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, 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	95-2680965
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

One Invacare Way, P.O. Box 4028, Elyria, Ohio 44036
(Address of principal executive offices) (Zip Code)

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

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

Title of Each Class	Name of Exchange on which Registered
Common Shares, without par value	New York Stock Exchange
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy of 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

As of June 30, 2005, the aggregate market value of the 27,957,693 Common Shares of the Registrant held by non-affiliates was $1,240,203,261 and the aggregate market value of the 31,791 Class B Common Shares of the Registrant held by non-affiliates was $1,410,249. 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, 2005, which was $44.36. For purposes of this information, the 2,623,460 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 24, 2006, 30,683,389 Common Shares and 1,111,965 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 2006 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, 2005.

INVACARE CORPORATION
2005 ANNUAL REPORT ON FORM 10-K CONTENTS

PART I

Item 1. Business.

GENERAL

Invacare Corporation is the world's leading manufacturer and distributor of non-acute health care products based upon its distribution channels, the breadth of its product line and its net sales. The company designs, manufactures and distributes an extensive line of health care products for the non-acute care environment, including the home health care, retail and extended care markets. Invacare continuously revises and expands its product lines to meet changing market demands and currently offers numerous product lines. The company's products are sold principally to over 25,000 home health care and medical equipment provider locations in the U.S., Australia, Canada, Europe and New Zealand, with the remainder of its sales being primarily to government agencies and distributors. 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 related supplies manufactured by others.

Invacare is committed to design, manufacture 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 our primary market — the non-acute health care market;
- marketing our broad range of products;
- providing the industry's most professional and cost-effective sales, customer service and distribution organization;
- supplying superior and innovative provider support and aggressive product line extensions;
- building a strong referral base among health care professionals;
- building brand preference with consumers;
- continuous advancement and recruitment of top management candidates;
- empowering all employees;
- providing a performance-based reward environment; and
- continually striving for total quality throughout the organization.

When the company was acquired in December 1979 by a group of investors, including certain of our current officers and Directors, it had $19.5 million in net sales and a limited product line of standard wheelchairs and patient aids. In 2005, Invacare reached $1.530 billion in net sales, representing an 18% compound average sales growth rate since 1979, and currently is the leading company in the industry that manufactures, distributes and markets products in each of the following major, non-acute, medical equipment categories: power and manual wheelchairs, patient aids, home care beds, home respiratory products, low air loss therapy products, seating and positioning products, bathing equipment and distributed products.

The company operates in a single industry, the home medical equipment (HME) industry segment. For information relating to net sales, operating income, identifiable assets and other information for this industry segment, see the Consolidated Financial Statements of the company included in this report.

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.

THE HOME MEDICAL EQUIPMENT INDUSTRY

North America

The home medical equipment 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 demand for domestic home medical equipment products will continue to grow during the next decade and beyond as a result of several factors, including:

Growth in population over age 65. Overall life expectancy in the United States continues to increase. A recent report from the U.S. Department of Health and Human Services (DHHS) states that the average life expectancy for men and women who reach the age of 65 is now 82 and 85, respectively, and life expectancy at birth is now 75 for men and 80 for women. The DHHS also reports that people age 65 or older represent the vast majority of home health care patients and will increase from 12% of the population in 2004 to 21% of the population by the year 2050. A significant percentage of people using home and community-based health care services are 65 years of age and older.

Treatment trends. Many medical professionals and patients prefer home health care over institutional care because they believe that home health care results in greater patient independence, increased patient responsibility and improved responsiveness to treatment because familiar surroundings are conducive to improved patient outcomes. Health care professionals, public payers and private payers agree that home care is 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, while approximately 90% of the older population showed preference for home-based, long-term care.

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. In 2003, health care expenditures in the U.S. totaled $1.7 trillion dollars or approximately 15.3% of the Gross Domestic Product (GDP), the highest among industrialized countries. In 2014, the nation's health care spending is projected to increase to $3.6 trillion, growing at an average annual rate of 7.1%. Over this same period, spending on health care is expected to increase to approximately 18.7% as a share of GDP. The rising cost of health care has caused many payers of health care expenses to look for ways to contain costs. Home health care has gained widespread acceptance among health care providers and public policy makers as a cost effective, clinically appropriate and patient preferred alternative to facility-based care for a variety of acute and long-term illnesses and disabilities. Thus, the company believes that home health care and home medical equipment will play a significant role in reducing health care costs.

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 (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 end user. The distribution network for products has expanded to include not only specialized home health care providers and extended care facilities but retail drug stores, surgical supply houses, rental, hospital and HMO-based stores, home health agencies, mass merchandisers, direct sales and the Internet.

Europe/Asia/Pacific

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 major national markets within Europe and in Asia/Pacific have distinctive characteristics. The health care industry is 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 each national market. Management believes that as the European markets become more homogeneous 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.

GEOGRAPHICAL SEGMENTS AND PRODUCT CATEGORIES

North America

North American operations are aligned into five primary product groups, which manufacture and market products in all of the major home medical equipment categories. In Canada, the company primarily sells Invacare products manufactured in the U.S.

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. Power wheelchair lines are marketed under the Invacare® Storm Series® and Xterra™ brand names and include a full range of powered mobility products. The Storm Series® was expanded in 2004 with the introduction of the TDX™ line of power wheelchairs which offer an unprecedented combination of power, stability and maneuverability. The Pronto™ Series Power Wheelchairs with SureStep™ feature center-wheel drive performance for exceptional maneuverability and intuitive driving. The 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, skiing and tennis.

Personal Mobility. In 2005, Invacare introduced the *At'm Quick Transport,* an upgrade to the Invacare *At'm Take Along Chair,* which is the next evolution in portable mobility and has an improved and quicker disassembly feature. In addition, during 2005, the company acquired Altimate Medical, Inc., which manufactures standing frames and mobility products.

Seating and positioning products. Invacare markets seat cushions, back supports and accessories under three series. Invacare® Essential™ Series provides simple seating solutions for comfort, fit and function. Invacare Infinity™ Series includes versatile modular seating, providing optimal rehab solutions. Invacare PinDot® Series offers custom seating solutions personalized for the most challenged clients. The company has also expanded its product line of seating products and wheelchairs for the pediatric market.

STANDARD PRODUCTS

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

Personal care. Invacare manufactures and/or distributes a full line of personal care products, including ambulatory aids such as crutches, canes, walkers and wheeled walkers. This line also features one of Invacare's latest product innovations, the Rollite™ Rollator, a truly unique solution in patient mobility. 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, trapeze bars and traction equipment. Also available are the new bariatric beds and accompanying accessories to serve the special needs of bariatric patients.

Low air loss therapy products. Invacare manufactures and markets a complete line of mattress overlays and replacement products, under the Invacare® brand name. These products, which use 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 markets 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 new series of mobile, multi-functional recliners.

RESPIRATORY PRODUCTS

Home respiratory products. Invacare manufactures and/or distributes home respiratory products, including oxygen concentrators, nebulizer compressors and respiratory disposables, sleep therapy products and portable compressed oxygen systems. Invacare home respiratory products are marketed predominantly under the Invacare® brand name. The Invacare Venture HomeFill™ II Oxygen Compressor enables people to safely and easily make compressed oxygen in their home and store it in cylinders for future use.

DISTRIBUTED PRODUCTS

Distributed products. Invacare distributes numerous lines of branded medical supplies including ostomy, incontinence, diabetic, wound care and miscellaneous home medical products, as well as HME aids for daily living. In 2004, Invacare introduced its own private label brand of certain medical supplies.

CONTINUING CARE

Health Care Furnishings. Invacare, operating as Invacare Continuing Care Group, is a manufacturer and distributor of beds and furnishings for the long-term care markets. In addition, certain home medical equipment also is sold through this channel.

OTHER PRODUCTS

Accessory Products. Invacare also manufactures, markets and distributes many accessory products, including spare parts, wheelchair cushions, arm rests, wheels and respiratory parts. In some cases, Invacare's accessory items are built to be interchangeable so that they can be used to replace parts on products manufactured by others.

Asia/Pacific

The company's Asia/Pacific operations consist of Invacare Australia, which imports and distributes the Invacare range of products and manufactures and distributes the Rollerchair range of custom power wheelchairs and Pro Med lifts, DecPac ramps and Australian Healthcare Equipment beds, furniture and pressure care products; Dynamic Controls, a New Zealand manufacturer of electronic operating components used in power wheelchairs and scooters; Invacare New Zealand, a manufacturer of wheelchairs and beds and a distributor of a wide range of home medical equipment; and Invacare Asia Sales, which imports and distributes home medical equipment to the Asia markets.

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 to more closely resemble those of its North American operations.

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 at the following European facilities: Invacare UK Ltd. in the United Kingdom, Invacare Poirier S.A.S. in France, Invacare (Deutschland) GmbH in Germany, and Ulrich Alber Gmgh in Germany. Manual wheelchair products are also manufactured and/or assembled at Invacare Portugal, Invacare AG in Switzerland (the Kuschall Range), and Invacare Rea AB in Sweden. Beds and patient lifts are manufactured at EC-Hong A/S in Denmark. Personal care products are manufactured at Aquatec GmbH in Germany, Dolomite AB in Sweden and imported. A range of patient lifts is also assembled at Invacare UK Ltd. in the United Kingdom. Oxygen products are imported from Invacare U.S. operations.

With the acquisition in September 2004 of WP Domus GmbH (Domus), the European product range has now been enhanced and market share increased. The acquired companies within the group manufacture several complementary product lines to Invacare's product lines, including power add-on products, bath lifts and walking aids.

In April 2005, Medical Support Systems Ltd. in the United Kingdom was acquired, enabling Invacare to fill an important gap in the seating and anti-decubitus markets.

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. 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 manufacturers, 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's 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, as well as to consumers, who express a product or brand preference.

Invacare's domestic sales and marketing organization consists primarily of a home care 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 in British Columbia, Ontario and Quebec to health care providers throughout Canada. Manufacturers' representatives market and sell Invacare products through the company's Invacare Continuing Care Group to the non-acute care market.

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 in each of its five years of existence.

The Invacare Service and Parts Division (ISP) focuses on improving operations and enhancing overall service to its customers. ISP's Technical Education department offers education programs that continue to place emphasis on improving the productivity of repair technicians. The Service Referral Network includes over 600 providers who honor Invacare's product warranties regardless of where the product was purchased. This network of servicing providers helps ensure that all consumers using Invacare products receive quality service and support that is consistent with the Invacare brand promise.

The company sells distributed products, primarily soft goods and disposable medical supplies, through the Invacare Supply Group (ISG). ISG is an important component of Invacare's "Total One Stop Shopping" program, through which Invacare offers HME providers of all sizes a broader range of products and services at a lower total cost. ISG products include ostomy, incontinence, wound care and diabetic supplies, as well as other soft goods and disposables which complement other Invacare products that are purchased by many of the same customers who buy Invacare equipment. These products are also sold in the retail market. ISG markets its products through an inside telesales and 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 a direct outside sales force. ISG also markets a Home Delivery Program to HME 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.

In 2005, Invacare, through its co-op advertising program, continued to offer direct response television commercials designed to generate demand for Invacare Power Chairs and the HomeFill Oxygen System sold by the HME provider. These commercials feature Arnold Palmer, Invacare's worldwide spokesperson, who has become an integral part of Invacare's "Yes, you can™" promotional and marketing efforts. This program encourages consumers to achieve personal independence and participate in the activities of life, facilitated by the home health care products that Invacare manufactures, distributes and/or markets throughout the world. The company has an agreement with Mr. Palmer through the end of 2007. Mr. Palmer, in serving as Invacare's spokesperson, is helping accomplish three objectives: (i) creating attention and awareness for the category of home health care products, (ii) accelerating acceptance of these products as lifestyle enhancing so that consumers actually want these products rather than simply needing them, and (iii) establishing the Invacare brand as the consumer category-brand for home health care products. Mr. Palmer is featured throughout Invacare's marketing communications, including Invacare direct-response television commercials, print advertising, point-of-purchase displays, and other merchandising and marketing materials.

Invacare continues to enhance *www.invacare.com*, maintaining its position as the leader in e-commerce in the HME industry. New on-line offerings in 2005 have included a new product configurator, and contract pricing in the customer's secured view of the product catalog. Both features are the result of the Oracle ERP implementation. Upgrades to web channels include new marketing features for Invacare Canada, performance increases for The Aftermarket Group and Invacare Service Centers, search enhancements in the Invacare Service Parts on-line catalog and easier to find Price List updates. These upgrades increase the flexibility and accuracy of the information available through those web properties. In 2005, Invacare's website utilization continued to increase, resulting in thirty-five-percent of all standard domestic orders placed via the web, and approximately twelve percent through EDI, resulting in significant cost savings. Increased web transactions such as quotes, orders, pricing inquiries, as well as document searches and downloads reduced the number of calls to the customer service call center, also resulting in significant cost savings. The integration of a new web server platform and networking hardware upgrades in 2006 is expected to further improve the on-line customer experience by adding additional website speed and performance.

In 2005, Invacare continued its strategic advertising campaign in key trade publications that reach the providers of home medical equipment. The company also contributed extensively to editorial coverage in trade publications concerning the products it 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 and consumers.

Invacare continues to generate greater consumer awareness of the company and its products. This was evidenced by sponsorships of a variety of wheelchair sporting events and support of various philanthropic causes benefiting the consumers of its products. For the twelfth consecutive year, Invacare continued as a National Corporate Partner with Easter Seals, one of the most recognized charities in the United States that meets the needs of both children and adults with various types of disabilities. The company continued its sponsorships of 75 individual wheelchair athletes and teams, including several of the top-ranked male and female racers, hand cyclists, and wheelchair tennis players in the world. Invacare was the title sponsor for the seventh year in a row of the Invacare World Team Cup of Wheelchair Tennis Tournament, which took place in January in the Netherlands. The company also continued its support of disabled veterans through its sponsorship of the 25th 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.

The company's top 10 customers accounted for approximately 12% of 2005 net sales. The loss of business of one or more of these customers or buying groups may have a significant impact on the company, although no single customer accounted for more than 5% of the company's 2005 net sales. Providers who are part of a buying group generally make individual purchasing decisions and are invoiced directly by the company.

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 the United Kingdom, France, Germany, Belgium, Portugal, Spain, Italy, Denmark, Sweden, Switzerland, Norway and the Netherlands, and sells through distributors elsewhere in Europe. 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 2005, the distribution pattern within Europe has evolved in 2 ways: whereas the Nordic government agencies have moved further towards a decentralization of their purchasing system, the central and southern markets experienced a consolidation of big buying groups tending to develop their business on a European scale. In most markets, government health care and reimbursement policies play an increasing role in determining the types of equipment sold and price levels for such products.

PRODUCT LIABILITY COSTS

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 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 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, 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 award settlements on claims. While actuarial analysis is used to help determine adequate reserves, the company accepts responsibility 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, expanding and broadening its existing product lines. In 2005, new product development continued to be a focus as part of Invacare's strategy to gain market share and maintain competitive advantage. To this end, the company introduced 37 new products. The following are some of the most significant 2005 product developments:

North America

The At'm Quick Transport, an upgrade to the Invacare *At'm Take Along Chair,* that provides consumers a light-weight and compact chair to fit in the trunk of a car and assemble easily in just 60 seconds. The consumer's caregiver can open the seat, snap it on the lightweight base, and add the battery. Assembly requires absolutely no tools.

MK Series Electronics, MK6^{i} electronics are expected to take Invacare's market leading position in high-end rehab powered wheelchair electronics to the next level. MK6^{i} is a "plug and play" system that reduces set-up time and service complexity for the provider while providing a simplified, intuitive and easier to use system for the consumer.

The InTouch™ TargIT™ Seat Cushion, is designed for today's reimbursement environment. This product features industry-exclusive features such as InTouch Zone™ and Blend2™ foam molding technology and is an excellent solution for customers with moderate skin protection and positioning needs.

The HomeFill™ II Patient Convenience Pack ML4, is an all-new portable oxygen supply system that is lightweight – 3½ pounds – and easy to transport for oxygen patients. The HomeFill Oxygen System offers HME providers 3-to-1 cost savings in servicing their ambulatory oxygen patients since patients can fill cylinders themselves in their own home, which gives them freedom and independence – they no longer have to wait for cylinder deliveries.

The *Invacare Polaris™ EX™ CPAP* features *SoftX™ Technology,* which tracks the patient's breathing pattern and reduces the patient's work of breathing during exhalation, providing effortless exhalation for the patient. Additionally, integrated heated humidification can be provided by the *Polaris™ EX™ Heated*

Humidifier. Together, these products offer unparalleled comfort, convenience and proven superior patient compliance.

BAR1000 is a new 1,000-pound capacity Homecare Bed that is a 48'' wide, split spring bed designed to meet the needs of bariatric patients and yet still provide easy home delivery and storage for providers. In addition, the company offers the BAR3500 which is a combination Low Air Loss and Alternating Pressure mattress replacement system, which will likely prevent and treat pressure ulcers in bariatric patients.

The WalkLite™ line of walkers was expanded in 2005 to reach a wider range of heights and features including: a flip up seat, spring-loaded rear glide brakes to provide additional security, nylon backrest for comfort and the ability to easily fold into a compact unit for transport or storage.

Pronto M91™ *and TDX*™ *Total Driving eXperience* power wheelchairs were each enhanced in 2005 with the M91 receiving patented stability lock, TCD™ traction control, adjustable ASBA seat and the Mk5™ NX-75 Controller, while TCD™, MK5™ 3.60 Version Software, and adjustable ASBA seat was added to the TDX™.

Asia/Pacific

Dynamic Controls continued various range extensions and design improvements to products during 2005. A new Scooter Controller design was completed and launched early 2006. Dynamic Controls is positioning itself for further new product releases 2006.

Europe

During 2005, European operations introduced a substantial number of products appropriate for its markets. Key introductions and updates in 2005 included:

The new *Kuschall K-Series* is an ensemble of active manual wheelchairs with improved user functionality. In particular, adjustable backrest angle, foldable backrest for compact volume when transporting the wheelchair, simplified adjustments, mud-guards in carbon fiber and ultra light weight.

The Invacare® Dragon Verticalizer is a cost effective rear wheel driven power wheelchair designed and manufactured in Europe. It is a solid power wheelchair that provides excellent indoor and outdoor mobility in the suburban environment. In addition, the *Dragon Verticalizer* is unique in its verticalizing function. The user can automatically move in a standing position, while continuing to drive the wheelchair.

The Invacare® G50 Power wheelchair is an improved version of the *G40 Power* wheelchair for outdoor use. An entirely new design, improved maintenance accessibility, improved motor power to allow steeper slope tracks, improved driving acceleration and much better battery autonomy.

The *Invacare® Spectra Blitz*, is a new power wheelchair for use by children. The power wheelchair is designed for indoor and outdoor use. The seat can be adjusted in height and in angle.

Invacare® Legrest for Storm 3 is a side-mounted leg-rest that allows automatic adjustment by electrical control. It improves the user ergonomics of the *Storm 3* Power wheelchair.

Invacare® Taurus mini scooter is an easy ''take apart'' power scooter. This scooter shows good range and performance for outdoor use.

Invacare® Solar micro scooter is an easy ''take apart'' micro power scooter. This scooter has been developed to best suit the maneuverability needs of indoor use.

MANUFACTURING AND SUPPLIERS

The company's objective is to maintain the lowest cost, 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 assets that are fast, 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 products from facilities close to the customers in each of its major markets. As strategic choices are made on locations globally, those facilities that remain in higher cost regions of North America and Europe will be very focused factories that provide these specific competitive advantages to the marketing and sales teams.

The company has refined its multi-year cost reduction plans initiated in the first half of 2005 for its global manufacturing and distribution strategy. Once completed in 2008, these actions are anticipated to generate approximately $30,000,000 of annual pre-tax savings and to result in pre-tax restructuring charges totaling $42,000,000. The company expects global reductions of at least 600 additional positions and to exit a number of its manufacturing operations worldwide.

The company continues to place specific emphasis on shifting 40% to 50% of its products over the next three to five years to Asian sourcing opportunities, including China and India which is a component of our multi-year manufacturing and distribution strategy. Access to sourcing opportunities has been facilitated by the company's establishment of a full test and design engineering facility in its location in Suzhou. In Asia, Invacare controls products with intellectual property, high value add margins, and that serve local market opportunities through its wholly owned factories in Suzhou, China and Kunshan, Jiangsu Province, China. The facilities, which were opened in 2004, supply products to the major regions of the world served by Invacare: North America, Europe, and Asia/Pacific.

World class best practices in lean manufacturing and six sigma are used throughout the operations to eliminate waste, shorten lead-times, optimize inventory, improve productivity, drive quality, and engage supply chain associates in the definition and implementation of needed change.

The company purchases raw materials, components, sub-assemblies, and finished goods from a variety of suppliers globally. The company's Hong Kong-based Asian Sourcing and Purchasing Office has proven to be a significant asset to our supply chain through its 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 final assembly of powered mobility and custom manual wheelchairs, 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 commodes. The company operates four major factories in Elyria, Ohio; Sanford, Florida; London, Ontario; and Reynosa, Mexico.

Asia/Pacific

The company continues to aggressively integrate its operations in Australia to maximize the leverage of operational efficiencies.

Europe

The company has twelve manufacturing facilities spread throughout Europe with a capability to manufacture patient aid, wheelchair, powered mobility, bath safety, and patient transport products. The European manufacturing and logistics facilities are focused on accelerating opportunities for streamlining to gain significant synergies in cost and quality over the next three years.

ACQUISITIONS

In 2005, Invacare Corporation acquired the following businesses, which were individually and collectively 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.

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 has allowed the company to expand its product line and reach new markets. The final purchase price was $226,806,000, including acquisition costs of $4,116,000, all of which was paid in cash.

Motion Concepts, Inc. (''Motion'') was purchased in 2003 and, 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 and 2005 results, no additional consideration was paid. When the contingency related to the acquisitions is settled, any additional consideration paid will increase the purchase price and reported goodwill related to the acquisition.

As a result of the company's ongoing search for acquisition opportunities, coupled with the industry trend toward consolidation, other potential acquisitions were evaluated in 2005. The company focuses on acquisitions that are intended to fulfill the following objectives:

Tactical.	Grow market share or extend current product lines.
Strategic.	Enter new market segments that complement existing businesses or utilize the company's distribution strengths.
Geographic.	Enable rapid entry into new foreign markets.

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., EU, 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. We are 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 our efforts on behalf of the entire industry. Second, sometimes we have 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 Safe Medical Devices Act of 1990 and Medical Device Amendments of 1976 to the Federal Food, Drug and Cosmetics Act of 1938 (the ''Acts'') provide for regulation by the United States Food and Drug Administration (the ''FDA'') of the manufacture and sale of medical devices. Under the Acts, 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. During the past year, the company was inspected by the FDA or Health Canada at several locations and found to be acceptable, with none or only minor inspectional findings needing attention. From time to time, the company may undertake voluntary recalls of its products to maintain ongoing customer relationships and to enhance its reputation for adhering to high standards of quality and safety. The company continues to strengthen its programs to better ensure compliance with applicable regulations particularly those which could have a material adverse effect on the company.

Although there are a number of reimbursement related issues in most of the countries in which Invacare competes, the issues of primary importance are currently in the United States. There are two critical issues for Invacare: eligibility for reimbursement of power wheelchairs for elderly patients and the provisions of the legislation related to prescription drug coverage under Medicare. With regard to power wheelchairs, the Centers for Medicare and Medicaid Services (''CMS'') has started to implement a series of changes to the eligibility, documentation, codes and other rules that impact the predictability and access to this benefit, but the transition will not be complete until later in 2006. Invacare and the home care industry are working hard to convince CMS and the Bush administration to make pragmatic changes, that are consistent with industry practices, to afford seniors appropriate access to their home medical equipment.

In November of 2003, Congress passed legislation related to providing prescription drug coverage for the elderly under the Medicare program. As part of funding the costs of this new program, a number of changes to Medicare home care reimbursement rules will take effect over the next few years. First, the home care provider, who is Invacare's customer, did not receive a cost-of-living adjustment in 2004 or 2005, and will not receive an update in 2006. Second, in 2005, Medicare reimbursement for oxygen, along with certain types of home care beds, wheelchairs, nebulizers and supplies, was lowered to the median reimbursement levels in the Federal Employee Health Benefit Plans. Third, in early 2006, Congress passed the Deficit Reduction Act which includes payment cuts to home oxygen that will take effect in January 2009, as well as reductions for certain durable home medical equipment spending that will take effect in 2007. Fourth, starting in 2007, competitive bidding for home medical items and services will be authorized in ten of the largest metropolitan regions of the U.S. In 2009, the competitive bidding program will be extended to eighty of the largest metropolitan regions.

Although none of these changes are beneficial to the home care industry, Invacare believes that it can still grow and thrive in this environment. The home care industry has not received any cost-of-living adjustments over the last few years and will try to respond with improved productivity to address the lack of support from Congress. In addition, Invacare's new products (for example, the HomeFill™ low cost oxygen delivery system), can help address the cuts the home care provider has to endure. We will continue to focus on developing products that help the provider improve profitability. With such products, Invacare believes that it can grow and offset the reimbursement pressures. Additionally, Invacare plans to accelerate its activities in China to make sure that we are one of the lowest cost manufacturers and distributors to the home care provider.

In terms of competitive bidding, Invacare has strong positions with the likely provider consolidators who will probably gain share as we approach 2007 and enter the new reimbursement environment. We believe that we are well positioned to combat pricing pressures with volume gains and productivity improvements. Nevertheless, there will be ongoing uncertainty in the industry over the extent and depth of these cuts to the home care industry.

Invacare is concerned that, once implemented, competitive bidding will likely cause poorer service in the home care arena as providers look to remain profitable. Likewise, it will likely lead to further consolidation of the provider base as small entrepreneurs may look to exit a less profitable business model. Invacare will monitor these developments and will work with the industry to pressure Congress to reconsider its actions. We believe that home care is the least costly and most preferred environment in which an individual can recover from an operation or illness and that government actions should encourage home care rather than lead to more expensive alternatives.

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, 2005, the company had approximately 6,100 employees.

FOREIGN OPERATIONS AND EXPORT SALES

The company also markets its products for export to other foreign countries. In 2005, 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.

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 100F Street, NE, Washington D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website, *www.sec.gov*, which contains all reports, proxy statements and other information filed by the company with the SEC.

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

FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-K may constitute 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, increasing raw material costs, the consolidations of health care customers and competitors, government budgetary and reimbursement issues at both the federal and state level (including those that affect the sales of and margins on product, along with the viability of customers), the ongoing implementation of the company's North American enterprise resource planning system, the ability to develop and sell new products with higher functionality and lower costs, the effect *of offering customers competitive financing terms, the ability to successfully identify, acquire and integrate strategic acquisition candidates, the difficulties in managing and operating businesses in many different foreign jurisdictions, the orderly 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, foreign currency and interest rate risks, Invacare's ability to improve financing terms and reduce working capital, as well as the risks described in this Form 10-K under the caption "Risk Factors" and other 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 1A. Risk Factors.

The company's business, operations and financial condition are subject to various risks and uncertainties. You should carefully consider the risks and uncertainties described below, together with all of the other information in this annual report on Form 10-K and in the company's other filings with the SEC, before making any investment decision with respect to the company's securities. The risks and uncertainties described below may not be the only ones the company faces. Additional risks and uncertainties not presently known by the company or that the company currently deems immaterial may also affect the company's business. If any of these known or unknown risks or uncertainties actually occur or develop, the company's business, financial condition, results of operations and future growth prospects could change.

The consolidation of health care customers and the company's competitors could result in a loss of customers or in competitive pricing pressures.

Numerous initiatives and reforms initiated by legislators, regulators and third-party payors to reduce HME costs have resulted in a consolidation trend in the home medical equipment industry as well as among the company's customers, including home health care providers. Some of the company's competitors have been able to reduce production costs and have lowered the purchase prices of their products in an effort to attract customers. This in turn has resulted in greater pricing pressures, including pressure to offer customers more competitive pricing terms, and the exclusion of certain suppliers from important market segments as group purchasing organizations, independent delivery networks and large single accounts continue to consolidate purchasing decisions for some of the company's customers. Further consolidation could result in a loss of customers, including increased collectibility risks, or in increased competitive pricing pressures.

If the company's cost reduction efforts are ineffective, the revenues and profitability of the company could be negatively impacted.

The company may not be successful in achieving expected operating efficiencies and operating cost reductions, and may experience business disruptions, associated with its previously announced restructuring and cost reduction activities, including the restructuring activities announced in July 2005 and, in particular, the company's facility consolidations initiated in connection with these activities. These efforts may not produce the full efficiency and cost reduction benefits that the company expects. Further, such benefits may be realized later than expected, and the costs of implementing these measures may be greater than anticipated. If these measures are not successful, the company may undertake additional cost reduction efforts, which could result in future charges. Moreover, the company's ability to achieve its other strategic goals and business plans may be adversely affected and the company could experience business disruptions with customers and elsewhere if its cost reduction and restructuring efforts prove ineffective.

Decreased availability or increased costs of raw materials could increase the company's costs of producing its products.

The company purchases raw materials, fabricated components and services from a variety of suppliers. Raw materials such as plastics, steel, and aluminum are considered key raw materials. Where appropriate, the company employs contracts with its suppliers, both domestically and from the Far East. In those situations in which contracts are not advantageous, the company believes that its relationships with its suppliers are satisfactory and that alternative sources of supply are readily available. From time to time, however, the prices and availability of these raw materials fluctuate due to global market demands, which could impair the company's ability to procure necessary materials, or increase the cost of such materials. Inflationary and other increases in costs of these raw materials have occurred in the past and may recur from time to time. In addition, freight costs associated with shipping and receiving product and sales are impacted by fluctuations in the cost of oil and gas. A reduction in the supply or increase in the cost of those raw materials could impact the company's ability to manufacture its products and could increase the cost of production.

Changes in government and other third-party payor reimbursement levels could negatively impact the company's revenues and profitability.

The company's products are sold through a network of specialized home health care providers, extended care facilities, hospital and HMO-based stores, and other providers. Many of those providers (the company's customers) are reimbursed for the healthcare services provided to their patients by third-party payors, such as government programs, including Medicare and Medicaid, private insurance plans and managed care programs. Many of these programs set maximum reimbursement levels for certain of the products sold by the company in the United States. If third-party payors deny coverage, make the reimbursement process or documentation requirements more uncertain or reduce their current levels of reimbursement, or if the company's costs of production increase faster than increases in reimbursement levels, the company may be unable to sell its products through its distribution channels on a profitable basis.

In particular, reduced government reimbursement levels and changes in reimbursement policies could add pressure to the company's revenues and profitability. Uncertainty related to Medicare's reimbursement policies for power wheelchairs in particular, and equipment in general, is expected to continue into 2006. The Centers for Medicare and Medicaid Services are scheduled to issue a new rule on face-to-face exams and documentation requirements for power wheelchairs and other mobility devices by April 1, 2006, as well as new reimbursement codes, possibly later in the year. Additionally, the U.S. Congress recently passed the Deficit Reduction Act, which includes payment cuts to home oxygen that will take effect in January 2009 and reductions for certain durable home medical equipment spending that will take effect in 2007. Finally, while it is unclear whether Congress will enact the proposed provisions into law, the Medicare cuts included in President Bush's fiscal year 2007 budget proposal include approximately $7.4 billion in cuts to home oxygen therapy and power wheelchair reimbursements. Similar trends and concerns are occurring in the states' Medicaid programs. If unfavorable reimbursement policies or budgetary cuts are adopted, they could adversely affect the demand for the company's products by customers who depend on reimbursement by the government-funded programs. The percentage of the company's sales dependent on Medicare or other insurance programs may increase as the portion of the United States population over age 65 continues to grow, making the company more vulnerable to reimbursement level reductions by these organizations. Reduced government reimbursement levels also could result in reduced private payor reimbursement levels because certain third-party payors may index their reimbursement schedules to Medicare fee schedules. Reductions in reimbursement levels also may affect the profitability of the company's customers and ultimately force some customers without strong financial resources to go out of business.

Outside the United States, reimbursement systems vary significantly by country. Many foreign markets have government-managed health care systems that govern reimbursement for new home health care products. The ability of hospitals and other providers supported by such systems to purchase the company's products is dependent, in part, upon public budgetary constraints. Canada and some European countries, for example, have tightened reimbursement rates. If adequate levels of reimbursement from third-party payors outside of the United States are not obtained, international sales of the company's products may decline, which could adversely affect the company's net sales and could have a material adverse effect on the company's business, financial condition and results of operations.

Difficulties in implementing a new Enterprise Resource Planning system have disrupted the company's business.

During the fourth quarter of 2005, the company implemented the second phase of its Enterprise Resource Planning, or ERP, system. Due to complexities and business process changes associated with this implementation, the company encountered a number of issues related to the start-up of the system, including difficulties in processing orders, customer disruptions and the loss of some business. While the company believes that the difficulties associated with implementing and stabilizing its ERP system were temporary and have been addressed, there can be no assurance that the company will not experience additional ongoing disruptions or inefficiencies in its business operations as a result of this new system implementation. In addition, the final phase addressing the company's manufacturing system is planned to be implemented during 2006.

The company's success depends on its ability to design, manufacture, distribute, and achieve market acceptance of new products with higher functionality and lower costs.

The company sells its products to customers primarily in markets that are characterized by technological change, product innovation and evolving industry standards and in which product price is increasingly the primary consideration in customers' purchasing decisions. The company is continually engaged in product development and improvement programs. The company must continue to design and improve innovative products, effectively distribute and achieve market acceptance of those products, and reduce the costs of producing its products, in order to compete successfully with the company's competitors. If competitors' product development capabilities become more effective than those of the company, if competitors' new or improved products are accepted by the market before the company's products, or if competitors are able to produce products at a lower cost and thus offer products for sale at a lower price, the company's business, financial condition, and results of operation could be adversely affected.

The company may be unable to successfully identify, acquire, and integrate strategic acquisition candidates.

The company's plans include identifying, acquiring, and integrating other strategic businesses. There are various reasons for the company to acquire businesses or product lines, including providing new products or new manufacturing and service capabilities, to add new customers, to increase penetration with existing customers, and to expand into new geographic markets. The company's ability to successfully grow through acquisitions depends upon its ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. The costs of acquiring other businesses could increase if competition for acquisition candidates increases. Additionally, the success of the company's acquisition strategy is subject to other risks and costs, including the following:

- the company's ability to realize operating efficiencies, synergies, or other benefits expected from an acquisition, and possible delays in realizing the benefits of the acquired company or products;
- diversion of management's time and attention from other business concerns;
- difficulties in retaining key employees of the acquired businesses who are necessary to manage these businesses;
- difficulties in maintaining uniform standards, controls, procedures and policies throughout acquired companies;
- adverse effects on existing business relationships with suppliers or customers;
- the risks associated with the assumption of contingent or undisclosed liabilities of acquisition targets; and
- ability to generate future cash flows or the availability of financing.

In addition, an acquisition could materially impair the company's operating results by causing the company to incur debt or requiring the amortization of acquisition expenses and acquired assets.

The company is subject to certain risks inherent in managing and operating businesses in many different foreign jurisdictions.

The company has significant international operations, including operations in Australia, New Zealand, Asia, and Europe. Certain risks are inherent in operating and selling products internationally, including:

- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- foreign customers who may have longer payment cycles than customers in the United States;
- tax rates in certain foreign countries that may exceed those in the United States and foreign earnings that may be subject to withholding requirements;
- the imposition of tariffs, exchange controls or other trade restrictions including transfer pricing restrictions when products produced in one country are sold to an affiliated entity in another country;
- general economic and political conditions in countries where the company operates or where end users of the company's products reside;
- difficulties associated with managing a large organization spread throughout various countries;
- difficulties in enforcing intellectual property rights and weaker intellectual property rights protection in some countries; and
- required compliance with a variety of foreign laws and regulations.

The company's revenues are subject to exchange rate fluctuations that could adversely affect the company's results of operations or financial position.

Currency exchange rates are subject to fluctuation due to, among other things, changes in local, regional, or global economic conditions, the imposition of currency exchange restrictions, and unexpected changes in regulatory or taxation environments. The functional currency of the company's subsidiaries outside the United States is the predominant currency used by the subsidiaries to transact business. Through its international operations, the company is exposed to foreign currency fluctuations, and changes in exchange rates can have a significant impact on net sales and elements of cost.

The company uses forward contracts to help reduce its exposure to exchange rate variation risk. Despite the company's efforts to mitigate these risks, however, the company's revenues may be adversely affected by exchange rate fluctuations. The company also is exposed to market risk through various financial instruments, including fixed rate and floating rate debt instruments. The company uses interest swap agreements to mitigate its exposure to interest rate fluctuations, but those efforts may not adequately protect the company from significant interest rate risks.

The company may be adversely affected by legal actions or regulatory proceedings.

The company may be subject to claims, litigation or other liabilities as a result of injuries caused by allegedly defective products, acquisitions it has completed or in the intellectual property area. For example, the company may be exposed to future litigation by third parties based on intellectual property infringement claims similar to the ongoing and previously disclosed Respironics litigation. Any such claims or litigation against the company, regardless of the merits, could result in substantial costs and could harm the company's business. Intellectual property litigation or claims also could require the company:

- to cease manufacturing and selling any of its products that incorporate the challenged intellectual property;

- to obtain a license from the holder of the infringed intellectual property right alleged to have been infringed, which license may not be available on commercially reasonable terms, if at all; or
- to redesign or rename its products, which may not be possible and could be costly and time consuming.

The results of legal proceedings are difficult to predict and the company cannot provide you with any assurance that an action or proceeding will not be commenced against it, or that the company will prevail in any such action or proceeding. An unfavorable resolution of any legal action or proceeding could materially and adversely affect the company's business, results of operations, liquidity or financial condition.

The company's business and financial condition could be adversely affected by the difficulties in acquiring and maintaining a proprietary intellectual property ownership position.

The company's ability to compete effectively with other companies depends in part on the company's ability to maintain and enforce its patents and other proprietary rights, which are essential to the company's business. The company relies on a combination of patents, trade secrets, know-how and confidentiality agreements to protect the proprietary aspects of its technology. These measures afford only limited protection, and competitors may gain access to the company's intellectual property and proprietary information. The law of patents and trade secrets is constantly evolving and often involves complex legal and factual questions. Litigation has been and may continue to be necessary to enforce the company's intellectual property rights, to protect the company's trade secrets, and to determine the validity and scope of the company's proprietary rights. Such litigation can be costly and can divert management's attention from the growth of the business. The company cannot assure you that its patents and other proprietary rights will not be successfully challenged or that others will not independently develop substantially equivalent information and technology or otherwise gain access to the company's proprietary technology.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

The company owns or leases its warehouses, offices and manufacturing facilities and believes that these facilities are well maintained, adequately insured and suitable for their present and intended uses. Information concerning certain leased facilities of the company as of December 31, 2005 is set forth in Leases and Commitments in the Notes to the Consolidated Financial Statements of the company included in this report and in the table below:

North American Operations	Square Feet	Ownership Or Expiration Date of Lease	Renewal Options	Use
Alexandria, Virginia	230	September 2006	None	Office
Apharetta, Georgia	9,000	June 2006	None	Warehouse and Offices
Arlington, Texas	63,626	April 2008	None	Warehouse
Atlanta, Georgia	137,284	February 2008	One (3 yr.)	Warehouse and Offices
Atlanta, Georgia	48,000	August 2006	None	Sublet
Delta, British Columbia	12,000	January 2008	One (3 yr.)	Warehouse and Offices
Edison, New Jersey	75,291	March 2010	None	Warehouse and Offices
Elkhart, Indiana	27,600	October 2009	Two (5 yr.)	Manufacturing, Warehouses and Offices

North American Operations	Square Feet	Ownership Or Expiration Date of Lease	Renewal Options	Use
Elyria, Ohio				
—Taylor Street	251,656	Own	—	Manufacturing and Offices
—Cleveland Street	150,457	November 2007	One (3 yr.)	Warehouse
—One Invacare Way	50,000	Own	—	Headquarters
—1320 Taylor Street	30,000	January 2010	One (5 yr.)	Offices
—1160 Taylor Street	4,800	Own	—	Warehouse and Offices
Grand Prairie, Texas	43,754	April 2008	One (3 yr.)	Warehouse and Offices
Holliston, Massachusetts	57,420	December 2007	None	Warehouse and Offices
Kirkland, Quebec	26,196	November 2010	One (5 yr.)	Manufacturing, Warehouse and Offices
Jamesburg, New Jersey	83,200	November 2009	One (5 yr.)	Warehouse and Offices
Kunshan City, China	52,700	May 2006	One (2 yr.)	Manufacturing and Offices
Longmont, Colorado	2,400	December 2006	None	Offices
London, Ontario	103,200	Own	—	Manufacturing and Offices
Marlboro, New Jersey	2,100	April 2006	None	Office
Mississauga, Ontario	26,530	November 2011	Two (5 yr.)	Warehouse and Offices
Morton, Minnesota	26,900	June 2009	Two (4 yr.)	Manufacturing, Warehouse and Offices
North Ridgeville, Ohio	152,861	Own	—	Manufacturing, Warehouses and Offices
North Ridgeville, Ohio	66,724	September 2007	Two (3 yr.)	Office
Overland, Missouri	67,500	May 2007	Two (3 yr.)	Manufacturing, Warehouses and Offices
Pharr, Texas	2,672	Month to Month	—	Warehouse
Pinellas Park, Florida	11,400	July 2006	None	Manufacturing and Offices
Rancho Cucamonga, California	55,890	June 2009	One (60 day)	Warehouse
Reynosa, Mexico	129,690	Own	—	Manufacturing and Offices
Sacramento, California	26,900	May 2008	One (3 yr.)	Manufacturing, Warehouse and Offices
Sanford, Florida	117,108	Own	—	Manufacturing and Offices
Scarborough, Ontario	5,428	February 2008	None	Manufacturing and Offices
Simi Valley, California	38,501	February 2009	Two (5 yr.)	Manufacturing, Warehouse and Offices
South Bend, Indiana	48,000	September 2008	Two (5 yr.)	Warehouse
Spicewood, Texas	6,500	Month to Month	None	Manufacturing and Offices
Suzhou, China	45,208	May 2006	None	Manufacturing and Offices
Tonawanda, New York	7,515	March 2008	None	Warehouse and Offices
Traverse City, Michigan	15,850	June 2006	None	Manufacturing and Offices
Vaughan, Ontario	26,637	June 2008	None	Manufacturing and Offices
Asia/Pacific Operations				
Adelaide, Australia	21,668	April 2006	One (5 yr.)	Manufacturing, Warehouse and Offices
Adelaide, Australia	24,000	August 2007	One (5 yr.)	Manufacturing, Warehouse and Offices

Asia/Pacific Operations	Square Feet	Ownership Or Expiration Date of Lease	Renewal Options	Use
Auckland, New Zealand	30,518	September 2008	Two (3 yr.)	Manufacturing, Warehouse and Offices
Brisbane, Australia	2,400	December 2008	One (3 yr.)	Warehouse and Offices
Birmingham, United Kingdom	15,845	July 2013	None	Warehouse and Offices
Christchurch, New Zealand	57,682	January 2009	One (3 yr.)	Manufacturing and Offices
Hong Kong, China	600	February 2007	None	Offices
Hong Kong, China	600	April 2007	None	Offices
Melbourne, Australia	19,629	July 2006	One (2 yr.)	Manufacturing, Warehouse and Offices
Melbourne, Australia	20,000	August 2006	None	Manufacturing, Warehouse and Offices
Napier, New Zealand	4,844	March 2009	Two (3 yr.)	Warehouse and Offices
North Olmsted, Ohio	2,280	October 2008	None	Warehouse and Offices
Sydney, Australia	16,000	February 2009	Two (3 yr.)	Warehouse and Offices
Sydney, Australia	25,000	August 2006	Two (2 yr.)	Manufacturing, Warehouse and Offices
European Operations				
Albstadt-Tailfi, Germany	78,495	January 2018	Two (5 yr.)	Manufacturing, Warehouse and Offices
Allschwil, Switzerland	36,000	Own	—	Manufacturing, Warehouse and Offices
Anderstorp, Sweden	47,527	Own	—	Manufacturing, Warehouse and Offices
Bergen, Norway	1,000	May 2009	One (5 yr.)	Warehouse and Offices
Bridgend, Wales	131,522	Own	—	Manufacturing, Warehouse and Offices
Brondby, Denmark	1,650	July 2007	Two (1 yr.)	Offices
Brondby, Denmark	16,142	December 2006	One (1 yr.)	Warehouse and Offices
Dio, Sweden	107,600	Own	—	Manufacturing and Offices
Dublin, Ireland	5,000	December 2009	Three (5 yr.)	Warehouse and Offices
Ede, The Netherlands	16,000	May 2009	One (5 yr.)	Warehouse and Offices
Fondettes, France	106,412	November 2007	None	Manufacturing, Warehouse, and Offices
Girona, Spain	13,600	November 2006	One (1 yr.)	Warehouse and Offices
Gland, Switzerland	4,306	September 2007	One (5 yr.)	Offices
Gland, Switzerland	1,173	September 2007	One (4 yr.)	Offices
Goteberg, Sweden	7,500	June 2006	One (3 yr.)	Warehouse and Offices
Hong, Denmark	155,541	Own	—	Manufacturing, Warehouse and Offices
Isny, Germany	197,581	Own	—	Manufacturing, Warehouse and Offices
Loppem, Belgium	6,000	December 2009	One (3 yr.)	Warehouse and Offices
Landskrona, Sweden	3,099	April 2008	One (3 yr.)	Warehouse
Mondsee, Austria	1,505	November 2007	One (3 yr.)	Warehouse and Offices
Ontario, Canada	14,394	May 2007	None	Offices
Oporto, Portugal	27,800	Own	—	Manufacturing, Warehouse and Offices
Oskarshamn, Sweden	3,551	November 2006	One (1 yr.)	Warehouse

European Operations	Square Feet	Ownership Or Expiration Date of Lease	Renewal Options	Use
Oslo, Norway	30,650	September 2006	None	Warehouse and Offices
Porta Westfalica, Germany	134,563	October 2021	None	Manufacturing, Warehouse and Offices
Spanga, Sweden	3,228	June 2007	One (3 yr.)	Warehouse and Offices
Spanga, Sweden	16,140	Own	—	Warehouse and Offices
Thiene, Italy	21,520	Own	—	Warehouse and Offices
Trondheim, Norway	3,000	December 2007	One (3 yr.)	Services and Offices
Venissieux, France	1,409	October 2006	None	Offices
Witterswil, Switzerland	40,301	March 2015	Various (5 year)	Manufacturing, Warehouse, and Offices
Wurenlos, Switzerland	3,935	June 2009	One (to be determined)	Offices

Item 3. Legal Proceedings.

In the ordinary course of its business, Invacare is a defendant in a number of lawsuits, primarily product liability actions in which various plaintiffs seek damages for injuries allegedly caused by defective products. All of the product liability lawsuits have been referred to the company's insurance carriers and generally are contested vigorously. The coverage territory of the company's insurance is worldwide with the exception of those countries with respect to which, at the time the product is sold for use or at the time a claim is made, the U.S. government has suspended or prohibited diplomatic or trade relations. Management does not believe that the outcome of any of these actions will have a material adverse effect upon the company's business or financial condition.

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

During the fourth quarter of 2005, no matter was submitted to a vote of our security holders.

Executive Officers of the Registrant.*

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

Name	Age	Position
A. Malachi Mixon, III	65	Chairman of the Board of Directors and Chief Executive Officer
Gerald B. Blouch	59	President, Chief Operating Officer and Director
Gregory C. Thompson	50	Chief Financial Officer
Dale C. LaPorte	64	Senior Vice President – Business Development and General Counsel
Joseph B. Richey, II	69	President – Invacare Technologies, Senior Vice
Louis F.J. Slangen	58	President – Electronics and Design Engineering and Director Senior Vice President – Global Market Development
Joseph S. Usaj	54	Senior Vice President – Human Resources

A. Malachi Mixon, III has been a Director since 1979. Mr. Mixon has been Chief Executive Officer since 1979 and Chairman of the Board since 1983 and also served as President until 1996, when Gerald B. Blouch, Chief Operating Officer, was elected President.

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

Gerald B. Blouch has been President and a Director of Invacare since November 1996. Mr. Blouch has been Chief Operating Officer since December 1994 and Chairman-Invacare International since December 1993. Previously, Mr. Blouch was President-Homecare Division from March 1994 to December 1994 and Senior Vice President-Homecare Division from September 1992 to March 1994. Mr. Blouch served as Chief Financial Officer of Invacare from May 1990 to May 1993 and Treasurer of Invacare from March 1991 to May 1993. Mr. Blouch is also a director of NeuroControl Corporation, North Ridgeville, Ohio, a privately held company, which develops and markets electromedical stimulation systems for stroke patients.

Gregory C. Thompson was named Senior Vice President and Chief Financial Officer in November 2002. Before coming to Invacare, Mr. Thompson served as Senior Vice President and Chief Financial Officer of Sensormatic Electronics Corporation, a global manufacturer of electronic security products, from October 2000 to January 2002 and was Vice President and Controller from February 1997 to October 2000. Previously, Mr. Thompson was Vice President and Corporate Controller for Wang Laboratories from August 1994 to February 1997 and Assistant Corporate Controller from October 1990 to August 1994.

Dale C. LaPorte has been Senior Vice President for Business Development and General Counsel since January 1, 2006. Previously, Mr. LaPorte was a partner in the law firm of Calfee, Halter & Griswold LLP from 1974 to 2005. He served as Chairman of that firm from 2000 through 2004.

Joseph B. Richey, II has been a Director since 1980 and in September 1992 was named President — Invacare Technologies and Senior Vice President — Electronics and Design Engineering. Previously, Mr. Richey was Senior Vice President of Product Development from July 1984 to September 1992 and Senior Vice President and General Manager of North American Operations from September 1989 to September 1992. Mr. Richey is also a director of NeuroControl Corporation, North Ridgeville, Ohio, a privately held company, which develops and markets electromedical stimulation systems for stroke patients.

Louis F. J. Slangen was named Senior Vice President — Global Market Development in June 2004. Previously, Mr. Slangen was Senior Vice President — Sales & Marketing from December 1994 to June 2004 and from September 1989 to December 1994 was Vice President — Sales and Marketing. Mr. Slangen was previously President — Rehab Division from March 1994 to December 1994 and Vice President and General Manager — Rehab Division from September 1992 to March 1994.

Joseph S. Usaj has been the Senior Vice President — Human Resources since May 2004. Before coming to Invacare, Mr. Usaj served as Vice President — Human Resources for Ferro Corporation, a global manufacturer of performance materials in the electronics, automotive, consumer products and pharmaceutical industries, from August 2002 to December 2003. Previously, Mr. Usaj was Vice President — Human Resources for Phillips Medical Systems from 1998 to 2002.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Invacare Common Shares, without par value, trade on the New York Stock Exchange (NYSE) under the symbol "IVC." Ownership of the company's Class B Common Shares (which are not listed on NYSE) cannot be transferred, except, in general, to family members. Class B Common Shares may be converted into Common Shares at any time on a share-for-share basis. The number of record holders of the company Common Shares and Class B Common Shares at February 24, 2006 was 4,432 and 27, respectively. The closing sale price for the Common Shares on February 24, 2006 as reported by NYSE, was $33.17. The prices set forth below do not include retail markups, markdowns or commissions.

The range of high and low quarterly prices of the Common Shares and dividends in each of the two most recent fiscal years were as follows:

Quarter Ended:	2005 High	2005 Low	2005 Cash Dividends Declared	2004 High	2004 Low	2004 Cash Dividends Declared
December 31	$41.50	$30.70	$0.0125	$52.00	$43.72	$0.0125
September 30	44.87	37.35	0.0125	47.16	39.74	0.0125
June 30	45.93	40.96	0.0125	46.50	39.34	0.0125
March 31	48.08	43.67	0.0125	46.50	39.63	0.0125

During 2005 and 2004, the Board of Directors also declared dividends of $0.045 per Class B Common Share. For information regarding limitations on the payment of dividends in the company loan and note agreements, see Long Term Debt in the Notes to the Consolidated Financial Statements included in this report. The Common Shares are entitled to receive cash dividends at a rate of at least 110% of cash dividends paid on the Class B Common Shares.

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
10/1/2005-10/31/05	—	$ —	—	$—
1/1/2005-11/30/05	364	34.95	—	—
12/1/2005-12/31/05	—	—	—	—
Total	364	$34.95	—	$—

Item 6. Selected Financial Data.

The selected consolidated financial data set forth below with respect to the company's consolidated statements of earnings, cash flows and shareholders' equity for the fiscal years ended December 31, 2005, 2004 and 2003, and the consolidated balance sheets as of December 31, 2005 and 2004 are derived from the Consolidated Financial Statements included elsewhere in this Form 10-K. The consolidated statements of earnings, cash flows and shareholders' equity data for the fiscal years ended December 31, 2003, 2002 and 2001 are derived from the company's previously filed Consolidated Financial Statements. The data set forth below should be read in conjunction with Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-K.

	2005*	2004	2003	2002	2001**
	(In thousands, except per share and ratio data)				
Earnings					
Net Sales	$1,529,732	$1,403,327	$1,247,176	$1,089,161	$1,053,639
Net Earnings ***	48,852	75,197	71,409	64,770	35,190
Net Earnings per Share — Basic	1.55	2.41	2.31	2.10	1.15
Net Earnings per Share — Assuming Dilution	1.51	2.33	2.25	2.05	1.11
Dividends per Common Share	0.05	0.05	0.05	0.05	0.05
Dividends per Class B Common Share	0.04545	0.04545	0.04545	0.04545	0.04545
Balance Sheet					
Current Assets	$ 570,647	$ 565,151	$ 474,722	$ 398,812	$ 428,401
Total Assets	1,622,953	1,628,124	1,108,213	906,703	914,537
Current Liabilities	332,888	258,141	223,488	168,226	167,453
Working Capital	237,759	307,010	251,234	230,586	260,948
Long-Term Debt	457,753	547,974	232,038	234,134	342,724
Other Long-Term Obligations	79,624	68,571	34,383	24,031	22,810
Shareholders' Equity	752,688	753,438	618,304	480,312	381,550
Other Data					
Research and Development Expenditures	$ 23,247	$ 21,638	$ 19,130	$ 17,934	$ 17,394
Capital Expenditures	31,517	41,403	30,660	22,109	20,182
Depreciation and Amortization	40,524	32,316	27,235	26,638	33,448
Key Ratios					
Return on Sales	3.2%	5.4%	5.7%	5.9%	3.3%
Return on Average Assets	3.0%	5.5%	7.1%	7.1%	3.8%
Return on Beginning Shareholders' Equity	6.5%	12.2%	14.9%	17.0%	10.1%
Current Ratio	1.7:1	2.2:1	2.1:1	2.4:1	2.6:1
Debt-to-Equity Ratio	0.6:1	0.7:1	0.4:1	0.5:1	0.9:1

* Reflects restructuring charge of $7,533 ($5,160 after tax or $0.15 per share assuming dilution).

** Reflects non-recurring and unusual charge of $31,950 ($25,250 after tax or $0.80 per share assuming dilution).

*** Amortization of goodwill ceased in 2002, net earnings in 2001 includes amortization expense of $8,972.

The comparability of the Selected Financial Data provided in the above table is limited as acquisitions made, in particular the Domus acquisition in 2004, materially impacted the company's reported results. See Acquisitions in the Notes to the Consolidated Financial Statements as provided in the company's Form 10-K for the year ended December 31, 2004.

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

OUTLOOK

Uncertainty related to Medicare's reimbursement policies for power wheelchairs in particular, and equipment in general, remains and is now expected to continue into 2006. The CMS is currently scheduled to issue a new rule on face-to-face exams and documentation requirements for power wheelchairs and other mobility devices by April 1, 2006 along with new reimbursement codes, possibly later in the year. Additionally, Congress recently passed the Deficit Reduction Act which includes payment cuts to home oxygen that will take effect in January 2009, as well as reductions for certain durable home medical equipment spending that will take effect in 2007. President Bush's just released fiscal year 2007 budget proposal includes further, potentially significant, cuts to home oxygen, but whether Congress will enact such payment reductions, particularly in an election year, is doubtful.

As a result of these reimbursement uncertainties and continuing pricing pressures, the company continues to reduce its cost structure. The company has further refined its multi-year plans initiated in the second half of 2005 for its global manufacturing and distribution strategy. Execution of these cost reduction actions has begun. Once complete in 2008, these actions are anticipated to generate approximately $30 million of annual pre-tax savings and to result in pre-tax restructuring charges totaling $42 million. The company expects a global reduction of at least 600 additional positions and to exit a number of its manufacturing operations worldwide. During 2006, the company will reduce approximately 300 positions with a pre-tax restructuring charge estimated at approximately $7 million. Annualized savings anticipated from these actions is approximately $8 million.

The company estimates that it will have a net sales increase of between 4% and 6% and earnings per share of between $2.00 and $2.10 in 2006, excluding the impact of any new acquisitions in 2006. The 2006 net sales estimate is expected to be minimally impacted by foreign currency and the full year inclusion of 2005 acquisitions. This earnings per share range includes the impact from the stock option accounting standard, Statement of Financial Accounting Standard No. 123 (Revised 2004), *Share Based Payment* ("SFAS 123R") issued by the Financial Accounting Standards Board (FASB). The impact of SFAS 123R on earnings per share for 2006 is estimated to be approximately $0.05.

RESULTS OF OPERATIONS

2005 Versus 2004

Charge Related to Restructuring Activities. On July 28, 2005, the company announced cost reduction and profit improvement actions, which included: 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.

The restructuring was necessitated by the continued decline in reimbursement for medical equipment by U.S. government programs as well as similar reimbursement pressures abroad and continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations. The company has already realized a decrease in costs as a result of its restructuring initiatives since most of the restructuring costs recognized to date have been comprised of severance for terminated employees.

To date, the company has made substantial progress on its restructuring activities, including exiting four facilities and eliminating approximately 300 positions through December 31, 2005, which resulted in restructuring charges of $7,533,000, principally for severance, of which $4,181,000 has been paid as of December 31,

2005. There have been no material changes in accrued balances related to the charge, either as a result of revisions in the plan or changes in estimates, and the company expects to utilize the accruals recorded as of December 31, 2005 during 2006.

With additional actions planned in 2006, including the elimination of approximately 300 additional positions, the company anticipates recognizing an additional charge of $7,000,000 pre-tax. The actions in 2006 are expected to result in annualized pre-tax savings of at least $8 million.

In addition, the company continues to further refine its global manufacturing and distribution strategy. Execution of these cost reduction actions has begun. Once complete in 2008, these actions are anticipated to generate approximately $30 million of annual pre-tax savings and to result in pre-tax restructuring charges totaling $42 million. The company expects a global reduction of at least 600 additional positions and to exit a number of its manufacturing operations worldwide.

Net Sales. Consolidated net sales for 2005 increased 9% for the year, to $1,529,732,000 from $1,403,327,000. Acquisitions accounted for nine percentage points of the net sales increase while foreign currency translation had less than a one percentage point impact. The overall growth was primarily driven by growth in Europe resulting from the Domus acquisition in 2004 as well as the impact of other acquisitions worldwide.

North American Operations

North American net sales, increased 1% over the prior year to $1,016,212 from $1,002,273, with acquisitions accounting for two percentage points of the increase and currency translation having less than a one percentage point impact. 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.

For the year, net sales growth was impacted by the disruption caused by the implementation of the ERP system in the fourth quarter. The company estimates that this resulted in lost fourth quarter sales of approximately $30,000,000 in the company's North American home care division, primarily due to start up difficulties in processing orders and the inability to ship products to customers within required lead times.

The net sales increase was attributable to volume increases in Distributed products (7%), in line with ISG's recent growth pattern; Continuing Care products (12%) attributable to acquisitions; and other products (16%), consisting primarily of the company's Canadian and aftermarket parts business. These increases were partially offset by declines in Respiratory products (2%) due to reduced purchases from national accounts for the Homefill™ II oxygen system and oxygen concentrators and the disruptions arising out of the ERP system implementation, Standard products (5%) as a result of reduced pricing and ERP issues and Rehab products (2%) primarily due to continued Medicare power wheelchair eligibility pressures and Medicaid related reimbursement pressures.

European Operations

European net sales increased 28% over the prior year to $432,142,000 from $336,792,000 with acquisitions contributing to almost the entire increase as foreign currency did not have a material impact. Organic growth in Europe was minimal and reflected increases throughout Europe offset by declines, primarily in Germany, as a result of pricing pressures.

Asia/Pacific Operations

Asia/Pacific net sales increased 27% from the prior year to $81,378,000 from $64,262,000. Acquisitions contributed sixteen percentage points of the increase while foreign currency translation contributed four percentage points. The overall growth was primarily driven by volume increases. The Asia/Pacific segment transacts a substantial amount of its business with customers outside of their region in various currencies other than their functional currencies. As a result, changes in exchange rates, particularly with the Euro and U.S. Dollar, can have a significant impact on sales and cost of sales.

Gross Profit. Consolidated gross profit as a percentage of net sales was 29.3% in 2005 versus 29.8% in 2004. The margin decline was primarily attributable to continued reimbursement issues and competitive pricing pressures as well as increased freight costs and lower manufacturing volumes, and inefficiencies resulting from the North American ERP implementation in the fourth quarter. The factors attributable to the decline were partially offset by the cost reduction initiatives.

North American gross profit as a percentage of net sales was 28.0% in 2005 versus 30.0% in 2004. The decline was primarily attributable to unfavorable mix as a result of reduced Rehab and Respiratory volumes, pricing pressures in Standard products and higher freight costs as a result of the high price of oil, which were partially offset by continued cost reduction efforts.

Gross profit in Europe as a percentage of net sales increased 2.6 percentage points from the prior year. The increase was primarily attributable to acquisitions, in particular the full year impact of the Domus acquisition and manufacturing cost reductions.

Gross profit in Asia/Pacific as a percentage of net sales increased 1.2 percentage points from the prior year. The increase was largely due to increased volumes and cost reduction activities.

Selling, General and Administrative. Consolidated selling, general and administrative expenses as a percentage of net sales were 22.3% in 2005 and 21.2% in 2004. The overall dollar increase was $44,658,000 or 15%, with acquisitions increasing selling, general and administrative costs by approximately $37,455,000 or thirteen percentage points and currency translation adding $3,245,000 or one percentage point. Excluding acquisitions and currency translation impact, SG&A increased $3,958,000 or 1% as a result of increased distribution and commission related costs related to increased volumes, continuous investment in marketing and higher bad debt and legal costs.

Selling, general and administrative expenses for North American operations increased 10% or $17,233,000 compared to 2004 with acquisitions accounting for two percentage points of the increase. The remaining increase is primarily attributable to continued investments in marketing and branding programs, increased distribution and commission costs related to increased volume and higher bad debt and legal costs.

European operations' selling, general and administrative expenses increased 29% or $24,336,000 from the prior year. European selling, general and administrative expenses increased due to acquisitions, which caused an increase of $30,978,000 or 36% and foreign currency translation, which increased expenses by $1,556,000 or 2%. The remaining decrease was primarily attributable to a reduced cost structure.

Asia/Pacific operations' selling, general and administrative expenses increased 85% or $7,777,000 compared to 2004 with acquisitions accounting for 22% and foreign currency increasing the expense by $599,000 or 7%. The remaining increase was primarily attributable to cost increases related to increased depreciation and sales and marketing costs.

Interest. Interest expense increased to $29,809,000 in 2005 from $16,282,000 in 2004, representing an 83% increase. This increase was attributable to increased borrowings under the company's revolving credit facility, resulting primarily from 2004 acquisitions, and to increased borrowing rates. The company's debt-to-equity ratio decreased to 0.6:1 as of December 31, 2005 from 0.7:1 as of the end of the prior year. Interest income in 2005 was $1,683,000, which was lower than the prior year amount of $5,186,000 primarily due to reduced interest rate financing given to customers through De Lage Landen Inc. (DLL). Since December 2000, Invacare customers primarily utilize the third-party financing arrangement with DLL, a subsidiary of Rabo Bank of the Netherlands, to provide financing.

Income Taxes. The company had an effective tax rate of 31.5% in 2005 and 31.9% in 2004. The effective tax rate declined due to a change in the mix of earnings and permanent deductions. The company's effective tax rate is lower than the federal statutory rate primarily due to tax credits and earnings abroad being taxed at rates lower than the federal statutory rate.

Research and Development. The company continues to invest in research and development activities to maintain its competitive advantage. The company dedicates dollars to applied research activities to ensure that new and enhanced design concepts are available to its businesses. Research and development expenditures, which are included in costs of products sold, increased to $23,247,000 in 2005 from $21,638,000 in 2004. The expenditures, as a percentage of net sales, were 1.5% in 2005 and in the prior year.

2004 Versus 2003

Net Sales. Consolidated net sales for 2004 increased 13% for the year, to $1,403,327,000 from $1,247,176,000. Acquisitions accounted for eight percentage points of the net sales increase while foreign currency translation contributed an additional three percentage points. The overall growth was primarily driven by volume increases in North America.

North American Operations

North American net sales, increased 12% over the prior year, with acquisitions accounting for 8% of the increase and currency translation having less than a one percentage point impact. 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.

For the year, the net sales increase was attributable to volume increases in: Respiratory products (37%), largely due to continued strong performance in the Homefill™ oxygen system product line; Distributed products (26%), with acquisitions contributing fifteen percentage points of the improvement; and Continuing Care products (59%) with acquisitions contributing fifty two percentage points of the improvement. These were partially offset by declines in Standard products (6%) as a result of reduced pricing and flat Rehab product sales. Sales of Rehab products were negatively impacted by Medicare and Medicaid related reimbursement pressures. In particular, although CMS was expected to release new guidelines for power chairs in the fourth quarter of 2004, it instead circulated proposed criteria that required public comment before implementation. While the proposed criteria are favorable and are based on CMS' own medical study, the ambiguity that is impacting the power wheelchair market has resulted in significant declines in this market segment.

Other products, consisting primarily of the company's Canadian and aftermarket parts businesses, had a 10% net sales increase principally as a result of volume increases.

European Operations

European net sales increased 20% over the prior year to $336,792,000 from $279,782,000. Acquisitions contributed twelve percentage points of the increase and foreign currency accounted for ten percentage points of the increase. The decline in organic growth was primarily due to reduced volumes in the Nordic countries and continued reimbursement pressures in Germany.

Asia/Pacific Operations

Asia/Pacific net sales declined 8% from the prior year to $64,262,000 from $70,186,000. Excluding the impact of foreign exchange, net sales declined 18% for the year. The decline was primarily the result of reduced volumes of microprocessor controllers, resulting from the global slowdown in the production of power wheelchairs caused in large part by the Medicare reimbursement challenges in the United States described above. The Asia/Pacific segment transacts a substantial amount of its business with customers outside of their region in various currencies other than their functional currency, the New Zealand Dollar. As a result, changes in exchange rates, particularly with the Euro and U.S. Dollar, have had and may continue to have a significant impact on sales and cost of sales.

Gross Profit. Consolidated gross profit as a percentage of net sales was 29.8% in 2004 and 30.0% in 2003. The 2004 year margin was impacted by continued competitive pricing pressures and increased freight costs partially offset by continued cost reduction initiatives.

North American gross profit as a percentage of net sales was 30.2% in 2004 versus 30.3% in 2003. The decline was primarily attributable to reduced pricing in Standard products partially offset by continued cost reduction efforts.

Gross profit in Europe as a percentage of net sales in 2004 declined .7 of a percentage point from the prior year. The decline is attributable to unfavorable sales mix toward lower margin products and additional costs related to new product introductions.

Gross profit in Asia/Pacific as a percentage of net sales in 2004 decreased by 3.5 percentage points from the prior year. The decline was due in part to increased sales of lower margin products in the company's Dynamic Controls subsidiary, reduced volumes and unfavorable foreign currency associated with normal operating transactions.

Selling, General and Administrative. Consolidated selling, general and administrative expenses as a percentage of net sales were 21.2% in 2004 and 21.0% in 2003. The overall dollar increase was $35,109,000 or 13%, with acquisitions increasing selling, general and administrative costs by approximately $20,263,000 or 8% and currency translation by $9,409,000 or 4%. Selling, general and administrative expenses also increased as a result of increased distribution and commission costs related to increased volumes, continued investments in marketing and branding programs, and increased legal costs. These were partially offset by reduced bad debt expense and management bonuses as a result of reduced profitability from plan.

Selling, general and administrative expenses for North American operations in 2004 increased 9% or $16,562,000 compared to 2003 with acquisitions accounting for seven percentage points of the increase. The remaining increase is primarily attributable to continued investments in marketing and branding programs, increased distribution and commission costs related to increased volume and higher legal costs. These increases were partially offset by reduced bad debt expense and management bonuses.

European operations' selling, general and administrative expenses increased 26% or $17,290,000 from the prior year. European selling, general and administrative expenses increased due to acquisitions and foreign currency translation. Increases, primarily for acquisitions, were $7,791,000 or 12% and for currency translation totaled $7,305,000 or 11%. The remaining increase was primarily attributable to additional programs to re-establish sales growth.

Asia/Pacific operations' selling, general and administrative expenses increased 16% or $1,257,000 with foreign currency increasing the expense by $961,000 or 12%. The remaining increase was primarily attributable to additional systems costs related to the company's ERP implementation and sales and marketing costs associated with the development of the Asia market.

Interest. Interest expense increased to $16,282,000 in 2004 from $11,710,000 in 2003, representing a 39% increase. This increase was attributable to increased borrowings under the company's revolving credit facility, and to new borrowings under an interim bridge loan financing facility. The company's debt-to-equity ratio increased to 0.7:1 as of December 31, 2004 from 0.4:1 as of the end of the prior year. Interest income in 2004 was $5,186,000, which was comparable to $5,473,000 in the prior year. Since December 2000, Invacare customers primarily utilize the third-party financing arrangement with DLL, a subsidiary of Rabo Bank of the Netherlands, to provide financing.

Income Taxes. The company had an effective tax rate of 31.9% in 2004 and 32.9% in 2003. The effective tax rate declined due to a change in the mix of earnings and permanent deductions. The company's effective tax rate is lower than the federal statutory rate primarily due to tax credits and earnings abroad being taxed at rates lower than the federal statutory rate.

Research and Development. The company continues to increase its research and development activities to maintain its competitive advantage. The company dedicates dollars to applied research activities to ensure that new and enhanced design concepts are available to its businesses. Research and development expenditures, which are included in costs of products sold, increased to $21,638,000 in 2004 from $19,130,000 in 2003, representing approximately 1.5% of net sales in these years.

INFLATION

Although the company cannot determine the precise effects of inflation, management believes that inflation does continue to have an influence on the cost of materials, salaries and benefits, utilities and outside services. The company attempts to minimize or offset the effects through increased sales volume, capital expenditure programs designed to improve productivity, alternative sourcing of material and other cost control measures. In 2005, 2004 and 2003, the company was able to offset the majority of the impact of price increases from suppliers by productivity improvements and other cost reduction activities.

LIQUIDITY AND CAPITAL RESOURCES

The company continues to maintain an adequate liquidity position through its unused bank lines of credit (see Long-Term Debt in the Notes to Consolidated Financial Statements) included in this report and working capital management. The company maintains various bank lines of credit to finance its worldwide operations.

In 2005, the company entered into a $450,000,000 multi-currency, long-term revolving credit agreement which was increased during the year by $50,000,000 to an aggregate amount of $500,000,000. The new agreement replaced the $325,000,000 multi-currency, long-term revolving credit agreement entered into in 2001 and a $100,000,000 bridge loan agreement entered into in 2004. In 2003, the company issued $100,000,000 in senior notes, which are due between 2007 and 2010.

On September 30, 2005, the company entered into a 364-day $100 million accounts receivable securitization facility. The Receivables Purchase Agreement (the ''Receivables Agreement''), provides for, among other things, the transfer from time to time by Invacare and certain of its subsidiaries of ownership interests of certain domestic accounts receivable on a revolving basis to the bank conduit, an asset-backed issuer of commercial paper, and/or the financial institutions named in the Receivables Agreement. Pursuant to the Receivables Agreement, the company and certain of its subsidiaries from time to time may transfer accounts receivable to Invacare Receivables Corporation (IRC), a special purpose entity and subsidiary of Invacare. IRC then transfers interests in the receivables to the Conduit and/or the financial institutions named in the Receivables Agreement and receives funds from the conduit and/or the financial institutions raised through the issuance of commercial paper (in its own name) by the conduit and/or the financial institutions. In accordance with U.S. Generally Accepted Accounting Principles (GAAP), Invacare accounts for the transaction as a secured borrowing. Borrowings under the facility are effectively repaid as receivables are collected, with new borrowings created as additional receivables are sold. As of December 31, 2005, Invacare had $79,351,000 in borrowings pursuant to the securitization facility at a borrowing rate of approximately 4.3%. The initial borrowings were used to reduce balances outstanding on Invacare's revolving credit facility. The debt is reflected in the short-term debt and current maturities of long-term obligations line of the condensed consolidated balance sheet at December 31, 2005.

Additionally, the company maintains various other demand lines of credit totaling a U.S. dollar equivalent of approximately $4,931,000 as of December 31, 2005. The lines of credit along with cash generated from operations have been and will continue to be used to fund the company's domestic and foreign working capital, capital expenditures and acquisition requirements. As of December 31, 2005, the company had approximately $237,801,000 available under its various lines of credit, excluding debt covenant restrictions.

The company's borrowing arrangements contain covenants with respect to, among other items, 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. The company is 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 $72,134,000 as of December 31, 2005 pursuant to the covenants of the company's $500,000,000 multi-currency, long-term revolving credit agreement.

While there is general concern about the potential for rising interest rates, exposure to interest rate fluctuations is manageable given that a portion of the debt is at fixed rates through 2010. In addition, the ability to terminate existing swaps that exchange fixed rate debt to variable and to utilize interest rate swaps to fix a higher percentage of the company's debt coupled with free cash flow should allow Invacare to absorb the expected modest rate increases in the months ahead without any material impact on our liquidity or capital resources. As of December 31, 2005, the weighted average floating interest rate on borrowings was 4.53%.

CAPITAL EXPENDITURES

There are no individually material capital expenditure commitments outstanding as of December 31, 2005. The company estimates that capital investments for 2006 could approximate $32,000,000, compared to actual capital expenditures of $31,517,000 in 2005. 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 fund required capital expenditures for the foreseeable future.

CASH FLOWS

Cash flows provided by operating activities were $76,947,000 in 2005, compared to $98,324,000 in the previous year. The decrease is due primarily to decreased earnings, which were impacted by restructuring costs of $7,533,000, and lower accounts payable levels, partially offset by an increase in accrued expenses related to warranty, legal, freight and other accruals.

Cash flows used for investing activities were $86,437,000 in 2005, compared to $389,022,000 in 2004. The decrease in cash used was primarily attributable to lower acquisition costs compared to 2004 when the company acquired Domus, which was a material acquisition. In addition, purchases of property and equipment activity in 2005 was lower compared to the prior year as the company invested more in 2004 on implementing ERP Systems in North America, Europe and Asia/Pacific.

Cash flows provided by financing activities in 2005 were $2,497,000, compared to cash flows provided of $307,051,000 in 2004. Cash borrowed for financing activities in 2005 was much lower than in 2004 as the company borrowed less for acquisitions. In addition to acquisition activities, the effect of foreign currency translation results in amounts being shown in the Consolidated Statement of Cash Flows that are different from the changes reflected in the respective balance sheet captions.

During 2005, the company generated free cash flow of $50,795,000 compared to free cash flow of $56,924,000 in 2004. The decrease was primarily attributable to lower earnings, which were impacted by restructuring charges, and lower accounts payable levels. Free cash flow is a non-GAAP financial measure that is comprised of net cash provided by operating activities less purchases of property and equipment net of proceeds from sales of property and equipment. Management believes that this financial measure provides meaningful information for evaluating the overall financial performance of the company and its ability to repay debt or make future investments (including acquisitions, etc.). The non-GAAP financial measure is reconciled to the GAAP measure as follows (in thousands):

	Twelve Months Ended December 31,	
	2005	2004
Net cash provided by operating activities	$ 76,947	$ 98,324
Adjusted for:		
Purchases of property and equipment — net	(26,152)	(41,400)
Free Cash Flow	$ 50,795	$ 56,924

CONTRACTUAL OBLIGATIONS

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(In thousands)		
Long-term debt obligations					
Senior Notes	$199,576	$ 9,836	$137,025	$ 52,715	$ —
Revolving credit agreements	309,634	11,086	22,172	276,376	—
Other notes	80,731	79,437	172	172	950
Operating lease obligations	37,744	13,828	15,365	4,549	4,002
Capital lease obligations	16,835	1,607	2,799	2,584	9,845
Purchase obligations (primarily computer systems contracts)	5,035	4,493	542	—	—
Other long-term obligations					
Product liability	20,949	2,657	9,683	3,792	4,817
SERP	15,386	424	1,752	1,752	11,458
Other, principally deferred compensation	12,937	372	907	591	11,067
Total	$698,827	$123,740	$190,417	$342,531	$42,139

DIVIDEND POLICY

It is the company's policy to pay a nominal dividend in order for its stock to be more attractive to a broader range of investors. The current annual dividend rate remains at $0.05 per Common Share and $0.045 per Class B Common Share. It is not anticipated that this will change materially as the company continues to have available significant growth opportunities through internal development and acquisitions. For 2005, dividends of $0.05 per Common Share and $0.045 per Class B Common Share were declared and paid.

CRITICAL ACCOUNTING POLICIES

The Consolidated Financial Statements included in the report include accounts of the company, all majority-owned subsidiaries and a variable interest entity for which the company is the primary beneficiary. 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 SEC'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 (GAAP) to selected revenue recognition issues. The company has concluded that its revenue recognition policy is appropriate and in accordance with GAAP 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 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 determined for manufacturing inventories 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 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 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 completed the required initial analysis of goodwill as of January 1, 2002 as well as the annual impairment tests in the fourth quarter of each subsequent year, including 2005. The results of these analyses indicated no impairment of goodwill. Interest rates have a significant impact upon the discounted cash flow methodology utilized in our annual impairment testing. Increasing interest rates decrease the fair value estimates used in our testing.

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 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 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 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. 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 included in this report 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. If the company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation,* for all stock options granted, net earnings per share assuming dilution would have been reduced by $0.44 in 2005, $0.14 in 2004 and $0.14 in 2003. The pro forma earnings per share assuming dilution amount of $0.44 in 2005 is due primarily to the acceleration of vesting of ''underwater'' options (below fair market value of $30.75) approved by the Board of Directors on December 21, 2005. See Shareholders' Equity Transactions in the Notes to the Consolidated Financial Statements included in this report. Effective January 1, 2006, the company adopted FAS 123R.

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.

ACCOUNTING CHANGES

In the fourth quarter of 2005, the company changed its method of accounting for domestic manufactured inventories from the lower of cost, as determined by the last-in, last-out (LIFO) method of accounting, or market to the lower of cost, as determined by the first-in, first-out (FIFO) method of accounting, or market. The company believes that this change is preferable because: 1) the change conforms to a single method of accounting for all of the company's inventories, 2) LIFO inventory values have not been materially different than FIFO inventory values, and 3) the majority of the company's competitors use FIFO.

The change from LIFO to FIFO did not result in any change to the company's reported Consolidated Balance Sheets because the inventory valued under LIFO was at current cost. As a result, there is no impact for the change from LIFO to FIFO on the company's Consolidated Statement of Earnings and Consolidated Statement of Shareholders' Equity for all periods presented.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2004, FASB issued 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 are effective for 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 adopted the standard as of January 1, 2006 and estimates that the impact to the company's reported results in 2006 will be approximately $0.05 per diluted share, which is less than the pro forma results shown in the company's note regarding Accounting for Stock-Based Compensation in the Notes to its Consolidated Financial Statements included in this report due primarily to the acceleration of vesting approved by the Board of Directors on December 21, 2005. The Board of Directors approved the acceleration of the vesting of the company's stock options primarily to partially offset the recent reductions in other benefits made by the company and to provide additional incentive to those critical to the company's current cost reduction efforts. See Shareholders' Equity Transactions in the Notes to the Consolidated Financial Statements included in this report.

Item 7A. Quantitative and Qualitative Disclosure about Market Risk.

The company is exposed to market risk through various financial instruments, including fixed rate and floating rate debt instruments. The company uses interest swap agreements to mitigate its exposure to interest rate fluctuations. Based on December 31, 2005 debt levels, a 1% change in interest rates would impact interest expense by approximately $4,742,000. Additionally, the company operates internationally and, as a result, is exposed to foreign currency fluctuations. Specifically, the exposure results from intercompany loans and third party sales or payments. In an attempt to reduce this exposure, foreign currency forward contracts are utilized. 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.

Item 8. Financial Statements and Supplementary Data.

Reference is made to the Report of Independent Registered Public Accounting Firm, Consolidated Balance Sheet, Consolidated Statement of Earnings, Consolidated Statement of Cash Flows, Consolidated Statement of Shareholders' Equity, Notes to Consolidated Financial Statements and Financial Statement Schedule, which appear on pages FS-1 to FS-34 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the company's management, including the Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the company's disclosure controls and procedures were effective to provide reasonable assurance that we record, process, summarize and report the information we must disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended, within the time periods specified by the SEC.

(b) Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining a system of adequate internal control over financial reporting that provides reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. The system includes self-monitoring mechanisms; regular testing by the company's internal auditors; a Code of Conduct; written policies and procedures; and a careful selection and training of employees. Actions are taken to correct deficiencies as they are identified. An effective internal control system, no matter how well designed, has inherent limitations – including the possibility of the circumvention or overriding of controls – and therefore can provide only reasonable assurance that errors and fraud that can be material to the financial statements are prevented or would be detected on a timely basis. Further, because of changes in conditions, internal control system effectiveness may vary over time.

Management's assessment of the effectiveness of the company's internal control over financial reporting is based on the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission.

In management's opinion, internal control over financial reporting is effective as of December 31, 2005.

The company's independent registered public accounting firm, Ernst & Young LLP, audited management's assessment of internal control over financial reporting and, based on that audit, issued an attestation report regarding management's assessment, which is included in this Annual Report on Form 10-K.

(c) Changes in Internal Control Over Financial Reporting

During the fourth quarter of 2005, the company implemented a new ERP system in North America. The implementation resulted in significant lost revenues due to difficulties in processing orders and the inability to ship products to customers within required lead times. The implementation also resulted in additional overtime in manufacturing, distribution centers, and customer service, along with added costs to expedite product to customers and processing a higher than normal level of returns.

The changes in the company's internal control over financial reporting that occurred during our last fiscal quarter are not deemed to have materially affected, or reasonably likely to materially affect, the company's internal control over financial reporting, except for the implementation of the ERP system in North America. Various controls were modified due to the new system and because various issues were encountered with the system implementation and the fact that certain controls were not functioning as intended during the quarter, management took additional actions to ensure the company's financial statements present fairly, in all material respects, the company's financial condition and results of operations in accordance with generally accepted accounting principles. The additional actions included: performing physical inventory counts at year end in North America, additional substantitive procedures to validate ending balances as well as additional key control verifications for financial statement accounts affected by the implementation. As a result of these additional procedures, the company's management concluded that the internal control over financial reporting was effective as of December 31, 2005. The company will continue to monitor internal control over financial reporting and will modify and or implement any controls and procedures that are needed to ensure the integrity of the company's financial statements.

Item 9B. Other Information.

On March 8, 2006, the company's Compensation, Management Development and Corporate Governance Committee approved a new compensation program, effective for 2006, for members of the company's Board of Directors. The terms of the new compensation program are set forth in the Director Compensation Schedule, which is filed as Exhibit 10(ae) to this Annual Report on Form 10-K and incorporated by reference into this Item 9B).

PART III

Item 10. Directors and Executive Officers of the Registrant.

We have adopted a Code of Business Conduct and Ethics that applies to all Directors, officers and employees. We also have adopted a separate Financial Code of Ethics that applies to our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer and principal accounting officer). You can find both codes on our website at *www.invacare.com* by clicking on the link for Investor Relations. We will post any amendments to the codes, as well as any waivers that are required to be disclosed pursuant to the rules of the SEC and the New York Stock Exchange, on our website.

Our Board of Directors has adopted Corporate Governance Guidelines and charters for the Audit Committee, Compensation, Management Development and Corporate Governance Committee, Nominating Committee and Investment Committee of the Board of Directors. These documents can be found on our website at *www.invacare.com* by clicking on the link for Investor Relations.

You also can obtain printed copies of any of the materials referred to above, free of charge, by writing to: Shareholder Relations Department, Invacare Corporation, One Invacare Way, P.O. Box 4028, Elyria, OH 44036-2125.

We submitted the New York Stock Exchange (''NYSE'') Section 12(a) Annual CEO Certification as to our compliance with the NYSE corporate governance listing standards to the NYSE in July 2005. In addition, we have filed the certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of our public disclosures as exhibits to this Annual Report on Form 10-K.

Information required by Item 10 as to the executive officers of the company is included in Part I of this Annual Report on Form 10-K. The other information required by Item 10 as to the directors of the company, the Audit Committee, the audit committee financial expert, the procedures for recommending nominees to the Board of Directors, and compliance with Section 16(a) of the Exchange Act is incorporated herein by reference to the information set forth under the captions ''Election of Directors,'' ''Corporate Governance,'' and ''Section 16(a) Beneficial Ownership Compliance'' in the company's definitive Proxy Statement for the 2006 Annual Meeting of Shareholders.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated by reference to the information set forth under the captions ''Executive Compensation'' and ''Corporate Governance'' in the company's definitive Proxy Statement for the 2006 Annual Meeting of Shareholders.

Item. 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by Item 12 is incorporated by reference to the information set forth under the caption ''Share Ownership of Principal Holders and Management'' in the company's definitive Proxy Statement for the 2006 Annual Meeting of Shareholders.

Information regarding the securities authorized for issuance under the company's equity compensation plans is incorporated by reference to the information set forth under the captions ''Compensation of Executive Officers'' and ''Compensation of Directors'' in the company's definitive Proxy Statement for the 2006 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions.

The information required by Item 13 is incorporated by reference to the information set forth under the caption ''Certain Relationships and Related Transactions'' in the company's definitive Proxy Statement for the 2006 Annual Meeting of Shareholders.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 is incorporated by reference to the information set forth under the caption "Independent Auditors" and "Pre-Approval Policies and Procedures" in the company's definitive Proxy Statement for the 2006 Annual Meeting of Shareholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) *Financial Statements.*

The following financial statements of the company are included in Part II, Item 8:

Consolidated Statement of Earnings — years ended December 31, 2005, 2004 and 2003

Consolidated Balance Sheet — December 31, 2005 and 2004

Consolidated Statement of Cash Flows — years ended December 31, 2005, 2004, and 2003

Consolidated Statement of Shareholders' Equity — years ended December 31, 2005, 2004, and 2003

Notes to Consolidated Financial Statements

(a)(2) *Financial Statement Schedules.*

The following financial statement schedule of the company is included in Part II, Item 8:

Schedule II — Valuation and Qualifying Accounts

All other schedules have been omitted because they are not applicable or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

(a)(3) *Exhibits.*

See Exhibit Index at page number I-43 of this Report on Form 10-K.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized as of March 13, 2006.

INVACARE CORPORATION

By: /s/ A. Malachi Mixon, III

A. Malachi Mixon, III
Chairman of the Board of Directors
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of March 13, 2006.

Signature	Title
/s/ A. Malachi Mixon, III **A. Malachi Mixon, III**	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)
/s/ Gerald B. Blouch **Gerald B. Blouch**	President, Chief Operating Officer and Director
/s/ Gregory C. Thompson **Gregory C. Thompson**	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ James C. Boland **James C. Boland**	Director
/s/ Michael F. Delaney **Michael F. Delaney**	Director
/s/ Whitney Evans **Whitney Evans**	Director
/s/ C. Martin Harris, M.D. **C. Martin Harris, M.D.**	Director
/s/ Bernadine P. Healy, M.D. **Bernadine P. Healy, M.D.**	Director
/s/ John R. Kasich **John R. Kasich**	Director
/s/ Dan T. Moore, III **Dan T. Moore, III**	Director
/s/ Joseph B. Richey, II **Joseph B. Richey, II**	Director
/s/ William M. Weber **William M. Weber**	Director

INVACARE CORPORATION

Report on Form 10-K for the fiscal year ended December 31, 2005.

Exhibit Index

Official Exhibit No.	Description	Sequential Page No.
2.1	Sale and Purchase Agreement Regarding the Sale and Purchase of All Shares in WP Domus GmbH by and among WP Domus LLC, Mr. Peter Schultz and Mr. Wilhelm Kaiser, Invacare GmbH & Co. KG and Invacare Corporation dated as of July 31, 2004	(A)
2.2	Guarantee Letter Agreement of Warburg, Pincus Ventures, L.P. and Warburg, Pincus International, L.P. dated as of September 9, 2004	(A)
3(a)	Amended and Restated Articles of Incorporation, as last amended February 2, 1996	(K)
3(b)	Code of Regulations, as amended on May 22, 1996	(K)
3(c)	Certificate of Amendment to Amended and Restated Articles of Incorporation, as amended on July 8, 2005	(L)
4(a)**	Specimen Share Certificate for Common Shares	
4(b)**	Specimen Share Certificate for Class B Common Shares	
4(c)	Rights agreement between Invacare Corporation and National City Bank dated as of July 8, 2005	(L)
10(b)	1992 Non-Employee Directors Stock Option Plan adopted in May 1992	(K)
10(c)	Deferred Compensation Plan for Non-Employee Directors, adopted in May 1992	(K)
10(d)	Invacare Corporation 1994 Performance Plan approved January 28, 1994	(K)
10(e)	Amendment No. 1 to the Invacare Corporation 1994 Performance Plan approved May 28, 1998	(K)*
10(f)	Amendment No. 2 to the Invacare Corporation 1994 Performance Plan approved May 24, 2000	(B)*
10(g)	Amendment No. 3 to the Invacare Corporation 1994 Performance Plan	(E)*
10(h)	Note Purchase Agreement dated as of February 27, 1998 for $80,000,000 6.71% Series A Senior Notes Due February 27, 2008 and $20,000,000 6.60% Series B Senior Notes Due February 27, 2005	(K)
10(i)	Invacare Retirement Savings Plan, effective January 1, 2001	(C)
10(j)	Agreement entered into by and between the company and Chief Operating Officer	(D)*
10(k)	Amendment No. 1 to Invacare Corporation 401(K) Plus Benefit Equalization Plan	(I)
10(l)	Invacare Corporation 401(K) Plus Benefit Equalization Plan (As amended and restated effective January 1, 2003)	
10(m)	Invacare Corporation Note Purchase Agreement dated as of October 1, 2003 for $50,000,000 3.97% Series A Senior Notes Due October 1, 2007; $30,000,000 4.74% Series B Senior Notes Due October 1, 2009 and $20,000,000 5.05% Series C Senior Notes Due October 1, 2010	(G)
10(n)	First Amendment, dated as of October 1, 2003, to Note Purchase Agreement dated as of February 27, 1998 for $80,000,000 6.71% Series A Senior Notes Due February 27, 2008 and $20,000,000 6.60% Series B Senior Notes Due February 27, 2005	(H)
10(o)	Invacare Corporation 2003 Performance Plan	(F)*

Official Exhibit No.	Description	Sequential Page No.
10(p)**	Form of Change of Control Agreement entered into by and between the company and certain of its executive officers and Schedule of all such agreements with current executive officers	
10(q)	Form of Indemnity Agreement entered into by and between the company and certain of its Directors and executive officers and Schedule of all such Agreements with Directors and executive officers	(D)*
10(r)	Employment Agreement entered into by and between the company and Chief Financial Officer	(D)*
10(s)	Credit Agreement dated as of January 14, 2005 among Invacare Corporation and Certain Borrowing Subsidiaries, the Banks named therein, and JPMorgan Chase Bank, N.A. as Agent, Keybank National Association as Syndication Agent, J.P. Morgan Securities, Inc. and Keybank National Association, as Co-Lead Arrangers	(J)
10(t)	Invacare Corporation Deferred Compensation Plus Plan, effective January 1, 2005	(K)*
10(u)	Invacare Corporation Death Benefit Only Plan, effective January 1, 2005	(K)*
10(v)	A. Malachi Mixon, III 10b5-1 Plan, effective February 14, 2005	(K)*
10(w)	Gerald B. Blouch 10b5-1 Plan, effective February 22, 2005	(K)*
10(x)	Gregory C. Thompson 10b5-1 Plan, effective February 21, 2005	(K)*
10(y)	Supplemental Executive Retirement Plan (As amended and restated effective February 1, 2000)	(K)*
10(z)	Form of Director Stock Option Award under Invacare Corporation 1994 Performance Plan	(K)*
10(aa)	Form of Director Stock Option Award under Invacare Corporation 2003 Performance Plan	(K)*
10(ab)	Form of Director Deferred Option Award under Invacare Corporation 2003 Performance Plan	(K)*
10(ac)	Form of Restricted Stock Option Award under Invacare Corporation 2003 Performance Plan	(K)*
10(ad)	Form of Stock Option Award under Invacare Corporation 2003 Performance Plan	(K)*
10(ae)**	Director Compensation Schedule	
10(af)	Invacare Corporation Executive Incentive Bonus Plan, effective as of January 1, 2005	(M)*
10(ag)	Letter agreement regarding increase, effective April 4, 2005, of the Aggregate Commitment under the Credit Agreement dated as of January 14, 2005 among Invacare Corporation and Certain Borrowing Subsidiaries, the Banks Named Therein, and JPMorgan Chase Bank, N.A. as Agent, Keybank National Association as Syndication Agent, J.P. Morgan Securities, Inc. and Keybank National Association, as Co-Lead Arrangers	(N)
10(ah)	First Amendment, dated as of August 12, 2005, to the Credit Agreement dated as of January 14, 2005 among Invacare Corporation and Certain Borrowing Subsidiaries, the Banks named therein, and JPMorgan Chase Bank, N.A. as Agent, Keybank National Association as Syndication Agent, J.P. Morgan Securities, Inc. and Keybank National Association, as Co-Lead Arrangers	(O)
10(ai)	Receivables Purchase Agreement, dated as of September 30, 2005, among Invacare Receivables Corporation, as Seller, Invacare Corporation, as Servicer, Park Avenue Receivables company, LLC and JPMorgan Chase Bank, N.A., as Agent	(P)

Official Exhibit No.	Description	Sequential Page No.
10(aj)	Second Amendment, dated as of September 29, 2005, to Note Purchase Agreement dated as of February 27, 1998 relating to $80,000,000	(Q)
10(ak)	First Amendment, dated as of September 29, 2005, to Note Purchase Agreement dated as of October 1, 2003 for $50,000,000 3.97% Series A Senior Notes Due October 1, 2007; $30,000,000 4.74% Series B Senior Notes Due October 1, 2009 and $20,000,000 5.05% Series C Senior Notes Due October 1, 2010	(P)
18**	Letter re: Change in Accounting Principles	
21**	Subsidiaries of the company	
23**	Consent of Independent Registered Public Accounting Firm	
31.1**	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
31.2**	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	

* Management contract, compensatory plan or arrangement

** Filed herewith.

(A) Reference is made to the appropriate Exhibit to the company report on Form 8-K, dated September 9, 2004, which Exhibit is incorporated herein by reference.

(B) Reference is made to the appropriate Exhibit of the company report on Form S-8, dated March 30, 2001, which Exhibit is incorporated herein by reference.

(C) Reference is made to Exhibit 10.1 of the company report on Form 10-Q, for the quarter ended September 30, 2002, which Exhibit is incorporated herein by reference.

(D) Reference is made to the appropriate Exhibit of the company report on Form 10-K for the fiscal year ended December 31, 2002, which Exhibit is incorporated herein by reference.

(E) Reference is made to the appropriate Exhibit of the company report on Form 10-Q for the quarter ended March 31, 2003, which Exhibit is incorporated herein by reference.

(F) Reference is made to Exhibit 4.5 of Invacare Corporation Form S-8 filed on October 17, 2003, which is incorporated herein by reference, which is incorporated herein by reference.

(G) Reference is made to the appropriate Exhibit of the company report on Form 10-Q for the quarter ended September 30, 2003, which Exhibit is incorporated herein by reference.

(H) Reference is made to the appropriate Exhibit of the company report on Form 10-K for the fiscal year ended December 31, 2003, which Exhibit is incorporated herein by reference.

(I) Reference is made to the appropriate Exhibit of the company report on Form 10-Q for the quarter ended June 30, 2004, which Exhibit is incorporated herein by reference.

(J) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated January 14, 2005, which is incorporated herein by reference.

(K) Reference is made to the appropriate Exhibit of the company report on Form 10-K for the fiscal year ended December 31, 2004, which Exhibit is incorporated herein by reference.

(L) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated July 8, 2005, which is incorporated herein by reference.

(M) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated April 4, 2005, which is incorporated herein by reference.

(N) Reference is made to the appropriate Exhibit of the company report on Form 10-Q for the quarter ended June 30, 2005, which Exhibit is incorporated herein by reference.

(O) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated August 12, 2005, which is incorporated herein by reference.

(P) Reference is made to the appropriate Exhibit of the company report on Form 8-K, dated September 29, 2005, which is incorporated herein by reference.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Invacare Corporation

We have audited the accompanying consolidated balance sheets of Invacare Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15 (a)(2). These financial statements and schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Invacare Corporation and subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As described in *Accounting Policies* in the notes to the consolidated financial statements, in 2005 the company changed its method of accounting for inventories.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Invacare Corporation's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 8, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
March 8, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Invacare Corporation

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that Invacare Corporation maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Invacare Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Invacare Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Invacare Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Invacare Corporation as of December 31, 2005 and 2004, the related consolidated statements of earnings, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2005, and the financial statement schedule for the three years in the period ended December 31, 2005, and our report dated March 8, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
March 8, 2006

CONSOLIDATED STATEMENT OF EARNINGS

INVACARE CORPORATION AND SUBSIDIARIES

	Years Ended December 31,		
	2005	2004	2003
	(In thousands, except per share data)		
Net sales	$1,529,732	$1,403,327	$1,247,176
Cost of products sold	1,081,227	984,735	872,515
Gross Profit	448,505	418,592	374,661
Selling, general and administrative expenses	341,782	297,124	262,015
Charge related to restructuring activities	7,295	—	—
Interest expense	29,809	16,282	11,710
Interest income	(1,683)	(5,186)	(5,473)
Earnings before Income Taxes	71,302	110,372	106,409
Income taxes	22,450	35,175	35,000
Net Earnings	$ 48,852	$ 75,197	$ 71,409
Net Earnings per Share — Basic	$ 1.55	$ 2.41	$ 2.31
Weighted Average Shares Outstanding — Basic	31,555	31,153	30,862
Net Earnings per Share — Assuming Dilution	$ 1.51	$ 2.33	$ 2.25
Weighted Average Shares Outstanding — Assuming Dilution	32,452	32,347	31,729

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

INVACARE CORPORATION AND SUBSIDIARIES

	December 31, 2005	December 31, 2004
	(In thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$ 25,624	$ 32,567
Marketable securities	252	199
Trade receivables, net	287,955	287,950
Installment receivables, net	12,935	13,422
Inventories, net	176,925	175,883
Deferred income taxes	27,446	21,730
Other current assets	39,510	33,400
Total Current Assets	570,647	565,151
Other Assets	47,110	55,634
Other Intangibles	108,117	98,212
Property and Equipment, net	176,206	191,163
Goodwill	720,873	717,964
Total Assets	$1,622,953	$1,628,124
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 133,106	$ 149,413
Accrued expenses	106,214	98,850
Accrued income taxes	13,340	7,816
Short-term debt and current maturities of long-term debt	80,228	2,062
Total Current Liabilities	332,888	258,141
Long-Term Debt	457,753	547,974
Other Long-Term Obligations	79,624	68,571
Shareholders' Equity		
Preferred Shares (Authorized 300 shares; none outstanding)	—	—
Common Shares (Authorized 100,000 shares; 31,695 and 31,209 issued in 2005 and 2004, respectively) — no par	7,925	7,803
Class B Common Shares (Authorized 12,000 shares; 1,112, issued and outstanding) — no par	278	278
Additional paid-in-capital	138,937	123,793
Retained earnings	598,025	550,753
Accumulated other comprehensive earnings	47,480	104,629
Unearned compensation on stock awards	(1,692)	(1,557)
Treasury shares (1,058 and 934 shares in 2005 and 2004, respectively)	(38,265)	(32,261)
Total Shareholders' Equity	752,688	753,438
Total Liabilities and Shareholders' Equity	$1,622,953	$1,628,124

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

INVACARE CORPORATION AND SUBSIDIARIES

	Years Ended December 31,		
	2005	2004	2003
		(In thousands)	
Operating Activities			
Net earnings	$ 48,852	$ 75,197	$ 71,409
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	40,524	32,316	27,235
Provision for losses on trade and installment receivables	14,168	11,222	13,760
Provision for deferred income taxes	(100)	4,250	3,205
Provision for other deferred liabilities	3,571	4,091	2,587
Changes in operating assets and liabilities:			
Trade receivables	(10,075)	(19,978)	(37,122)
Installment sales contracts, net	(4,402)	(2,911)	6,678
Inventories	(12,919)	(15,781)	(4,607)
Other current assets	(7,046)	(516)	(3,447)
Accounts payable	(6,923)	19,718	13,351
Accrued expenses	9,185	(11,281)	17,943
Other long-term liabilities	2,112	1,997	5,212
Net Cash Provided by Operating Activities	76,947	98,324	116,204
Investing Activities			
Purchases of property and equipment	(31,517)	(41,403)	(30,660)
Proceeds from sale of property and equipment	5,365	3	531
Marketable securities	—	—	1,130
Business acquisitions, net of cash acquired	(58,216)	(343,554)	(70,555)
Increase in other investments	(44)	(603)	(64)
Increase in other long-term assets	(1,013)	(3,133)	(1,898)
Other	(1,012)	(332)	(42)
Net Cash Required for Investing Activities	(86,437)	(389,022)	(101,558)
Financing Activities			
Proceeds from revolving lines of credit, securitization facility and long-term borrowings	796,073	844,432	474,583
Payments on revolving lines of credit, securitization facility and long-term borrowings	(796,619)	(541,244)	(483,725)
Proceeds from exercise of stock options	4,623	9,850	5,063
Payment of dividends	(1,580)	(1,557)	(1,531)
Purchase of treasury stock	—	(4,430)	(8,345)
Net Cash Provided (Required) by Financing Activities	2,497	307,051	(13,955)
Effect of exchange rate changes on cash	50	140	2,297
Increase (decrease) in cash and cash equivalents	(6,943)	16,493	2,988
Cash and cash equivalents at beginning of year	32,567	16,074	13,086
Cash and cash equivalents at end of year	$ 25,624	$ 32,567	$ 16,074

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

INVACARE CORPORATION AND SUBSIDIARIES

	Common Stock	Class B Stock	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Unearned Compensation	Treasury Stock	Total
				(In thousands)				
January 1, 2003 Balance	$7,580	$278	$ 98,995	$407,235	$(18,729)	$(1,204)	$(13,843)	**$480,312**
Exercise of stock options, including tax benefit	99		9,130				(3,199)	**6,030**
Restricted stock awards	7		890			(897)		**—**
Restricted stock award expense						643		**643**
Net earnings				71,409				71,409
Foreign currency translation adjustments					66,185			66,185
Unrealized gains on cash flow hedges					3,506			3,506
Marketable securities holding gain					95			95
Total comprehensive income								**141,195**
Dividends				(1,531)				**(1,531)**
Purchase of treasury shares							(8,345)	**(8,345)**
December 31, 2003 Balance	7,686	278	109,015	477,113	51,057	(1,458)	(25,387)	**618,304**
Exercise of stock options, including tax benefit	112		13,872				(2,444)	**11,540**
Restricted stock awards	5		906			(911)		**—**
Restricted stock award expense						812		**812**
Net earnings				75,197				75,197
Foreign currency translation adjustments					57,903			57,903
Unrealized losses on cash flow hedges					(4,322)			(4,322)
Marketable securities holding loss					(9)			(9)
Total comprehensive income								**128,769**
Dividends				(1,557)				**(1,557)**
Purchase of treasury shares							(4,430)	**(4,430)**
December 31, 2004 Balance	7,803	278	123,793	550,753	104,629	(1,557)	(32,261)	**753,438**
Exercise of stock options, including tax benefit	117		14,133				(6,004)	**8,246**
Restricted stock awards	5		1,011			(1,016)		**—**
Restricted stock award expense						881		**881**
Net earnings				48,852				48,852
Foreign currency translation adjustments					(56,176)			(56,176)
Unrealized losses on cash flow hedges					(1,008)			(1,008)
Marketable securities holding gain					35			35
Total comprehensive loss								**(8,297)**
Dividends				(1,580)				**(1,580)**
December 31, 2005 Balance	$7,925	$278	$138,937	$598,025	$ 47,480	$(1,692)	$(38,265)	**$752,688**

See notes to consolidated financial statements.

INVACARE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies

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.

Principles of Consolidation: The consolidated financial statements include the accounts of the company, its majority owned subsidiaries and a variable interest entity for which the company is the primary beneficiary. Certain foreign subsidiaries, represented by the European segment, are consolidated using a November 30 fiscal year end in order to meet filing deadlines. No material subsequent events have occurred related to the European segment, which would require disclosure or adjustment to the company's financial statements. All significant intercompany transactions are eliminated.

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

Marketable Securities: Marketable securities consist of short-term investments in repurchase agreements, government and corporate securities, certificates of deposit and equity securities. Marketable securities with original maturities of less than three months are treated as cash equivalents. The company has classified its marketable securities as available for sale. The securities are carried at their fair value and net unrealized holding gains and losses, net of tax, are carried as a component of accumulated other comprehensive earnings (loss).

Inventories: Inventories are stated at the lower of cost or market with cost determined by the first-in, first-out method. Market costs are based on the lower of replacement cost or estimated net realizable value. 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.

In the fourth quarter of 2005, the company changed its method of accounting for domestic manufactured inventories from the lower of cost, as determined by the last-in, first-out (LIFO) method of accounting, or market to the lower of cost, as determined by the first-in, first-out (FIFO) method of accounting, or market. The company believes that this change is preferable because: 1) the change conforms to a single method of accounting for all of the company's inventories, 2) LIFO inventory values have not been materially different than FIFO inventory values, and 3) the majority of the company's competitors use FIFO.

The change from LIFO to FIFO did not result in any change to the company's reported Consolidated Balance Sheets because the inventory valued under LIFO was at current cost. As a result, there is no impact for the change from LIFO to FIFO on the company's Consolidated Statement of Earnings and Consolidated Statement of Shareholders' Equity for all periods presented.

Property and Equipment: Property and equipment are stated on the basis of cost. The company principally uses the straight-line method of depreciation for financial reporting purposes based on annual rates sufficient to amortize the cost of the assets over their estimated useful lives. Accelerated methods of depreciation are used for federal income tax purposes. Expenditures for maintenance and repairs are charged to expense as incurred.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The asset would be considered impaired when the future net

Accounting Policies — Continued

undiscounted cash flows generated by the asset are less than its carrying value. An impairment loss would be recognized based on the amount by which the carrying value of the asset exceeds its fair value.

Goodwill and Other Intangibles: In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets,* goodwill is subject to annual impairment testing. For purposes of the impairment test, the fair value of each reporting unit is estimated by forecasting cash flows and discounting those cash flows using appropriate discount rates. The fair values are then compared to the carrying value of the net assets of each reporting unit. The company completed the required initial analysis of goodwill as of January 1, 2002 as well as the annual impairment tests in the fourth quarter of each subsequent year, including 2005. The results of these tests indicated no impairment of goodwill.

Accrued Warranty Cost: 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 current year. See Current Liabilities in the Notes to the Consolidated Financial Statements for a reconciliation of the changes in the warranty accrual.

Product Liability Cost: 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 or the limits of the company's per country foreign liability limits as applicable.

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 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 award settlements on claims. While actuarial analysis is used to help determine adequate reserves, the company accepts responsibility for the determination and recording of adequate reserves in accordance with accepted loss reserving standards and practices.

Revenue Recognition: Invacare's revenues are recognized when products are shipped to unaffiliated customers. The SEC's Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition," as updated by SAB No. 104, provides guidance on the application of GAAP to selected revenue recognition issues. The company has concluded that its revenue recognition policy is appropriate and in accordance with GAAP 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

Accounting Policies — Continued

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.

Research and Development: Research and development costs are expensed as incurred and included in cost of products sold. The company's annual expenditures for product development and engineering were approximately \$23,247,000, \$21,638,000, and \$19,130,000 for 2005, 2004, and 2003, respectively.

Advertising: Advertising costs are expensed as incurred and included in selling, general and administrative expenses. The company has a co-op advertising program in which the company reimburses customers up to 50% of their costs of qualifying advertising expenditures. Invacare product, brand logos and corporate spokesperson, Arnold Palmer, must appear in all advertising. Invacare requires customers to submit proof of advertising with their claims for reimbursement. The company's cost of the program is included in SG&A expense in the consolidated statement of earnings at the time the liability is estimated. Reimbursement is made on an annual basis and within 3 months of submission and approval of the documentation. The company receives monthly reporting from those in the program of their qualified advertising dollars spent and accrues based upon information received. Advertising expenses amounted to \$26,621,000, \$24,999,000 and \$22,806,000 for 2005, 2004 and 2003, respectively.

Stock-Based Compensation Plans: The company accounts for options under its stock-based compensation plans using the intrinsic value method proscribed in 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. Invacare continues to utilize the disclosure-only provisions of SFAS No. 123, *Accounting for Stock Based Compensation.* If the company had applied the fair value recognition provisions of SFAS No. 123, the company's net earnings

Accounting Policies — Continued

and earnings per share in 2005, 2004 and 2003 would have been reduced to the pro forma amounts indicated below (in thousands except per share data):

	2005	2004	2003
Net earnings — as reported*	$48,852	$75,197	$71,409
Less: compensation expense determined based on the fair-value method for all awards granted at market value, net of related tax effects	14,272	4,226	4,529
Net earnings — pro forma	$34,580	$70,971	$66,880
Earnings per share as reported — basic	$ 1.55	$ 2.41	$ 2.31
Earnings per share as reported — assuming dilution	$ 1.51	$ 2.33	$ 2.25
Pro forma earnings per share — basic	$ 1.10	$ 2.28	$ 2.17
Pro forma earnings per share — assuming dilution	$ 1.07	$ 2.19	$ 2.11
*Includes stock compensation expense, net of tax, on restricted awards granted without cost of:	$ 573	$ 528	$ 418

Pro forma net earnings in 2005 were affected by the acceleration of vesting for substantially all of the company's previously unvested stock options which were underwater (below fair market value of $30.75) as of December 21, 2005. The Board of Directors approved the acceleration of the vesting of the company's stock options primarily to partially offset the recent reductions in other benefits made by the company and to provide additional incentive to those critical to the company's current cost reduction efforts. The decision accelerated the vesting for a total of 1,368,307 of the company's common shares; including 646,100 shares underlying options held by the company's named executive officers. As a result of the acceleration, the company will avoid compensation cost of approximately $12,000,000 that would have otherwise been recognized in earnings between 2006 and 2009. Also, see Shareholders' Equity Transactions in Notes to the Consolidated Financial Statements.

Income Taxes: The company uses the liability method in measuring the provision for income taxes and recognizing deferred tax assets and liabilities on the balance sheet. The liability method requires that deferred income taxes reflect the tax consequences of currently enacted rates for differences between the tax and financial reporting bases of assets and liabilities. Undistributed earnings of the company's foreign subsidiaries are considered to be indefinitely reinvested and, accordingly, no provision for United States federal income taxes has been provided.

Derivative Instruments: The company recognizes its derivative instruments as assets or liabilities in the consolidated balance sheet measured at fair value. A majority of the company's derivative instruments are designated and qualify as cash flow hedges. Accordingly, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the fair value of the hedged item, if any, is recognized in current earnings during the period of change. The derivatives designated as fair value hedges are perfectly effective; thus, the entire gain or loss associated with the derivative instrument directly affects the value of the debt by increasing or decreasing its carrying value.

The company has entered into interest rate swap agreements that qualify as fair value hedges and effectively convert $130,000,000 of fixed-rate debt to floating-rate debt, so the company can avoid paying higher than market interest rates. The company also had interest rate swap agreements, which expired in 2004, that qualified as cash flow hedges and effectively converted $20,000,000 of its floating-rate debt to a fixed-rate basis, thus reducing the

Accounting Policies — Continued

impact of interest-rate changes on future interest expense. The company recognized net gains of $1,230,000, $4,577,000 and $2,872,000, respectively, related to its swap agreements in 2005, 2004 and 2003, which is reflected in interest expense on the consolidated statement of earnings.

To protect against increases/decreases in forecasted foreign currency cash flows resulting from inventory purchases/sales over the next year, the company utilizes cash flow hedges to hedge portions of its forecasted purchases/sales denominated in foreign currencies. The company recognized a net loss in 2005 of $280,000 and net gains in 2004 and 2003 of $6,961,000 and $1,410,000, respectively on foreign currency cash flow hedges. The gains and losses are included in cost of products sold and selling, general and administrative expenses on the consolidated statement of earnings.

The company is a party to $150,000,000 in treasury lock agreements to protect the forecasted receipt of proceeds resulting from the issuance of ten year, fixed rate debt in March 2006, which are subject to fluctuations in the benchmark U.S. Treasury rate. The treasury lock agreements are accounted for as cash flow hedges and changes in the value of the treasury lock are expected to be effective in offsetting the changes in the proceeds to be received upon issuance (i.e. changes in principal and interest payments) attributable to fluctuations in the benchmark U.S. Treasury interest rate. The cumulative unrealized loss of $2,348,000 at December 31, 2005 associated with the derivative instruments directly affects the value of the forecasted debt issuance and is included in accumulated other comprehensive income on the consolidated balance sheet until the forecasted issuance occurs. In March 2006, the company exited the treasury locks while they were at break even.

The company has used forward contracts that do not qualify for special hedging treatment, but do effectively limit the company's exposure to foreign currency fluctuations between the Mexican Peso and U.S. Dollar. During 2003, the company recognized a loss of $118,000 related to these forward contracts, which was included in costs of products sold on the consolidated statement of earnings. No Mexican Peso forward contracts were entered into in 2005 or 2004.

The company recognized no gain or loss related to hedge ineffectiveness or discontinued cash flow hedges. If it is later determined that a hedged forecasted transaction is unlikely to occur, any gains or losses on the forward contracts would be reclassified from other comprehensive income into earnings. The company does not expect this to occur during the next twelve months.

Foreign Currency Translation: The functional currency of the company's subsidiaries outside the United States is the applicable local currency. The assets and liabilities of the company's foreign subsidiaries are translated into U.S. dollars at year-end exchange rates. Revenues and expenses are translated at weighted average exchange rates. Gains and losses resulting from translation are included in accumulated other comprehensive earnings (loss).

Net Earnings Per Share: Basic earnings per share are computed based on the weighted-average number of Common Shares and Class B Common Shares outstanding during the year. Diluted earnings per share are computed based on the weighted-average number of Common Shares and Class B Common Shares outstanding plus the effects of dilutive stock options outstanding during the year.

Recently Issued Accounting Pronouncements: In December 2004, FASB issued 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. The provisions of this Statement, which is effective 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 adopted the standard effective January 1, 2006 and estimates that the impact to the company's reported results will be less than the pro forma results shown in the company's Accounting Policy Note to the

Accounting Policies — Continued

Consolidated Financial Statements because on December 21, 2005, the Board of Directors of Invacare Corporation based on the recommendation of the Compensation, Management Development and Corporate Governance Committee (the "Committee"), approved the acceleration of the vesting for substantially all of the company's unvested stock options which were granted under the 1994 Plan, as amended, and the 2003 Plan, which were then underwater. The Board of Directors decided to approve the acceleration of the vesting of the company's stock options primarily to partially offset the recent reductions in other benefits made by the company and to provide additional incentive to those critical to the company's current cost reduction efforts. The decision, which was effective as of December 21, 2005, resulted in the acceleration of nearly all of the then unvested stock options.

Receivables

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the company's receivables are due from health care, medical equipment dealers and long term care facilities located throughout the United States, Australia, Canada, New Zealand and Europe. A significant portion of products sold to dealers, both foreign and domestic, is ultimately funded through government reimbursement programs such as Medicare and Medicaid. In addition, the company has 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 ($12,470,000 in 2005 and $9,857,000 in 2004) is based primarily on management's evaluation of the financial condition of the customer. The increase in the allowance for uncollectible accounts in 2005 compared to 2004 is primarily attributable to higher bad debt expense and less write-offs of accounts compared to 2004.

On September 30, 2005, the company entered into a 364-day $100 million accounts receivable securitization facility. The Receivables Purchase Agreement (the "Receivables Agreement"), provides for, among other things, the transfer from time to time by Invacare and certain of its subsidiaries of ownership interests of certain domestic accounts receivable on a revolving basis to the bank conduit, an asset-backed issuer of commercial paper, and/or the financial institutions named in the Receivables Agreement. Pursuant to the Receivables Agreement, the company and certain of its subsidiaries from time to time may transfer accounts receivable to Invacare Receivables Corporation (IRC), a special purpose entity and subsidiary of Invacare. IRC then transfers interests in the receivables to the Conduit and/or the financial institutions named in the Receivables Agreement and receives funds from the conduit and/or the financial institutions raised through the issuance of commercial paper (in its own name) by the conduit and/or the financial institutions. In accordance with U.S. Generally Accepted Accounting Principles (GAAP), Invacare accounts for the transaction as a secured borrowing. Borrowings under the facility are effectively repaid as receivables are collected, with new borrowings created as additional receivables are sold. As of December 31, 2005, Invacare had $79,351,000 in borrowings pursuant to the securitization facility at a borrowing rate of approximately 4.3%. The initial borrowings were used to reduce balances outstanding on Invacare's revolving credit facility. The debt is reflected on the short-term debt and current maturities of long-term obligations line of the condensed consolidated balance sheet at December 31, 2005.

Receivables — Continued

Installment receivables as of December 31, 2005 and 2004 consist of the following (in thousands):

	2005			2004		
	Current	Long-Term	Total	Current	Long-Term	Total
Installment receivables	$ 23,630	$162	$ 23,792	$19,576	$1,324	$20,900
Less:						
Unearned interest	(71)	(16)	(87)	(435)	—	(435)
Allowance for doubtful accounts	(10,624)	—	(10,624)	(5,719)	—	(5,719)
	$ 12,935	$146	$ 13,081	$13,422	$1,324	$14,746

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. See the "Concentration of Credit Risk" footnote for a description of the financing arrangement. Long-term installment receivables are included in "Other Assets" on the consolidated balance sheet.

Inventories

Inventories as of December 31, 2005 and 2004 consist of the following (in thousands):

	2005	2004
Raw materials	$ 59,888	$ 60,548
Work in process	13,544	16,156
Finished goods	103,493	99,179
	$176,925	$175,883

Property and Equipment

Property and equipment as of December 31, 2005 and 2004 consist of the following (in thousands):

	2005	2004
Machinery and equipment	$ 252,545	$ 243,335
Land, buildings and improvements	84,031	95,041
Furniture and fixtures	28,788	27,494
Leasehold improvements	15,194	14,275
	380,558	380,145
Less allowance for depreciation	(204,352)	(188,982)
	$ 176,206	$ 191,163

Acquisitions

In 2005, Invacare Corporation acquired the following businesses, which were individually immaterial and in the aggregate, 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.

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 final purchase price was $226,806,000, including acquisition costs of $4,116,000, which was paid in cash.

Motion Concepts, Inc. (''Motion'') was purchased in 2003 and 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 and 2005 results, no additional consideration was paid. When the contingency related to the acquisition is settled, any additional consideration paid will increase the purchase price and reported goodwill.

During the third quarter of 2005, the company finalized the purchase price allocation related to the Domus acquisition and as a result recorded additional severance and exit accruals ($5,954,000) and certain pre-acquisition liabilities for warranty and product liability ($945,000), legal and professional fees associated with the transaction ($1,303,000), and other valuation adjustments ($502,000) totaling $8,704,000, which increased goodwill by the same amount.

In accordance with EITF Issue No. 95-3, ''Recognition of Liabilities in Connection with a Purchase Business Combination,'' the company recorded accruals for severance and exit costs for facility closures and contract terminations. A progression of the accruals recorded in the purchase price allocation is as follows (in thousands):

	Balance at 12/31/04	Additional Accruals	Payments	Balance at 12/31/05
Severance	$561	$4,445	$1,957	$3,049
Sales agency terminations	—	612	612	—
Exit of product lines	—	897	—	897
Total	$561	$5,954	$2,569	$3,946

The company anticipates all of the remaining reserves to be utilized in 2006.

Goodwill

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

	2005				2004			
	North America	Europe	Asia/Pacific	Consolidated	North America	Europe	Asia/Pacific	Consolidated
Balance as of January 1	$313,327	$390,611	$14,026	$717,964	$210,047	$192,508	$12,944	$415,499
Acquisitions	14,293	22,481	8,984	45,758	95,344	161,486	71	256,901
Foreign currency translation	4,318	(45,941)	(1,226)	(42,849)	7,936	36,617	1,011	45,564
Balance as of December 31	$331,938	$367,151	$21,784	$720,873	$313,327	$390,611	$14,026	$717,964

Of the $45,758,000 in goodwill recorded due to acquisitions, $13,363,000 is expected to be deductible for tax purposes.

Other Intangibles

All of the company's other intangible assets have definite lives and continue to be amortized over their useful lives, except for $30,246,000 related to trademarks, which have indefinite lives. The company's intangibles consist of the following (in thousands):

	December 31, 2005		December 31, 2004	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer Lists	$ 64,218	$ 8,270	$ 57,788	$ 2,737
Trademarks	30,246	—	27,732	—
License agreements	7,564	5,821	6,518	5,051
Developed Technology	6,260	487	5,842	80
Patents	12,414	2,690	4,137	1,443
Other	7,876	3,193	7,348	1,842
	$128,578	$20,461	$109,365	$11,153

Intangibles recorded as the result of acquisitions during 2005 were as follows (in thousands):

	Fair Value	Weighted Average Amortization Period
Customer relationships	$11,700	10 years
Trademarks — Indefinite lives	5,330	Indefinite
Developed Technology	1,040	10 years
Patents	1,400	10 years
Trademarks	320	7 years
Total	$19,790	10 years

Amortization expense related to other intangibles was $9,307,000 and $3,417,000 for 2005 and 2004, respectively. Estimated amortization expense for each of the next five years is expected to be $8,896,000 for 2006, $8,674,000 in 2007, $8,308,000 in 2008, $8,045,000 in 2009 and $7,734,000 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 consolidates NeuroControl, a development stage company, which is currently pursuing FDA approval to market a product focused on the treatment of post-stroke shoulder pain in the United States. Certain of the company's officers and directors (or their affiliates) have small minority equity ownership positions in NeuroControl. Based on the provisions of FIN 46 and the company's analysis, the company determined that it was the primary beneficiary of this VIE as of January 1, 2005 due to the company board of directors' approval of additional funding in 2005. Accordingly, the company consolidated this investment on a prospective basis since January 1, 2005 and recorded an intangible asset for patented technology of $7,003,000. The other beneficial interest holders have no recourse against the company.

Current Liabilities

Accrued expenses as of December 31, 2005 and 2004 consist of the following (in thousands):

	2005	2004
Accrued salaries and wages	$ 35,834	$35,280
Accrued warranty cost	15,583	13,998
Accrued rebates	9,434	7,427
Accrued taxes other than income taxes	7,136	6,419
Accrued severance	6,153	561
Accrued legal and professional	6,077	4,761
Accrued interest	5,180	5,274
Accrued freight	4,144	2,894
Accrued product liability, current portion	2,657	2,595
Accrued insurance	2,519	2,656
Accrued derivative liability	2,330	780
Other accrued items	9,167	16,205
	$106,214	$98,850

Accrued rebates relate to several volume incentive programs the company offers its customers. The company accounts for these rebates as a reduction of revenue when the products are sold in accordance with the guidance in EITF 01-09: *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products).* The company has experienced significant pricing pressure in the U.S. market for standard products in recent years and has partially reduced prices to our customers in the form of a volume rebate such that the rebates would typically apply only if customers increased their standard product purchases from the company.

Current Liabilities — (Continued)

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

	2005	2004
Balance as of January 1	$13,998	$12,688
Warranties provided during the period	9,811	8,665
Settlements made during the period	(8,931)	(7,977)
Changes in liability for pre-existing warranties during the period, including expirations	705	622
Balance as of December 31	$15,583	$13,998

Long-Term Debt

Debt as of December 31, 2005 and 2004 consist of the following (in thousands):

	2005	2004
Revolving credit agreement ($500,000,000 multi-currency), at 0.675% to 1.40% above local interbank offered rates, expires January 14, 2010	$264,828	$230,382
$80,000,000 senior notes at 6.71%, due in February 2008	80,553	83,304
$50,000,000 senior notes at 3.97%, due in October 2007	49,244	50,081
$30,000,000 senior notes at 4.74%, due in October 2009	30,339	30,485
$20,000,000 senior notes at 5.05%, due in October 2010	20,134	20,433
$20,000,000 senior notes at 6.60%, due in February 2005	—	20,000
Short-term borrowings secured by accounts receivable	79,351	—
Bridge credit agreement	—	100,000
Other notes	13,532	15,351
	537,981	550,036
Less short-term borrowings secured by accounts receivable	(79,351)	—
Less current maturities of long-term debt	(877)	(2,062)
	$457,753	$547,974

The carrying values of the senior notes have been adjusted by the gains and losses on the interest rate swaps accounted for as fair value hedges.

On January 14, 2005, the company entered into a $450,000,000 multi-currency, long-term revolving credit agreement which was increased on April 4, 2005 by $50,000,000 to an aggregate amount of $500,000,000 and expires on January 14, 2010. The facility provides that Invacare, may, upon consent of its lenders, increase the amount of the facility by an additional $50,000,000. The new agreement replaced the $325,000,000 multi-currency, long-term revolving credit agreement entered into in 2001 and a $100,000,000 bridge agreement entered into in 2004. In 2003, the company issued $100,000,000 in senior notes, which are due between 2007 and 2010.

Borrowings denominated in foreign currencies aggregated $131,464,000 at December 31, 2005 and $179,084,000 at December 31, 2004. The borrowing rates under the revolving credit agreement are determined based on the ratio of debt to EBITDA of the company as defined in the agreement and range from 0.35% to

Long-Term Debt — Continued

.675% above the various interbank offered rates. As of December 31, 2005 and 2004, the weighted average floating interest rate on borrowings was 4.53% and 3.36%, respectively.

The revolving credit agreement and senior notes all require the company to maintain certain conditions with respect to net worth, funded debt to capitalization, and interest coverage as defined in the agreements. Under the most restrictive covenants of the company's borrowing arrangements, the company has the capacity to borrow up to an additional $72,134,000 as of December 31, 2005.

In October 2003, the company exchanged the fixed rates of 3.97%, 4.74% and 5.05% on the $50,000,000, $30,000,000 and $20,000,000 Senior Notes due in October 2007, October 2009 and October 2010 for variable rates based on LIBOR plus 0.01%, LIBOR plus 0.14% and LIBOR plus 0.26%, respectively. The effect of these swaps is to exchange fixed rates for the lower floating rates currently available. In November 2005, the $30,000,000 and $20,000,000 swaps, exchanging fixed rates of 4.74% and 5.05% for variable rates, were terminated.

In December 2001, the company exchanged the fixed rate of 6.71% on $50,000,000 of the $80,000,000 in Senior Notes due in February 2008. The three agreements for $25,000,000, $15,000,000 and $10,000,000 exchanged the fixed rate for variable rates equal to LIBOR plus 1.9%, 1.71% and 1.62%, respectively. In January 2002, the company exchanged the fixed rate of 6.71% on the remaining $30,000,000 of the $80,000,000 in Senior Notes due in February 2008. The two agreements for $10,000,000 and $20,000,000 exchanged the fixed rate for variable rates equal to LIBOR plus 1.05% and 1.08%, respectively. The effect of these swaps is to exchange a fixed rate of 6.71% for the lower floating rates currently available.

The aggregate minimum maturities of long-term debt for each of the next five years are as follows: $877,000 in 2006, $50,838,000 in 2007, $80,687,000 in 2008, $30,714,000 in 2009, and $285,688,000 in 2010. Interest paid on borrowings was $29,017,000, $15,348,000 and $9,450,000 in 2005, 2004 and 2003, respectively.

Other Long-Term Obligations

Other long-term obligations as of December 31, 2005 and 2004 consist of the following (in thousands):

	2005	2004
Supplemental Executive Retirement Plan liability	$14,962	$12,947
Product liability	18,292	14,450
Deferred federal income taxes	27,792	24,833
Other, principally deferred compensation	18,578	16,341
Total long-term obligations	$79,624	$68,571

Leases and Commitments

The company leases a substantial portion of its facilities, transportation equipment, data processing equipment and certain other equipment. These leases have terms of up to 19 years and provide for renewal options. Generally, the company is required to pay taxes and normal expenses of operating the facilities and equipment. As of December 31, 2005, the company is committed under non-cancelable operating leases, which have initial or remaining terms in excess of one year and expire on various dates through 2024. Lease expenses were approximately $18,718,000 in 2005, $18,663,000 in 2004, and $15,803,000 in 2003.

Leases and Commitments — Continued

The amount of buildings and equipment capitalized in connection with capital leases was $15,592,000 and $16,545,000 at December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, accumulated amortization was $4,505,000 and $3,590,000, respectively.

Future minimum operating and capital lease commitments as of December 31, 2005, are as follow (in thousands):

Year	Capital Leases	Operating Leases
2006	$ 1,607	$13,828
2007	1,496	9,691
2008	1,303	5,674
2009	1,292	2,910
2010	1,292	1,639
Thereafter	9,845	4,002
Total future minimum lease payments	16,835	$37,744
Amounts representing interest	(5,753)	
Present value of minimum lease payments	$11,082	

Substantially all full-time salaried and hourly domestic employees are included in the Invacare Retirement Savings Plan sponsored by the company. The company makes matching cash contributions up to 66.7% of employees' contributions up to 3% of compensation, quarterly contributions based upon 4% of qualified wages and may make discretionary contributions to the domestic plans based on an annual resolution of the Board of Directors.

The company sponsors a Deferred Compensation Plus Plan covering certain employees, which provides for elective deferrals and the company retirement deferrals so that the total retirement deferrals equal amounts that would have contributed to the company's principal retirement plans if it were not for limitation imposed by income tax regulations. Contribution expense for the above plans in 2005, 2004 and 2003 was $5,811,000, $5,860,000, and $5,619,000, respectively.

The company also sponsors a non-qualified defined benefit Supplemental Executive Retirement Plan for certain key executives. The projected benefit obligation related to this unfunded plan was $31,071,000 and $30,631,000 at December 31, 2005 and 2004, respectively, of which approximately $15,386,000 and $13,371,000 at December 31, 2005 and 2004, respectively, has been accrued. Expense for the plan in 2005, 2004 and 2003 was $2,439,000, $2,278,000, and $2,108,000, respectively.

In conjunction with these non-qualified plans, the company has invested in life insurance policies related to certain employees to satisfy these future obligations. The current cash surrender value of these policies approximates the current benefit obligations. In addition, the projected policy benefits exceed the projected benefit obligations.

Shareholders' Equity Transactions

The company's Common Shares have a $.25 stated value. The Common Shares and the Class B Common Shares generally have identical rights, terms and conditions and vote together as a single class on most issues, except that the Class B Common Shares have ten votes per share, carry a 10% lower cash dividend rate and, in

Shareholders' Equity Transactions — (Continued)

general, can only be transferred to family members. Holders of Class B Common Shares are entitled to convert their shares into Common Shares at any time on a share-for-share basis.

The 2003 Performance Plan (the "2003 Plan") allows the Compensation Committee of the Board of Directors (the "Committee") to grant up to 2,000,000 Common Shares in connection with incentive stock options, non-qualified stock options, stock appreciation rights and stock awards (including the use of restricted stock). The 1994 Performance Plan (the "1994 Plan"), as amended, expired in 2004 and allowed the Compensation Committee of the Board of Directors (the "Committee") to grant up to 5,500,000 Common Shares. The Committee has the authority to determine which employees and directors will receive awards, the amount of the awards and the other terms and conditions of the awards. During 2005, the Committee granted 614,962 non-qualified stock options for a term of ten years at the fair market value of the company's Common Shares on the date of grant under the 2003 Plan. There were no stock appreciation rights outstanding at December 31, 2005, 2004 or 2003.

Restricted stock awards for 21,304, 20,510 and 28,894 shares were granted in years 2005, 2004 and 2003 without cost to the recipients. Under the terms of the restricted stock awards, which were initially granted in 2001, 125,517 of the shares granted vest ratably over the four years after the award date and 6,500 of the shares granted vest ratably over the 2 years after the award date. Unearned restricted stock compensation of $1,016,000 in 2005, $911,000 in 2004 and $897,000 in 2003, determined as the market value of the shares at the date of grant, is being amortized on a straight-line basis over the vesting period. Compensation expense of $881,000, $812,000 and $643,000 was recognized in 2005, 2004 and 2003, respectively, related to restricted stock awards granted since 2001.

The 1994 Plan and the 2003 Plan have provisions that allow employees to exchange mature shares to pay the exercise price and surrender shares for the options to cover the minimum tax withholding obligation. Under these provisions, the company acquired approximately 124,000 treasury shares for $6,004,000 in 2005, 53,000 treasury shares for $2,444,000 in 2004 and 110,000 treasury shares for $3,199,000 in 2003.

On December 21, 2005, the Board of Directors of Invacare Corporation based on the recommendation of the Compensation, Management Development and Corporate Governance Committee (the "Committee"), approved the acceleration of the vesting for substantially all of the company's unvested stock options which were granted under the 1994 Plan, as amended, and the 2003 Plan, which were then underwater. The Board of Directors decided to approve the acceleration of the vesting of the company's stock options primarily to partially offset the recent reductions in other benefits made by the company and to provide additional incentive to those critical to the company's current cost reduction efforts.

The decision, which was effective as of December 21, 2005, accelerated the vesting for a total of 1,368,307 of the company's common shares; including 646,100 shares underlying options held by the company's named executive officers. The stock options accelerated equate to 29% of the company's total outstanding stock options. Vesting was not accelerated for the restricted awards granted under the Plans and no other modifications were made to the awards that were accelerated. The exercise prices of the accelerated options, all of which were underwater, were unchanged by the acceleration of the vesting schedules.

All of the company's outstanding unvested options under the Plans, which were accelerated, had exercise prices ranging from $30.91 to $47.80 which were greater than the company's stock market price of $30.75 as of the effective date of the acceleration.

Shareholders' Equity Transactions — (Continued)

As of December 31, 2005, an aggregate of 10,035,066 Common Shares were reserved for conversion of Class B Common Shares, future rights (as defined below) and the exercise and future grant of options.

	2005	Weighted Average Exercise Price	2004	Weighted Average Exercise Price	2003	Weighted Average Exercise Price
Options outstanding at January 1	4,638,405	$29.81	4,518,890	$27.34	4,257,422	$25.23
Granted	614,962	41.59	626,450	43.89	704,617	36.73
Exercised	(356,676)	23.39	(449,374)	24.13	(340,665)	19.08
Canceled	(120,529)	37.17	(57,561)	34.75	(102,484)	33.02
Options outstanding at December 31	4,776,162	$31.57	4,638,405	$29.81	4,518,890	$27.34
Options price range at December 31	$ 16.03 to		$ 16.03 to		$ 15.13 to	
	$ 47.80		$ 47.35		$ 43.37	
Options exercisable at December 31	4,745,435		2,963,385		2,796,100	
Options available for grant at December 31*	454,142		1,033,858		1,670,600	

* Options available for grant as of December 31, 2005 reduced by net restricted stock award activity of 130,017.

The following table summarizes information about stock options outstanding at December 31, 2005:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding At 12/31/05	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable At 12/31/05	Weighted Average Exercise Price
$16.03 – $19.50	401,505	3.7 years	$18.53	401,505	$18.53
$20.06 – $24.75	1,151,996	3.0	$23.71	1,128,009	$23.71
$25.13 – $29.85	683,421	3.3	$25.31	683,421	$25.31
$30.02 – $34.54	595,610	6.3	$32.75	593,472	$32.76
$36.10 – $39.67	772,167	7.3	$37.26	772,167	$37.26
$40.07 – $47.80	1,171,463	9.1	$43.23	1,166,861	$43.23
Total	4,776,162	5.7	$31.60	4,745,435	$31.64

The company has utilized the disclosure-only provisions of SFAS No. 123 through December 31, 2005. Accordingly, no compensation cost has been recognized for the stock option plans, except the expense recorded related to the 132,017 restricted stock awards granted in years 2001 through 2005.

The assumption regarding the stock options issued in 2005, 2004 and 2003 was that 25% of such options vested in the year following issuance. The stock options awarded during such years provided a four-year vesting period whereby options vest equally in each year. Current and prior years' pro forma disclosures may be adjusted for forfeitures of awards that will not vest because service or employment requirements have not been met.

Shareholders' Equity Transactions — (Continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2005	2004	2003
Expected dividend yield	.67%	.63%	.75%
Expected stock price volatility	26.7%	28.8%	29.6%
Risk-free interest rate	4.38%	3.67%	3.31%
Expected life (years)	5.6	5.6	5.5

The weighted-average fair value of options granted during 2005, 2004 and 2003, based upon an expected exercise year of 2010, was $12.41, $13.58 and $11.03, respectively.

The plans provide that shares granted come from the company's authorized but unissued Common Shares or treasury shares. Pursuant to the plans and the acceleration of all unvested shares underwater as of December 21, 2005, the Committee has established that the majority of the 2005 grants are currently exercisable and must be exercised within ten years from the date granted. The weighted-average remaining contractual life of options outstanding at December 31, 2005 is 5.7 years.

Effective July 8, 2005, the company adopted a new Rights Agreement to replace the company's previous shareholder rights plan, which expired on July 7, 2005. In order to implement the new Rights Agreement, the Board of Directors declared a dividend of one Right for each outstanding share of the company's Common Shares and Class B Common Shares to shareholders of record at the close of business on July 19, 2005. Each Right entitles the registered holder to purchase from the company one one-thousandth of a Series A Participating Serial Preferred Share, without par value, at a Purchase Price of $180.00 in cash, subject to adjustment. The Rights will not become exercisable until after a person (an ''Acquiring Party'') has acquired, or obtained the right to acquire, or commences a tender offer to acquire, shares representing 30% or more of the company's outstanding voting power, subject to deferral by the Board of Directors. After the Rights become exercisable, under certain circumstances, the Rights may be exercisable to purchase Common Shares of the company, or common shares of an acquiring company, at a price equal to the exercise price of the Right divided by 50% of the then current market price per Common Share or acquiring company common share, as the case may be. The Rights will expire on July 18, 2015 unless previously redeemed or exchanged by the company. The company may redeem and terminate the Rights in whole, but not in part, at a price of $0.001 per Right at any time prior to 10 days following a public announcement that an Acquiring Party has acquired beneficial ownership of shares representing 30% or more of the company's outstanding voting power, and in certain other circumstances described in the Rights Agreement.

Capital Stock

Capital stock activity for 2005, 2004 and 2003 consisted of the following (in thousands of shares):

	Common Stock Shares	Class B Shares	Treasury Shares
January 1, 2003 Balance	30,294	1,112	(387)
Exercise of stock options	416	—	(110)
Stock awards	29	—	—
Repurchase of treasury shares	—	—	(273)
December 31, 2003 Balance	30,739	1,112	(770)
Exercise of stock options	449	—	(53)
Stock awards	21	—	—
Repurchase of treasury shares	—	—	(111)
December 31, 2004 Balance	31,209	1,112	(934)
Exercise of stock options	465	—	(124)
Stock awards	21	—	—
December 31, 2005 Balance	31,695	1,112	(1,058)

Stock option exercises in 2005 include deferred share activity, which increased common shares by 108,000 shares and treasury shares by 14,000 shares. Stock option exercises in 2003 include deferred share activity, which increased common shares by 75,000 shares and treasury shares by 5,000 shares.

Other Comprehensive Earnings (Loss)

The components of other comprehensive earnings (loss) are as follows (in thousands):

	Currency Translation Adjustments	Unrealized Gain (Loss) on Available-for-Sale Securities	Unrealized Gain (Loss) on Derivative Financial Instruments	Total
Balance at January 1, 2003	$(19,618)	$580	$ 309	$(18,729)
Foreign currency translation adjustments	66,185			66,185
Unrealized gain on available for sale securities		146		146
Deferred tax liability relating to unrealized gain on available for sale securities		(51)		(51)
Current period unrealized gain on cash flow hedges, net of reclassifications			5,394	5,394
Deferred tax expense relating to unrealized gain on derivative financial instruments			(1,888)	(1,888)
Balance at December 31, 2003	46,567	675	3,815	51,057
Foreign currency translation adjustments	57,903			57,903
Unrealized loss on available for sale securities		(14)		(14)
Deferred tax benefit relating to unrealized loss on available for sale securities		5		5
Current period unrealized loss on cash flow hedges, net of reclassifications			(6,649)	(6,649)
Deferred tax benefit relating to unrealized loss on derivative financial instruments			2,327	2,327
Balance at December 31, 2004	104,470	666	(507)	104,629
Foreign currency translation adjustments	(56,176)			(56,176)
Unrealized gain on available for sale securities		54		54
Deferred tax liability relating to unrealized gain on available for sale securities		(19)		(19)
Current period unrealized loss on cash flow hedges, net of reclassifications			(1,551)	(1,551)
Deferred tax benefit relating to unrealized loss on derivative financial instruments			543	543
Balance at December 31, 2005	$ 48,294	$701	$(1,515)	$ 47,480

A net loss of $283,000 and net gains of $6,650,000 and $500,000 were reclassified into earnings related to derivative instruments designated and qualifying as cash flow hedges in 2005, 2004 and 2003, respectively.

Charge Related to Restructuring Activities

On July 28, 2005, the company announced cost reductions and profit improvement actions, which included: 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 manufac-

Charge Related to Restructuring Activities — Continued

turing cost reduction activities and product rationalization, reducing freight exposure through freight auctions and changing the freight policy, general expense reductions, and exiting four facilities.

The restructuring was necessitated by the continued decline in reimbursement by the U.S. government as well as similar reimbursement pressures abroad and continued pricing pressures faced by the company as a result of outsourcing by competitors to lower cost locations.

To date, the company has made substantial progress on its restructuring activities, including exiting four facilities and eliminating approximately 300 positions through December 31, 2005, which resulted in restructuring charges of $7,533,000, of which $238,000 is recorded in cost of products sold as it relates to inventory markdowns. The restructuring charge included charges of $3,981,000 in North America, $2,718,000 in Europe and $834,000 in Asia/Pacific of which $2,407,000; $799,000 and $146,000 remains unpaid as of December 31, 2005 for each of the segments respectively. There have been no material changes in accrued balances related to the charge, either as a result of revisions in the plan or changes in estimates, and the company expects to utilize the accruals recorded as of December 31, 2005 during 2006. A progression of the accruals recorded as a result of the restructuring is as follows (in thousands):

	Balance at 12/31/04	Accruals	Payments	Balance at 12/31/05
Severance	$—	$6,667	$3,563	$3,104
Contract terminations	—	292	127	165
Product line discontinuance	—	238	238	—
Other	—	336	253	83
Total	$—	$7,533	$4,181	$3,352

The severance incurred was the result the reduction in 300 positions, which was originally estimated to be 230 positions. Additional severance will be incurred for the planned reduction of 300 positions in 2006 and another 300 positions thereafter.

With additional actions in 2006, including the elimination of approximately 300 positions, the company anticipates recognizing an additional charge of $7,000,000. In addition, the company continues to further refine its global manufacturing and distribution strategy. Execution of these cost reduction actions has begun. The company expects a global reduction of at least 600 additional positions and to exit a number of its manufacturing operations worldwide.

Income Taxes

Earnings before income taxes consist of the following (in thousands):

	2005	2004	2003
Domestic	$18,605	$ 57,557	$ 59,027
Foreign	52,697	52,815	47,382
	$71,302	$110,372	$106,409

Income Taxes — Continued

The company has provided for income taxes (benefits) as follows (in thousands):

	2005	2004	2003
Current:			
Federal	$ 9,475	$14,075	$16,635
State	600	2,800	3,200
Foreign	12,475	14,050	11,960
	22,550	30,925	31,795
Deferred:			
Federal	(2,225)	2,225	1,625
Foreign	2,125	2,025	1,580
	(100)	4,250	3,205
Income Taxes	$22,450	$35,175	$35,000

A reconciliation to the effective income tax rate from the federal statutory rate follows:

	2005	2004	2003
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	0.5	1.6	2.0
Tax credits	(0.8)	(1.6)	(1.4)
Foreign taxes at less than the federal statutory rate	(5.2)	(2.1)	(2.9)
Other, net	2.0	(1.0)	.2
	31.5%	31.9%	32.9%

Income Taxes — Continued

Significant components of deferred income tax assets and liabilities at December 31, 2005 and 2004 are as follows (in thousands):

	2005	2004
Current deferred income tax assets (liabilities), net:		
Loss carryforwards	$ 6,246	$ 7,620
Bad debt	7,386	4,366
Warranty	4,036	3,157
State and local taxes	2,764	3,048
Other accrued expenses and reserves	2,754	2,219
Inventory	1,361	1,816
Compensation and benefits	2,061	1,240
Product liability	292	292
Other, net	546	(2,028)
	$ 27,446	$ 21,730
Long-term deferred income tax assets (liabilities), net:		
Goodwill & intangibles	(36,252)	(35,431)
Fixed assets	(20,030)	(15,169)
Compensation and benefits	10,344	9,642
Loss and credit carryforwards	5,674	6,429
Product liability	3,812	3,391
State and local taxes	2,428	2,400
Valuation allowance	(900)	—
Other, net	7,132	3,905
	$(27,792)	$(24,833)
Net Deferred Income Taxes	$ (346)	$ (3,103)

At December 31, 2005, the company had $900,000 of foreign tax credit carryforwards and had federal foreign tax loss carryforwards of approximately $45,200,000 of which $33,100,000 are non-expiring, $350,000 expire in 2009, $550,000 expire in 2010, $3,800,000 expire in 2011 and $7,400,000 expire in 2012. At December 31, 2005 the company also has $8,250,000 of local foreign tax loss carryforwards, which are non-expiring. The loss carryforward amounts include $32,000,000 of federal and $8,250,000 of local loss carryforwards acquired in 2004 acquisitions. The company made income tax payments of $10,435,000, $30,180,000 and $25,173,000 during the years ended December 31, 2005, 2004 and 2003, respectively.

Net Earnings Per Common Share

The following table sets forth the computation of basic and diluted net earnings per common share.

	2005	2004	2003
	(In thousands except per share data)		
Basic			
Average common shares outstanding	31,555	31,153	30,862
Net earnings	$48,852	$75,197	$71,409
Net earnings per common share	$ 1.55	$ 2.41	$ 2.31
Diluted			
Average common shares outstanding	31,555	31,153	30,862
Stock options	897	1,194	867
Average common shares assuming dilution	32,452	32,347	31,729
Net earnings	$48,852	$75,197	$71,409
Net earnings per common share	$ 1.51	$ 2.33	$ 2.25

At December 31, 2005, 2004, and 2003, 813,191, 21,167, and 501,067 shares, respectively were excluded from the average common shares assuming dilution, as they were anti-dilutive. In 2005, the majority of the anti-dilutive shares were granted at an exercise price of $41.87, which was higher than the average fair market value price of $41.46 for 2005. In 2004, the majority of the anti-dilutive shares were granted at an exercise price of $47.35, which was higher than the average fair market value price of $44.39 for 2004. In 2003, the majority of the anti-dilutive shares were granted at an exercise price of $37.70, which was higher than the average fair market value price of $35.29 for 2003.

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 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 ($41,170,000 at December 31, 2005) to DLL for events of default under the contracts (total balance outstanding of $101,977,000 at December 31, 2005). 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 SFAS 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 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

Concentration of Credit Risk — Continued

obtain as well as the timing of reimbursement and, thus, affect the product mix, pricing and payment patterns of the company's customers.

Fair Values of Financial Instruments

The company in estimating its fair value disclosures for financial instruments used the following methods and assumptions:

Cash, cash equivalents and marketable securities: The carrying amount reported in the balance sheet for cash, cash equivalents and marketable securities approximates its fair value.

Installment receivables: The carrying amount reported in the balance sheet for installment receivables approximates its fair value. The majority of the portfolio contains receivables, which are due in less than one year. The interest rates associated with these receivables have not varied significantly since inception. Management believes that after consideration of the credit risk, the net book value of the installment receivables approximates market value.

Long-term debt: Fair values for the company's senior notes are estimated using discounted cash flow analyses, based on the company's current incremental borrowing rate for similar borrowing arrangements.

Interest Rate Swaps: The company is a party to interest rate swap agreements, which are entered into, in the normal course of business to reduce exposure to fluctuations in interest rates. The agreements are with major financial institutions, which are expected to fully perform under the terms of the agreements thereby mitigating the credit risk from the transactions. The agreements are contracts to exchange fixed rate payments for floating rate payments over the life of the agreements without the exchange of the underlying notional amounts. The notional amounts of such agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The amounts to be paid or received under the interest rate swap agreements are accrued consistent with the terms of the agreements and market interest rates. Fair value for the company's interest rate swaps are based on independent pricing models.

Treasury Locks: The company was a party to treasury lock agreements to protect the forecasted receipt of proceeds resulting from the issuance of ten year, fixed rate debt, subject to fluctuations in the benchmark U.S. Treasury rate. Fair value for the company's interest rate swaps are based on independent pricing models.

Other investments: The company has made other investments in limited partnerships and non-marketable equity securities, which are accounted for using the cost method, adjusted for any estimated declines in value. These investments were acquired in private placements and there are no quoted market prices or stated rates of return.

Fair Values of Financial Instruments — Continued

The carrying amounts and fair values of the company's financial instruments at December 31, 2005 and 2004 are as follows (in thousands):

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 25,624	$ 25,624	$ 32,567	$ 32,567
Marketable securities	252	252	199	199
Other investments	8,342	8,342	8,213	8,213
Installment receivables	13,081	13,081	14,746	14,746
Long-term debt (including short-term borrowings secured by accounts receivable and current maturities of long-term debt)	537,981	538,053	550,036	551,431
Interest rate swaps	(202)	(202)	4,302	4,302
Forward contracts	(2,330)	(2,330)	(780)	(780)

Forward Contracts: The company operates internationally and as a result is exposed to foreign currency fluctuations. Specifically, the exposure includes intercompany loans and third party sales or payments. In an attempt to reduce this exposure, foreign currency forward contracts are utilized and accounted for as hedging instruments. The forward contracts in 2005 and 2004 were entered into to as hedges of the following currencies: USD, NZD, CAD, GBP, EUR, SEK, DKK and AUD. The company does not use derivative financial instruments for speculative purposes.

The gains and losses that result from the majority of the forward contracts are deferred and recognized when the offsetting gains and losses for the identified transactions are recognized. The company recognized a loss of $280,000 in 2005 and gains of $6,961,000 in 2004 and $1,292,000 in 2003, respectively, which were recognized in cost of products sold and selling, general and administrative expenses.

Business Segments

The company operates in three primary business segments based on geographical area: North America, Europe and Asia/Pacific. The three reportable segments represent operating groups, which offer products to 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 described in the summary of significant accounting policies for the company's consolidated financial statements. Intersegment sales and transfers are based on the costs to manufacture plus a reasonable profit element. Therefore, intercompany profit or loss on intersegment sales and transfers is not considered in evaluating segment performance.

Business Segments — (Continued)

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

	2005	2004	2003
Revenues from external customers			
North America	$1,016,212	$1,002,273	$ 897,208
Europe	432,142	336,792	279,782
Asia/Pacific	81,378	64,262	70,186
Consolidated	$1,529,732	$1,403,327	$1,247,176
Intersegment revenues			
North America	$ 48,379	$ 44,517	$ 38,385
Europe	12,019	2,825	1,179
Asia/Pacific	36,576	35,793	35,271
Consolidated	$ 96,974	$ 83,135	$ 74,835
Depreciation and amortization			
North America	$ 20,527	$ 20,644	$ 18,551
Europe	15,100	8,687	6,315
Asia/Pacific	4,829	2,911	2,261
All Other (1)	68	74	108
Consolidated	$ 40,524	$ 32,316	$ 27,235
Net interest expense (income)			
North America	$ 20,873	$ 8,940	$ 7,780
Europe	8,628	4,924	4,220
Asia/Pacific	(432)	(664)	(602)
All Other (1)	(943)	(2,104)	(5,161)
Consolidated	$ 28,126	$ 11,096	$ 6,237
Earnings (loss) before income taxes			
North America	$ 58,621	$ 95,883	$ 88,299
Europe	29,254	18,705	19,132
Asia/Pacific	(3,818)	1,430	5,997
All Other (1)	(12,755)	(5,646)	(7,019)
Consolidated	$ 71,302	$ 110,372	$ 106,409
Assets			
North America	$ 803,759	$ 778,820	$ 616,352
Europe	647,823	710,510	348,063
Asia/Pacific	74,101	69,685	56,403
All Other (1)	97,270	69,109	87,395
Consolidated	$1,622,953	$1,628,124	$1,108,213

Business Segments — (Continued)

	2005	2004	2003
Long-lived assets			
North America	$ 427,428	$ 428,308	$ 307,736
Europe	508,196	548,843	236,591
Asia/Pacific	38,866	31,797	24,492
All Other (1)	77,816	53,905	64,672
Consolidated	$1,052,306	$1,062,853	$ 633,491
Expenditures for assets			
North America	$ 20,600	$ 14,897	$ 12,513
Europe	5,470	20,064	11,933
Asia/Pacific	5,438	6,441	6,203
All Other (1)	9	1	11
Consolidated	$ 31,517	$ 41,403	$ 30,660

(1) Consists of the domestic export unit, un-allocated corporate selling, general and administrative costs, the Invacare captive insurance unit and inter-company profits, which do not meet the quantitative criteria for determining reportable segments.

Net sales by product, are as follows (in thousands):

North America	2005	2004	2003
Standard	$ 251,331	$ 257,668	$ 274,959
Rehab	274,417	280,339	273,063
Distributed	220,004	205,130	162,645
Respiratory	159,300	161,247	118,115
Continuing Care	85,487	76,578	48,321
Other	25,673	21,311	20,105
	$1,016,212	$1,002,273	$ 897,208

Europe	2005	2004	2003
Standard	$ 263,121	$ 200,064	$ 142,777
Rehab	161,082	128,316	129,167
Respiratory	7,939	8,412	7,838
	$ 432,142	$ 336,792	$ 279,782

Business Segments — (Continued)

Asia/Pacific	2005	2004	2003
Rehab	$ 45,852	$ 34,273	$ 46,832
Respiratory	9,726	8,162	6,584
Standard	7,977	7,721	6,427
Other	17,823	14,106	10,343
	$ 81,378	$ 64,262	$ 70,186
Total Consolidated	$1,529,732	$1,403,327	$1,247,176

No single customer accounted for more than 5% of the company's sales.

Interim Financial Information (unaudited)

	QUARTER ENDED (In thousands, except per share data)			
2005	**March 31,**	**June 30,**	**September 30,**	**December 31,**
Net sales	$370,944	$396,267	$395,270	$367,251
Gross profit	109,844	113,284	118,687	106,690
Earnings before income taxes	19,890	18,958	22,492	9,962
Net earnings	13,545	12,908	15,317	7,082
Net earnings per share — basic	.43	.41	.48	.22
Net earnings per share — assuming dilution	.42	.40	.47	.22
2004	**March 31,**	**June 30,**	**September 30,**	**December 31,**
Net sales	$321,343	$339,288	$349,507	$393,189
Gross profit	93,379	102,124	106,076	117,013
Earnings before income taxes	21,041	26,698	32,614	30,019
Net earnings	14,201	18,023	22,529	20,444
Net earnings per share — basic	.46	.58	.72	.65
Net earnings per share — assuming dilution	.44	.56	.70	.63

INVACARE CORPORATION AND SUBSIDIARIES

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

	Col A. Balance At Beginning of Period	Col B. Charged To Cost And Expenses	Col C. Deductions Describe	Col D. Balance At End of Period
		(In thousands)		
Year Ended December 31, 2005				
Deducted from asset accounts —				
Allowance for doubtful accounts	$15,576	$14,168	$ (6,650)(A)	$23,094
Inventory obsolescence reserve	9,532	4,378	(5,319)(B)	8,591
Investments and related notes receivable	29,540	—	(21,201)(D)	8,339
Accrued warranty cost	13,998	10,516	(8,931)(B)	15,583
Accrued product liability	17,045	8,780	(4,876)(C)	20,949
Year Ended December 31, 2004				
Deducted from asset accounts —				
Allowance for doubtful accounts	$27,704	$11,222	$(23,350)(A)	$15,576
Inventory obsolescence reserve	8,715	2,609	(1,792)(B)	9,532
Investments and related notes receivable	29,540	—	—	29,540
Accrued warranty cost	12,688	9,287	(7,977)(B)	13,998
Accrued product liability	11,909	8,202	(3,066)(C)	17,045
Year Ended December 31, 2003				
Deducted from asset accounts —				
Allowance for doubtful accounts	$32,732	$13,760	$(18,788)(A)	$27,704
Inventory obsolescence reserve	5,337	6,623	(3,245)(B)	8,715
Investments and related notes receivable	29,000	540	—	29,540
Accrued warranty cost	11,448	9,528	(8,288)(B)	12,688
Accrued product liability	8,272	8,058	(4,421)(C)	11,909

Note (A) — Uncollectible accounts written off, net of recoveries.

Note (B) — Amounts written off or payments incurred.

Note (C) — Loss and loss adjustment.

Note (D) — Elimination of allowance for investment following consolidation of variable interest entity.

Exhibit 18

Board of Directors
Invacare Corporation
One Invacare Way
Elyria, Ohio 44036

The note titled *Accounting Policies* in the notes to the Consolidation Financial Statements of Invacare Corporation included in its Form 10-K for the year ended December 31, 2005 describes a change in the method of accounting for the valuation of certain inventories from the lower of cost, as determined by the last-in, first-out (LIFO) method, or market, to the lower of cost, as determined by the first-in, first-out (FIFO) method, or market. There are no authoritative criteria for determining a "preferable" inventory accounting method based on the particular circumstances; however, we conclude that such change in the method of accounting is to an acceptable alternative method which, based on your business judgment to make this change and for the stated reasons, is preferable in your circumstances.

Very truly yours,

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
March 8, 2006

Exhibit 21

Invacare Corporation Subsidiaries

1. 1207273 Alberta ULC, an Alberta, Canada corporation and wholly owned subsidiary.
2. 2083806 Ontario Inc., an Ontario corporation and wholly owned subsidiary.
3. 6123449 Canada, Inc., a Canadian corporation and wholly owned subsidiary.
4. Adaptive Switch Laboratories, Inc., a Texas corporation and wholly owned subsidiary.
5. Alber GmbH, Wurenlos, a Swiss corporation and wholly owned subsidiary.
6. Altimate Medical, Inc., a Minnesota corporation and wholly owned subsidiary.
7. Aquatec GmbH, Isny, a German limited liability company.
8. Aust Healthcare Equipment PTY, an Australian corporation and wholly owned subsidiary.
9. Carroll Healthcare (USA) Inc., a Nevada corporation and wholly owned subsidiary.
10. Carroll Healthcare, Inc., an Ontario corporation and wholly owned subsidiary.
11. Champion Manufacturing Inc., a Delaware corporation and wholly owned subsidiary.
12. Dolomite AB, Gislaved, a Swedish corporation and wholly owned subsidiary.
13. Dolomite Holding AB, Gislaved, a Swedish corporation and wholly owned subsidiary.
14. Dynamic Controls, a New Zealand corporation and wholly owned subsidiary.
15. Dynamic Europe Ltd, a U.K. corporation and wholly owned subsidiary.
16. EC-Hong A/S, a Danish corporation and wholly owned subsidiary.
17. Freedom Designs, Inc., a California corporation and wholly owned subsidiary.
18. Garden City Medical Inc., a Delaware corporation and wholly owned subsidiary.
19. Healthtec Products, Inc., a Missouri corporation and wholly owned subsidiary.
20. Invacare AB, a Swedish corporation and wholly owned subsidiary.
21. Invacare A/S, a Danish corporation and wholly owned subsidiary.
22. Invacare AS, a Norwegian corporation and wholly owned subsidiary.
23. INVCR Australia Pty Limited, an Australian corporation and wholly owned subsidiary.
24. Invacare Bencraft, a U.K. corporation and wholly owned subsidiary.
25. Invacare BV, a Netherlands corporation and wholly owned subsidiary.
26. Invacare Canada General Partner Inc., a Canadian corporation and wholly owned subsidiary.
27. Invacare Canada LP, an Ontario, Canada partnership and wholly owned subsidiary.
28. Invacare Canada Holdings, Inc., a Canadian corporation and wholly owned subsidiary.
29. Invacare Canadian Holdings, Inc., a Delaware corporation and wholly owned subsidiary.
30. Invacare Credit Corporation, an Ohio corporation and wholly owned subsidiary.
31. Invacare (Deutschland) GmbH, a German corporation and wholly owned subsidiary.
32. Invacare Florida Corporation, a Delaware corporation and wholly owned subsidiary.
33. Invacare Florida Holdings, LLC, a Florida limited liability company and wholly owned subsidiary.
34. Invacare France Operations SAS, A French corporation and wholly owned subsidiary.
35. Invacare Germany Holding GmbH, a German corporation and wholly owned subsidiary.
36. Invacare GmbH and Co. KG, a German corporation and wholly owned subsidiary.
37. Invacare Holding AB, a Swedish corporation and wholly owned subsidiary.
38. Invacare Holding BV, a Netherlands corporation and wholly owned subsidiary.
39. Invacare Holding Two AB, a Swedish corporation and wholly owned subsidiary.

Invacare Corporation Subsidiaries — (Continued)

40. Invacare Holdings AS, a Norwegian corporation and wholly owned subsidiary.
41. Invacare Holdings CV, a Netherlands wholly owned partnership subsidiary.
42. Invacare Holdings LLC, an Ohio limited liability corporation and wholly owned subsidiary.
43. INVCR Holdings NZ, a New Zealand corporation and wholly owned subsidiary.
44. Invacare Holdings Two BV, a Netherlands corporation and wholly owned subsidiary.
45. Invacare International Corporation, an Ohio corporation and wholly owned subsidiary.
46. Invacare International SARL, a Swiss corporation and wholly owned subsidiary.
47. Invacare UK Ltd., a U.K. corporation and wholly owned subsidiary.
48. Invacare Mauritius Holdings, a Republic of Mauritius company and wholly owned subsidiary.
49. Invacare MeccSan SrL, an Italian corporation and wholly owned subsidiary.
50. Invacare Medical Equipment (Kunshan) Company, Ltd., a Chinese company and wholly owned subsidiary.
51. Invacare Medical Equipment (Suzhou) Company, Ltd., a Chinese company and wholly owned subsidiary.
52. INVCR NZ, a New Zealand corporation and wholly owned subsidiary.
53. Invacare NV, a Belgium corporation and wholly owned subsidiary.
54. Invacare Poirier SAS, a French corporation and wholly owned subsidiary.
55. Invacare Rea AB, a Swedish corporation and wholly owned subsidiary.
56. Invacare Receivables Corporation, a Delaware corporation and wholly owned subsidiary.
57. Invacare Supply Group, Inc. (formerly Suburban Ostomy Supply company, Inc.), a Massachusetts corporation and wholly owned subsidiary.
58. Invacare Trading Company, Inc., a United States Territory of the Virgin Islands corporation and wholly owned subsidiary.
59. Invacare Verwaltungs GmbH, a German corporation and wholly owned subsidiary.
60. Invacare (Portugal) — Sociedade Industrial e Comercial de Ortopedia., Lda., a Portugal company and wholly owned subsidiary.
61. Invacare (Portugal) II — Material Ortopédico, Lda., a Portugal company and wholly owned subsidiary.
62. Invacare, S.A., a Spanish corporation and wholly owned subsidiary.
63. Invamex S.A. de R.L. de C.V., a Mexican corporation and wholly owned subsidiary.
64. Invatection Insurance Company, a Vermont corporation and wholly owned subsidiary.
65. INVCR Asia Ltd., a Hong Kong company and wholly owned subsidiary.
66. Medbloc, Inc., a Delaware corporation and wholly owned subsidiary.
67. Medical Support Systems Holdings Limited, a U.K. corporation and wholly owned subsidiary.
68. Medical Support Systems Limited, a U.K. corporation and wholly owned subsidiary.
69. Mobitec Mobilitatshilfen Ges.m.b.H., Tiefgraben, an Austrian corporation and wholly owned subsidiary.
70. Mobitec Rehab AG, Würenlos, a Swiss corporation and wholly owned subsidiary.
71. Mobitec S.a.r.l., Venissieux, a French corporation and wholly owned subsidiary.
72. Motion Concepts, Inc., an Ontario corporation and wholly owned limited subsidiary.
73. Motion Concepts, L.P., an Ontario wholly owned limited partnership.
74. MSS (Europe) Limited, a U.K. corporation and wholly owned subsidiary.
75. MSS Care Direct Limited, a U.K. corporation and wholly owned subsidiary.
76. Perpetual Motion Enterprises Inc., an Ontario corporation and wholly owned subsidiary.
77. Roller Chair Pty. Limited, an Australian corporation and wholly owned subsidiary.

Invacare Corporation Subsidiaries — (Continued)

78. Scandinavian Mobility GmbH, a German corporation and wholly owned subsidiary.
79. Scandinavian Mobility International AS, a Danish corporation and wholly owned subsidiary.
80. Sci Des Hautes Roches, a French partnership and wholly owned subsidiary.
81. The Aftermarket Group, Inc., a Delaware corporation and wholly owned subsidiary.
82. Ulrich Alber GmbH, Albstadt, a German limited liability company.

Note, ‘‘Wholly owned subsidiary’’ refers to indirect, as well as direct, wholly owned subsidiaries.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Forms S-8, No. 33-45993 dated February 24, 1992, No. 33-87052 dated December 5, 1994, No. 333-57978 dated March 30, 2001 and No. 333-109794 dated October 17, 2003) pertaining to the Invacare Corporation stock option plans of our reports dated March 8, 2006, with respect to the consolidated financial statements and schedule of Invacare Corporation and subsidiaries, Invacare Corporation management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Invacare Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2005.

/s/ ERNST & YOUNG LLP

Cleveland, Ohio
March 10, 2006

Exhibit 31.1

CERTIFICATIONS

I, A. Malachi Mixon, III, certify that:

1. I have reviewed this annual report on Form 10-K of Invacare Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

INVACARE CORPORATION

By: /s/ A. MALACHI MIXON, III

A. Malachi Mixon, III
Chief Executive Officer
(Principal Executive Officer)

Date: March 13, 2006

Exhibit 31.2

CERTIFICATIONS

I, Gregory C. Thompson, certify that:

1. I have reviewed this annual report on Form 10-K of Invacare Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

INVACARE CORPORATION

By: /s/ GREGORY C. THOMPSON

Gregory C. Thompson
Chief Financial Officer
(Principal Financial Officer)

Date: March 13, 2006