in many different foreign jurisdictions (including the recent Domus acquisition), the timely completion of facility consolidations, the vagaries of any litigation or regulatory investigations that the Company may be or become involved in at any time (including the previously-disclosed litigation with Respironics), the difficulties in acquiring and maintaining a proprietary intellectual property ownership position, the overall economic, market and industry growth conditions (including the impact that acts of terrorism may have on such growth conditions), foreign currency and interest rate risks, Invacare’s ability to improve financing terms and reduce working capital, as well as the risks described from time to time in Invacare’s reports as filed with the Securities and Exchange Commission. We undertake no obligation to review or update these forward-looking statements or other information contained herein.

Item 3. Quantitative and Qualitative Disclosure of Market Risk.

The information called for by this item is provided under the same caption under Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures.

As of June 30, 2005, an evaluation was performed, under the supervision and with the participation of the Company’s management, including the CEO and CFO, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based on that evaluation, the Company’s management, including the CEO and CFO, concluded that the Company’s disclosure controls and procedures were effective as of June 30, 2005 in ensuring that information required to be disclosed by the Company in the reports it files and submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. There were no changes in the Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table presents information with respect to repurchases of common shares made by the Company during the three months ended June 30, 2005. All of the repurchased shares were surrendered to the Company by employees for tax withholding purposes in conjunction with the vesting of restricted shares held by the employees under the Company's 2003 Performance Plan.

	<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs</u>
4/1/2005-4/30/05	-	\$ -	-	\$ -
5/1/2005-5/31/05 (1)	8,274	\$ 41.63	-	\$ -
6/1/2005-6/30/05	-	\$ -	-	\$ -
Total	8,274	\$ 41.63	-	\$ -

(1) Represents common shares surrendered to the Company for tax withholding purposes in conjunction with the vesting of restricted shares under the Company's 2003 Performance Plan.

Item 4. Submission of Matters to a Vote of Security Holders

On May 25, 2005, the Company held its 2005 Annual Meeting of Shareholders to act on proposals to: 1) elect four directors to the class whose three-year term will expire in 2008, 2) approve and adopt the Invacare Corporation Executive Incentive Bonus Plan, and 3) ratify the appointment of Ernst & Young LLP as the Company's independent auditors for the 2005 fiscal year.

Michael F. Delaney, C. Martin Harris, M.D., Bernadine P. Healy, M.D., and A. Malachi Mixon, III were each re-elected for a three-year term of office expiring in 2008 with 38,794,077, 38,928,502, 38,540,558 and 38,540,006 affirmative votes and 556,132, 421,707, 809,651 and 810,203 votes withheld, respectively.

James C. Boland, Whitney Evans, William M. Weber, Gerald B. Blouch, John R. Kasich, Dan T. Moore, III, and Joseph B. Richey, II are directors with continuing terms.

The proposal to approve and adopt the Invacare Corporation Executive Incentive Bonus Plan received 37,345,183 affirmative votes, 1,280,691 negative votes and 724,335 abstained votes.

The proposal to ratify the appointment of Ernst & Young LLP as the Company's independent auditors for its 2005 fiscal year received 36,215,549 affirmative votes, 3,054,431 negative votes and 80,229 abstained votes.

Item 5. Other Information

(a) As stated above, the Invacare Corporation Executive Incentive Bonus Plan (the "Executive Bonus Plan") was approved by shareholders of the Company on May 25, 2005. A summary of the Executive Bonus Plan appears below. A more detailed description, as well as a copy of the Executive Bonus Plan, can be found in the Company definitive Proxy Statement filed with the Securities Exchange Commission on April 8, 2005. A copy of the Executive Bonus Plan is attached as Exhibit 10.1 to this Quarterly Report on Form 10-Q, and is incorporated herein by reference.

The Executive Bonus Plan is intended to reward participants based upon the Company's performance. Specifically, the Executive Bonus Plan is intended to provide an incentive to the Company's executive officers to improve the Company's operating results, and to enable the Company to recruit and retain key officers by making the Company's overall compensation program competitive with compensation programs of other companies with which the Company competes for executive talent. The Executive Bonus Plan is administered by the Company's Compensation, Management Development and Corporate Governance Committee (the "Compensation Committee"). All officers of the Company are eligible to be selected to participate in the Executive Bonus Plan. The Compensation Committee has the discretion to select those officers who will participate in the Executive Bonus Plan in any given year. For each calendar year or other predetermined performance period, the Compensation Committee will establish a target bonus for each eligible officer, payable if a specified performance goal is satisfied for such performance period. The performance goal for each performance period will provide for a targeted level or levels of performance using one or more of the predetermined measurements provided in the Executive Bonus Plan. For 2005, the bonus award will be based upon satisfaction of an earnings per share target. The performance goal for a performance period will be established in writing by the Compensation Committee on or before the latest date permissible to enable the bonus award to qualify as "performance based compensation" under Section 162(m) of the Internal Revenue Code. As the amount payable to an officer under the Executive Bonus Plan is subject to discretion as to the target amount, the performance goals selected and whether the amount resulting from achievement of such goal will actually be paid, the amount that will be paid in the future to any eligible officer is not presently determinable.

Item 6. Exhibits.

Exhibits:

Official Exhibit No.

- | | |
|------|---|
| 10.1 | Invacare Corporation Executive Incentive Bonus Plan (filed herewith). |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). |
| 32.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. |

Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INVACARE CORPORATION

By: _____
Gregory C. Thompson
Chief Financial Officer
(Principal Financial and Accounting
Officer)

Date: August 5, 2005