

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

FORM 10-Q

- [] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2022

OR

- [] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-15103

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



Yes, you can.[®]

Ohio

95-2680965

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

One Invacare Way, Elyria, Ohio

44035

(Address of principal executive offices)

(Zip Code)

(440) 329-6000

(Registrant's telephone number, including area code)

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

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

Title of each class	Trading Symbol	Name of exchange on which registered
Common Shares, without par value	IVC	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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

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

As of November 4, 2022, the registrant had 37,754,335 Common Shares and 3,667 Class B Common Shares outstanding.



Yes, you can.[®]

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About Invacare Corporation

Invacare Corporation (NYSE: IVC) ("Invacare" or the "company") is a leading manufacturer and distributor in its markets for medical equipment used in non-acute care settings. At its core, the company designs, manufactures and distributes medical devices that help people to move, rest and perform essential hygiene. The company provides clinically complex medical device solutions for congenital (e.g., cerebral palsy, muscular dystrophy, spina bifida), acquired (e.g., stroke, spinal cord injury, traumatic brain injury, post-acute recovery, pressure ulcers) and degenerative (e.g., ALS, multiple sclerosis, age related, bariatric) conditions. The company's products are important parts of care for people with a wide range of challenges, from those who are active and heading to work or school each day and may need additional mobility to those who are cared for in residential care settings, at home and in rehabilitation centers. The company sells its products principally to home medical equipment providers with retail and e-commerce channels, residential care operators, dealers and government health services in North America, Europe and Asia Pacific. For more information about the company and its products, visit the company's website at www.invacare.com. The contents of the company's website are not part of this Quarterly Report on Form 10-Q and are not incorporated by reference herein.

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

The discussion and analysis presented below is concerned with material changes in financial condition and results of operations between the periods specified in the condensed consolidated balance sheets at September 30, 2022 and December 31, 2021, and in the condensed consolidated statement of comprehensive income (loss) for the three and nine months ended September 30, 2022 and September 30, 2021. All comparisons

presented are with respect to the same period last year, unless otherwise stated. This discussion and analysis should be read in conjunction with the condensed consolidated financial statements and accompanying notes that appear elsewhere in this Quarterly Report on Form 10-Q and the MD&A included in the company's Annual Report on Form 10-K for the year ended December 31, 2021. For some matters, SEC filings from prior periods may be useful sources of information.

OVERVIEW

OVERVIEW

Invacare is a multi-national company with integrated capabilities to design, manufacture and distribute durable medical devices. The company makes products that help people move, rest and perform essential hygiene, and with those products the company supports people with congenital, acquired and degenerative conditions. The company's products and solutions are important parts of care for people with a range of challenges, from those who are active and involved in work or school each day and may need additional mobility support, to those who are cared for in residential care settings, at home and in rehabilitation centers. The company operates in facilities in North America, Europe and Asia Pacific, which are the result of dozens of acquisitions made over the company's forty-two-year history. Some of these acquisitions have been combined into integrated operating units, while others have remained relatively independent.

Supply Chain Impacts

Supply chain disruptions continue to negatively impact the company's business in 2022, impacting both input costs and availability of components, resulting in lower revenue and compressed gross margins. The company expects these issues will continue into 2023. While the company has implemented actions to mitigate the negative impact of higher input costs, including pricing actions, it is expected that there could continue to be a difference between the timing of when the benefits of mitigation actions are realized and when the cost inflation is incurred.

The company continues to experience elevated open orders across all product categories and regions. During the third quarter of 2022, the company continued to experience slower demand for respiratory products which we believe is influenced by reduction in pandemic-related demand. The company has, and continues to, experience availability issues

with components which has limited and may continue to limit the ability to increase output and meet demand across product categories. In addition, the company has continued to experience cost increases from higher input costs and supply chain disruptions. These disruptions and availability issues, from supply chain challenges and supplier delivery holds resulting from delayed payments, have resulted in intermittent production stoppages and difficulty in fulfilling orders to meet demand. This has contributed to the year-over-year decline in revenue experienced in the third quarter of 2022.

The extent to which the company's operations will continue to be impacted by the supply chain disruptions will depend on component and product availability. Supply chain disruptions and inflation continue to negatively impact the global economy and have affected and may continue to affect the business including availability and cost of components and freight, which may continue to have a negative impact on the company and results of operations, if mitigation actions are not effective.

Strategy

The company remains committed to taking necessary and decisive action to increase shareholder value. With the change to senior management and the Board of Directors in August 2022 and after careful evaluation of strategic options, the company concluded that the lifestyle and mobility & seating businesses are core to restoring growth and profitability. As a result, the company has decided to discontinue the production of respiratory products. This will allow us to further streamline our operations and improve profitability by focusing resources on lifestyle and mobility & seating products, which continue to experience strong demand. The company will fulfill existing customer orders with inventory on hand and continue to operate its respiratory parts and service business, as well as meet all warranty and regulatory obligations.

The company's anticipated business optimization actions balance product portfolio changes across all regions and cost improvements in supply chain and administrative functions. Key elements of the global business optimization plans are:

- Focus on lifestyle and mobility & seating product lines based on their potential to achieve a leading market position and to support profitability goals;
- Simplify the organization to leverage a reduced cost structure while allocating resources to the business units or product categories which deliver improved financial returns;
- Product rationalization and discontinuance with consideration of cost increases incurred by the company and those anticipated to continue. Adjust the product portfolio to consistently grow profitability amid cost increases by adding new products, reducing costs and continuing to improve customer experiences; and
- Take actions globally to reduce working capital and improve free cash flow.

As it navigates the uncertain business environment, the company continues to allocate more resources to the business units experiencing increased demand and expects to continue taking actions to mitigate the potential negative financial and operational impacts on other parts of the business that have declined.

The company intends to continue to make significant investments in its business improvement initiatives with a focus on improving profitability and free cash flow generation. As a result, the company may take actions which may reduce sales in certain areas, refocus resources away from less profitable activities, and look at its global infrastructure for opportunities to further optimize the business. As part of the company's efforts to streamline its operations and focus its resources on core product lines that provide the greatest value and financial returns, the company continuously evaluates opportunities and activities, including potential divestitures, which it considers from time to time, particularly if they involve businesses or assets outside of the company's primary areas of focus.

Outlook

The company participates in durable healthcare markets and serves a persistent need for its products. By continuing to drive for improved operating efficiency, the company seeks to grow revenue and profit, and improve its cash flow performance into the future.

Cost pressures on the business due to supply chain disruptions and inflationary economic conditions are anticipated to continue into 2023. The company continues to

see higher input costs related to freight and materials, increasing the challenges to schedule deliveries of key components, including electronic components. While the company has implemented actions to mitigate these cost increases, additional restructuring actions may be implemented to drive profit and improve cash flows. These actions are expected to include organization and supply chain changes, and a narrowing of the product portfolio for those items which no longer meet customer or business needs. These actions are anticipated to continue into 2023, and as a result, the company anticipates incurring additional costs related to its restructuring actions.

The company has begun to realize the benefit of improved access to key materials and components as a result of the increased financial flexibility funded from the financing transactions completed in 3Q22. On a consolidated basis, the company expects to see sequential constant currency revenue growth in 4Q22. Profitability is also anticipated to improve sequentially driven by revenue growth, higher gross profit attributable to the increased effectiveness of pricing actions, operational efficiencies, and restructuring benefits partially offset by continued higher input costs, and unfavorable foreign exchange. Through the first two months of its fiscal 4Q22, Europe has achieved sequential revenue growth and is on pace to deliver sequential constant currency net sales improvement and profitability for the quarter. The company anticipates that it will incur additional restructuring charges in 4Q22 as it focuses on improving the profitability for the long-term. In addition, a portion of the additional liquidity from the Secured Term Loan in October 2022 is anticipated to be used to fund working capital in 4Q22 to fulfill open orders and increase revenues.

The company's earnings performance in the future is expected to benefit from: (1) margin expansion if pricing actions are effective, favorable product mix results from product rationalization efforts and improved efficiencies in our operations offset our higher material and freight costs; and (2) restructuring actions. SG&A expense is anticipated to continue to be impacted by classification of IT costs as operating expenses as a result of a temporary pause in the ERP roll-out.

The company continues to focus on executing its transformation plan to drive revenue growth and deliver significant improvement in financial performance to enhance long-term shareholder value.

Favorable Long-Term Demand

Ultimately, demand for the company's products and services is based on the need to provide care for people with certain conditions. The company's medical devices provide solutions for end-users and caregivers. Therefore, the demand for the company's medical equipment is largely driven by population growth and the incidence of certain conditions

where treatment may be supplemented by the company's devices. The company also provides solutions to help equipment providers and residential care operators deliver cost-effective and high-quality care. The company believes that its commercial team, customer relationships, products and solutions, supply chain infrastructure, and strong research and development pipeline will create favorable business potential.

July and October 2022 Financings

On July 26, 2022, the company entered into a senior secured term loan agreement (the "Secured Term Loan") with certain funds managed by Highbridge Capital Management LLC (the "Highbridge Loan Agreement") providing for an aggregate of up to \$104.5 million. The company completed an initial drawdown of \$66.5 million under the Highbridge Loan Agreement on July 26, 2022. The company completed the first and second additional fundings on October 3, 2022 for a total of \$18.5 million under the Highbridge Loan Agreement. The Secured Term Loan matures on July 26, 2026 (subject to a springing maturity date of 91 days prior to the scheduled maturity date of the 5.00% Convertible Senior Notes due 2024 and the 5.00% Series II Convertible Senior Notes due 2024 if the aggregate principal amount of such notes exceeds \$20.0 million) and accrues interest at an initial annual rate of SOFR plus 7.00% or a base rate plus 6.00% and after the second anniversary of the closing date at an annual rate of SOFR plus 8.75% or a base rate plus 7.75%. The company may draw the remaining \$19.5 million under the Highbridge Loan Agreement subject to certain conditions.

Concurrently with the entry into the Secured Term Loan Agreement, on July 26, 2022, the company entered into agreements providing for the settlement of \$5.0 million aggregate principal amount of the company's outstanding 5% Series II Convertible Senior Notes due 2024 and private exchange up to \$55.3 million aggregate principal amount of its outstanding 4.25% Convertible Senior Notes due 2026 (the "2026 Notes"). The company completed the settlement of \$5.0 million aggregate principal amount of the 2024 Notes and exchange of \$41.5 million aggregate principal amount of the 2026 Notes on July 26, 2022. This exchange was funded by \$31.1 million aggregate principal amount of newly issued 5.68% Convertible Senior Secured Notes due 2026, 2.7 million Common Shares of the company, cash payment of \$4.5 million, and cash equal to accrued and unpaid interest on the outstanding convertible notes exchanged in the transaction. As result of finalizing the debt transactions in 3Q22, the company recognized a net gain on debt extinguishment of \$6.4 million related to the partial retirement of 2024 and 2026 convertible notes; and net gain on convertible debt derivatives of \$1.0 million related to new Secured 2026 convertible notes. On October 3, 2022, the company exchanged the remaining \$13.8 million aggregate principal amount of 2026 Notes for \$10.4 million aggregate principal amount of Secured 2026

Notes in two incremental tranches. The Secured 2026 Notes pay interest at a 5.68% annual rate and mature on July 1, 2026.

In addition, on July 26, 2022, the company amended its existing asset based lending credit facility to extend its maturity to January 16, 2026 and reduce the maximum notional amount from \$90 million to \$35 million. Proceeds from the Secured Term Loan were used to repay in full outstanding borrowings under the asset based lending credit facility.

Proceeds from the secured term loan are also anticipated to be used to fund working capital, restructuring actions and general corporate purposes. The company recognizes that the near-term external factors of inflation and supply chain challenges, as well as costs associated with restructuring actions, may require balance sheet action, including additional financing to support working capital requirements (refer to "Liquidity and Capital Resources"). The company will continue to take actions to optimize its business as required to operate in the present landscape.

Refer to Part I, Item 1-Long-Term Liabilities Long-Term Debt October 2022 Financing in the notes to the condensed consolidated financial statements for more information about the October 2022 financing transactions.

RESULTS OF OPERATIONS - NET SALES

The company operates in two primary business segments: North America and Europe with each selling the company's primary product categories, which include: lifestyle, mobility and seating and respiratory therapy products. Sales in Asia Pacific are reported in All Other and include products similar to those sold in North America and Europe.

(\$ in thousands USD)	3Q22*	3Q21	% Change Fav/(Unfav)	Foreign Exchange % Impact	Constant Currency % Change Fav/(Unfav)
Europe	97,487	127,026	(23.3)	(11.8)	(11.5)
North America	65,314	88,054	(25.8)	(0.2)	(25.6)
All Other (Asia Pacific)	7,607	9,120	(16.6)	(8.8)	(7.8)
Consolidated	<u>170,408</u>	<u>224,200</u>	<u>(24.0)</u>	<u>(7.1)</u>	<u>(16.9)</u>

(\$ in thousands USD)	YTD 3Q22**	YTD 3Q21	% Change Fav/(Unfav)	Foreign Exchange % Impact	Constant Currency % Change Fav/(Unfav)
Europe	328,334	361,097	(9.1)	(9.5)	0.4
North America	209,351	260,275	(19.6)	(0.2)	(19.4)
All Other (Asia Pacific)	22,728	24,894	(8.7)	(7.7)	(1.0)
Consolidated	<u>560,413</u>	<u>646,266</u>	<u>(13.3)</u>	<u>(5.7)</u>	<u>(7.6)</u>

* Date format is quarter and year in each instance.

** YTD means the first nine months of the year in each instance.

The table above provides net sales change as reported and as adjusted to exclude the impact of foreign exchange translation (constant currency net sales). "Constant currency net sales" is a non-Generally Accepted Accounting Principles ("GAAP") financial measure, which is defined as net sales excluding the impact of foreign currency translation. The current year's functional currency net sales are translated using the prior year's foreign exchange rates. These amounts are then compared to the prior year's sales to calculate the constant currency net sales change.

Global supply chain challenges and availability limits due to past-due payables to suppliers continued to delay receipt of components and limit conversion of orders to sales, which continued to impact each of the regions in 3Q22 in different ways.

The company continues to experience strong demand for its lifestyle and mobility & seating products. Open orders related to lifestyle and mobility & seating products was \$80.5 million at the end of 3Q22 as compared to \$60.5 million at the end of 2021. Open orders remain elevated due to global component shortages, primarily related to electronic components and other key input materials.

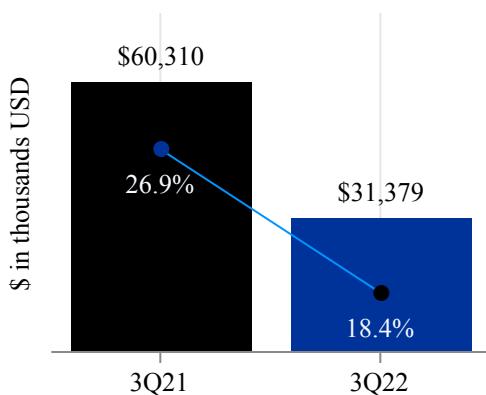
Europe - Constant currency net sales decreased \$14,628,000, or 11.5% in 3Q22 compared to 3Q21. Net sales in the quarter were impacted by supply chain challenges. Constant currency net sales increased 0.4% YTD 3Q22 compared to YTD 3Q21 led by mobility and seating products.

North America - Constant currency net sales for 3Q22 decreased \$22,560,000 or 25.6% compared to 3Q21 with decreases in all categories but primarily attributable to lower respiratory sales as pandemic-related demand slowed. Supply chain disruptions continued to burden order fulfillment in all product categories. Constant currency net sales decreased 19.4% YTD 3Q22 compared to YTD 3Q21 primarily due to lower respiratory sales which had higher sales in prior periods benefiting from pandemic-related demand.

All Other - Constant currency net sales, which relates entirely to the Asia Pacific region, decreased \$713,000 or 7.8% for 3Q22 compared to 3Q21 driven by respiratory products. Constant currency net sales decreased 1.0% YTD 3Q22 compared to YTD 3Q21 driven by respiratory products which more than offset increased sales in mobility and seating and lifestyle products.

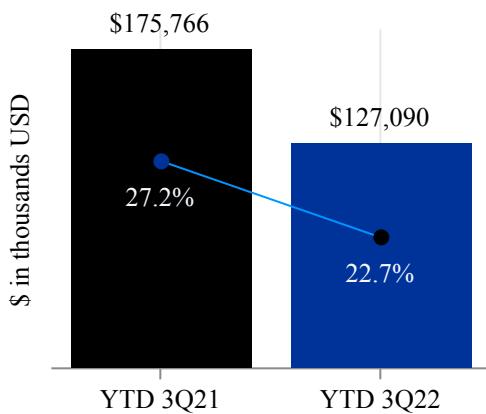
GROSS PROFIT

Gross Profit and Gross Profit as a % of Net Sales



Gross profit decreased \$28,931,000 and gross profit as a percentage of net sales for 3Q22 decreased 850 basis points to 18.4%. Inventory and purchasing obligation charges related to the decision to exit the respiratory product line burdened gross profit dollars \$8,651,000 or 510 basis points in 3Q22. Excluding these charges, gross profit decreased 340 basis points primarily attributable to lower net sales impacting the efficiency of the operations, intermittent production stoppages and unfavorable foreign currency translation. These were partially offset by increased pricing across product portfolios, which continue to lag higher costs as lower-priced orders are fulfilled.

Gross Profit and Gross Profit as a % of Net Sales



Gross profit decreased \$48,676,000 and gross profit as a percentage of net sales for YTD 3Q22 decreased 450 basis points to 22.7%. Inventory and purchasing obligation charges related to the decision to exit the respiratory product line burdened gross profit dollars \$8,651,000 or 150 basis points in YTD 3Q22. Excluding these charges, gross profit decreased primarily attributable to lower sales impacting gross profit

dollars and unfavorable foreign currency translation. Increased pricing across product portfolios continue to lag higher costs as lower-priced orders are fulfilled.

Gross profit drivers by segment:

Europe - Gross profit dollars for 3Q22 decreased \$13,761,000 compared to 3Q21. Gross profit as a percentage of net sales decreased 4.9% compared to 3Q21. Gross profit dollars were burdened primarily by lower sales, increased input costs and unfavorable foreign exchange. Inventory write downs related to the decision to exit the respiratory product line burdened gross profit dollars \$916,000 or 90 basis points in 3Q22.

Gross profit dollars decreased \$21,272,000 and gross profit as a percentage of net sales decreased 3.2% for YTD 3Q22 compared to YTD 3Q21. The year-to-date gross profit was impacted by similar items as 3Q22.

North America - Gross profit dollars decreased \$15,424,000 and gross profit as a percentage of net sales decreased 12.0% for 3Q22 compared to 3Q21 driven primarily by lower net sales. The decrease in gross profit as a percentage of net sales was driven by lower sales in relation to fixed costs. Inventory and purchasing obligation charges related to the decision to exit the respiratory product line burdened gross profit dollars \$7,679,000 and gross margin 1,080 basis points in 3Q22.

Gross profit dollars decreased \$27,964,000 and gross profit as a percentage of net sales decreased 5.2% for YTD 3Q22 compared to YTD 3Q21. The decrease in gross profit dollars and gross profit as a percentage of net sales driven primarily by lower net sales in relation to fixed costs.

All Other - Asia Pacific gross profit dollars decreased \$562,000 and gross profit as a percentage of net sales decreased 1.0% for 3Q22 compared to 3Q21 driven primarily by lower volume and higher material costs.

Asia Pacific gross profit dollars decreased \$467,000 and gross profit as a percentage of net sales increased 1.1% for YTD 3Q22 compared to YTD 3Q21 driven primarily by pricing actions mitigating higher material costs.

All Other also includes the impact of intercompany profit eliminations for the consolidated company.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

(\$ in thousands USD)	3Q22*	3Q21	Reported Change	Foreign Exchange Impact	Constant Currency Change
SG&A expenses - \$	55,365	56,135	(770)	(3,282)	2,512
SG&A expenses - % change			(1.4)	(5.9)	4.5
% to net sales	32.5	25.0			

(\$ in thousands USD)	YTD 3Q22**	YTD 3Q21	Reported Change	Foreign Exchange Impact	Constant Currency Change
SG&A expenses - \$	174,552	178,721	(4,169)	(7,749)	3,580
SG&A expenses - % change			(2.3)	(4.3)	2.0
% to net sales	31.1	27.7			

* Date format is quarter and year in each instance.

** YTD means the first nine months of the year in each instance.

The table above provides selling, general and administrative (SG&A) expenses change as reported and as adjusted to exclude the impact of foreign exchange translation (constant currency SG&A). "Constant currency SG&A" is a non-GAAP financial measure, which is defined as SG&A expenses excluding the impact of foreign currency translation. The current year's functional currency SG&A expenses are translated using the prior year's foreign exchange rates. These amounts are then compared to the prior year's SG&A expenses to calculate the constant currency SG&A expenses change. Management believes this financial measure provides meaningful information for evaluating the core operating performance of the company.

Constant currency SG&A increased \$2,512,000 or 4.5% for 3Q22 compared to the same period last year. 3Q22 includes IT expenses being classified as operating costs as a result of the temporary pause in the ERP roll-out, similar to 1H22. In addition, the company incurred higher expense related to foreign currency transactions offset by lower employment costs.

Constant currency SG&A increased \$3,580,000 or 2.0% for YTD 3Q22 compared to the same period last year primarily due to increased IT costs partially offset by lower employment costs. 3Q22 YTD benefited from reduced stock compensation expense attributable to forfeitures, and to lowered performance projection and a lower trading price on the company's Common Shares in 2022 on outstanding equity awards to which variable accounting applies. In addition, the company incurred higher expense related to foreign currency transactions and lower employment costs.

SG&A expense drivers by segment:

Europe - SG&A expenses for 3Q22 decreased \$1,620,000 or 6.2% compared to 3Q21 with foreign currency translation decreasing SG&A expenses by \$2,950,000, or 11.3%. Constant currency SG&A expenses increased \$1,330,000, or 5.1% primarily driven by foreign currency transactions losses and outside services.

SG&A expenses for YTD 3Q22 decreased \$7,021,000 or 8.5% compared to YTD 3Q21 with foreign currency translation decreasing SG&A expenses by \$6,915,000, or 8.4%. Constant currency SG&A expenses decreased \$106,000, or 0.1% primarily driven by foreign currency transactions losses and outside services.

North America - SG&A expenses for 3Q22 decreased \$1,940,000, or 8.2%, compared to 3Q21. Constant currency SG&A expenses decreased \$1,871,000, or 7.9% primarily attributable to employment costs.

SG&A expenses for YTD 3Q22 decreased \$665,000, or 1.0%, compared to YTD 3Q21. Constant currency SG&A expenses decreased \$496,000, or 0.7% primarily attributable to employment costs.

All Other - SG&A expenses for 3Q22 increased \$2,790,000 compared to 3Q21 with foreign currency translation decreasing SG&A expenses by \$263,000. Constant currency SG&A expenses increased by \$3,053,000. All Other includes SG&A related to the Asia Pacific businesses and non-allocated corporate costs. Constant currency SG&A expenses related to Asia Pacific businesses for 3Q22 decreased 23.3% or \$798,000, compared to 3Q21 driven primarily by favorable foreign currency transactions. Unallocated corporate costs increased primarily due to IT costs.

SG&A expenses for YTD 3Q22 increased \$3,517,000 compared to YTD 3Q21 with foreign currency translation decreasing SG&A expenses by \$665,000. Constant currency SG&A expenses increased by \$4,182,000. Constant currency SG&A expenses related to Asia Pacific businesses for YTD 3Q22 decreased 9.3% or \$835,000, compared to YTD 3Q21 driven primarily by favorable foreign currency transactions. Unallocated corporate costs increased primarily due to IT costs partially offset by lower stock compensation expense, as noted above.

OPERATING INCOME (LOSS)

(\$ in thousands USD)	3Q22	3Q21	\$ Change	YTD 3Q22	YTD 3Q21	\$ Change
Europe	(2,588)	9,554	(12,142)	4,126	18,378	(14,252)
North America	(15,007)	(1,523)	(13,484)	(29,607)	(2,308)	(27,299)
All Other	(6,391)	(3,856)	(2,535)	(21,981)	(19,025)	(2,956)
Charges related to restructuring	(8,440)	(377)	(8,063)	(16,383)	(2,476)	(13,907)
Impairment of an intangible asset	(1,012)	—	(1,012)	(1,012)	—	(1,012)
Impairment of goodwill	—	(28,564)	28,564	—	(28,564)	28,564
Consolidated Operating Income (Loss)	<u>(33,438)</u>	<u>(24,766)</u>	<u>(8,672)</u>	<u>(64,857)</u>	<u>(33,995)</u>	<u>(30,862)</u>

For the quarter and year-to-date, consolidated operating loss increased compared to last year due to lower net sales impacted lower gross profit, higher input costs not fully mitigated by pricing actions and unfavorable foreign currency.

Operating income (loss) by segment:

Europe - The decline in operating profit for 3Q22 was primarily due to lower gross profit dollars impacted by lower net sales, higher input costs, respiratory product line exit charges and unfavorable foreign exchange.

Operating income for YTD 3Q22 decreased \$14,252,000 compared to YTD 3Q21 attributable to lower gross profit dollars impacted by lower sales, higher input costs, respiratory product line exit charges and unfavorable foreign exchange.

North America - Operating loss for 3Q22 increased by \$13,484,000 primarily due to lower gross profit dollars on lower sales and respiratory product line exit charges of \$7,679,000.

Operating loss for YTD 3Q22 was \$29,607,000 compared to YTD 3Q21 operating loss of \$2,308,000 due to lower gross profit impacted by lower net sales and respiratory product line exit charges.

All Other - Operating loss for All Other includes the operating results of the Asia Pacific businesses, as well as unallocated SG&A expenses and intercompany eliminations. Operating loss increased \$2,535,000 primarily driven by increased IT expenses classified as operating expenses partially offset by lower employment costs.

Operating loss for YTD 3Q22 increased \$2,956,000 compared to YTD 3Q21 primarily driven by increased IT expenses classified as operating expenses, partially offset by lower employment costs.

Charges Related to Restructuring Activities

Restructuring charges were \$8,440,000 for 3Q22 compared to \$377,000 for 3Q21 which includes severance and other restructuring costs. Restructuring charges were incurred in the Europe segment of \$5,034,000, North America segment of \$2,332,000, and All Other of \$1,074,000.

Restructuring charges were \$16,383,000 for YTD 3Q22 compared to \$2,476,000 for YTD 3Q21 which includes severance and other restructuring costs. Restructuring charges were incurred in the Europe segment of \$9,766,000, North America segment of \$5,534,000, and All Other of \$1,083,000.

OTHER ITEMS

Impairment of an intangible asset

(\$ in thousands USD)	3Q22	3Q21	\$ Change
Impairment of an intangible asset	1,012	—	1,012

(\$ in thousands USD)	YTD 3Q22	YTD 3Q21	\$ Change
Impairment of an intangible asset	1,012	—	1,012

During the third quarter of 2022, the company recognized an intangible impairment charge in the North America segment of \$1,012,000 related to a trademark with an indefinite life which the company determined it would no longer use.

Impairment of goodwill

(\$ in thousands USD)	3Q22	3Q21	\$ Change
Impairment of goodwill	—	28,564	(28,564)

(\$ in thousands USD)	YTD 3Q22	YTD 3Q21	\$ Change
Impairment of goodwill	—	28,564	(28,564)

During the third quarter of 2021, the company's reporting units of North America / HME and Institutional Products Group were merged into one reporting unit of North America, consistent with the operating segment. Developments in the third quarter of 2021 and the completion of the reporting units merger were tied most closely to the actions of the company to implement components of a new ERP system which both changed the level of discrete financial information readily available and the go-forward manner in which the company assesses performance and allocates resources to the North America operating segment.

The reporting unit change within the North America operating segment in the third quarter of 2021 was a triggering event and required the company to perform an interim goodwill impairment test. Based on the interim goodwill impairment test, the company concluded the carrying value of the North America reporting unit was above its fair value. That conclusion resulted in the recording of impairment of goodwill in the third quarter of 2021 of \$28,564,000.

As a result of the goodwill impairment, the company recorded a reversal of deferred taxes related to the tax deductible goodwill previously deducted by the company, resulting in the company recognizing a tax benefit of \$661,000 for the three months ended September 30, 2021.

Net gain on convertible debt derivatives

(\$ in thousands USD)	3Q22	3Q21	\$ Change
Net gain on convertible debt derivatives	(950)	—	(950)

(\$ in thousands USD)	YTD 3Q22	YTD 3Q21	\$ Change
Net gain on convertible debt derivatives	(950)	—	(950)

The company recognized a net gain of \$950,000 for the three and nine months ended September 30, 2022 related to the fair value of convertible debt derivatives related to the Secured 2026 Notes. Refer to "Long-Term Debt" in the notes to the condensed consolidated financial statements.

Net gain on debt extinguishment

(\$ in thousands USD)	3Q22	3Q21	\$ Change
Net gain on debt extinguishment	(6,398)	(10,131)	3,733

(\$ in thousands USD)	YTD 3Q22	YTD 3Q21	\$ Change
Net gain on debt extinguishment	(6,398)	(9,422)	3,024

During the third quarter of 2022, the company entered into various transactions which included the amendment and restatement of asset-based lending facility, partial retirement of Series II 2024 Notes and partial exchange and retirement of 2026 Notes for new Secured 2026 Notes, a term loan and issuance of Common Shares as consideration for the transactions. The result of the transactions was a net gain on debt extinguishment including debt and finance fees of \$6,398,000.

During the third quarter of 2021, the company applied for forgiveness of its CARES Act loan along with its accrued interest. The company received notification of approval of its debt forgiveness including accrued interest, in full, and the company recorded a gain on extinguishment of debt of \$10,131,000.

During the first quarter of 2021, the company repurchased and retired, at par plus accrued interest, \$78,850,000 of its 2022 Notes. The result of the transaction was a loss on debt extinguishment including debt and finance fees of \$709,000.

Interest

(\$ in thousands USD)	3Q22	3Q21	\$ Change	% Change
Interest expense	7,354	6,284	1,070	17.0
Interest income	(10)	—	(10)	(100.0)

(\$ in thousands USD)	YTD 3Q22	YTD 3Q21	\$ Change	% Change
Interest expense	19,836	18,099	1,737	9.6
Interest income	(11)	(1)	(10)	1,000.0

The increase in interest expense for 3Q22 and YTD 3Q22 compared to the same periods of prior year was primarily related to higher interest bearing debt for the full periods of 2022 compared to 2021.

Income Taxes

The company had an effective tax rate of 2.8% and 4.1% on losses before tax for the three and nine months ended September 30, 2022, respectively, compared to a statutory benefit of 21.0% on the pre-tax loss for each period. The company had an effective tax rate of 8.8% and 11.3% on losses before tax for the three and nine months ended September 30, 2021, respectively, compared to a statutory benefit of 21.0% on the pre-tax loss for each period. The company's effective tax rate for the three and nine months ended September 30, 2022 and September 30, 2021 were unfavorable as compared to the U.S. federal statutory rate, principally due to the negative impact of the company not being able to record tax benefits related to the significant losses in countries which had tax valuation allowances. The effective tax rate was increased for the three and nine months ended September 30, 2022 and September 30, 2021 by certain taxes outside the United States, excluding countries with tax valuation allowances, that were at an effective rate higher than the U.S. statutory rate.

LIQUIDITY AND CAPITAL RESOURCES

The company continues to maintain an adequate liquidity position through its cash balances, bank lines of credit and Secured Term Loan credit facility (refer to Long-Term Debt in the notes to condensed consolidated financial statements included in this report) as described below.

As described below, the company recently completed a series of strategic capital markets transactions that altered its long-term debt and credit facility borrowing structure. Key balances on the company's balance sheet and related metrics prior to the October 2022 Financings are presented below:

(\$ in thousands USD)	September 30, 2022	December 31, 2021	\$ Change	% Change
Cash and cash equivalents	\$ 45,439	\$ 83,745	\$ (38,306)	(45.7)
Working capital ⁽¹⁾	72,142	138,134	(65,992)	(47.8)
Total debt ⁽²⁾	410,104	382,586	27,518	7.2
Long-term debt ⁽²⁾	404,923	376,462	28,461	7.6
Total shareholders' equity	81,045	218,489	(137,444)	(62.9)
ABL & Prior Credit Agreement borrowing availability ⁽³⁾	17,336	41,845	(24,509)	(58.6)

⁽¹⁾ Current assets less current liabilities.

⁽²⁾ Total debt and Long-term debt include finance leases but exclude debt issuance costs and discount recognized as a deduction from the carrying amount of debt liability and operating leases.

⁽³⁾ Reflects the combined availability of the company's North American and prior European asset-based revolving credit facilities before borrowings. At September 30, 2022, the company had \$16,900,000 of borrowings outstanding on its North America Credit Facility. Outstanding borrowings are based on credit availability calculated on a month lag related to the prior European credit facility.

The company's cash and cash equivalents balances were \$45,439,000 and \$83,745,000 at September 30, 2022 and December 31, 2021, respectively. The decrease in cash in the first nine months of 2022 is primarily attributable to use from operating activities and cash used for continued investment in business improvement initiatives. Cash used by operating activities was partially offset by credit facilities borrowings and additional debt from financing transactions in July 2022.

Refer to "Long-Term Debt" in the notes to the condensed consolidated financial statements included in this report for a summary of the material terms of the company's long-term indebtedness.

Debt repayments, acquisitions, divestitures, the timing of vendor payments, the timing of customer rebate payments, the granting of extended payment terms to significant national accounts and other activity can have a significant impact on the company's cash flow and borrowings outstanding such that the cash reported at the end of a given period may be materially different than cash levels during a given period. While the company has cash balances in various jurisdictions around the world, there are no material restrictions regarding the use of such cash for dividends within the company, loans or other purposes.

The company's total debt outstanding, inclusive of the company's convertible senior notes due 2022 (as of December 31, 2021), 2024 and 2026, secured convertible senior notes

due 2026, Secured Term Loan due 2026 and finance leases, increased by \$27,518,000 to \$410,104,000 at September 30, 2022 from \$382,586,000 as of December 31, 2021. The increase is primarily driven by July 2022 financing transactions which included a new term loan for \$66,500,000 offset by retirement of \$5,000,000 of 2024 convertible senior notes, exchange of \$41,475,000 2026 convertible senior notes for \$31,106,000 secured 2026 convertible senior notes and reduced asset-based lending facility balance by \$18,602,000. The increase in outstanding debt was also attributable to accretion on convertible senior notes due 2024, amortization of debt issuance costs and credit facility borrowings and payments, \$2,000,000 debt borrowed against cash surrender value of insurance policies, offset by the repayment of \$2,650,000 principal amount of 2022 Notes at maturity on June 1, 2022 and finance lease payments.

October 2022 Financings

In October 2022, the company completed the first and second additional fundings under debt agreements entered into in July 2022. Refer to "Long-Term Debt" / "October 2022 Financings" in the notes to the condensed consolidated financial statements included in this report for more information about the October 2022 financing transactions.

Outlook

The company may incur additional financing in the future, which could include substantial additional debt (including secured debt) or equity or equity-linked financing. Although the terms of the agreements governing existing debt restrict the company's ability to incur additional debt (including secured debt), such restrictions are subject to several exceptions and qualifications and such restrictions and qualifications may be waived or amended, and debt (including secured debt) incurred in compliance with such restrictions and qualifications (as they may be waived or amended) may be substantial.

The company may from time to time seek to repay or purchase, exchange or otherwise retire its convertible notes or other debt obligations, in open market transactions, privately negotiated transactions, tender offers, exchange offers, pursuant to the term of debt or otherwise. The company may also incur additional debt (including secured debt) or equity or equity-linked financing to fund such transactions, refinance or restructure existing debt and/or exchange existing debt for newly issued debt obligations or equity or equity-like securities. The number of Common Shares or securities convertible into Common Shares that may be issued in connection with such transactions may be material. Such transactions, if any, will depend on prevailing market conditions, trading prices of debt from time to time, the company's liquidity requirements and cash position, contractual restrictions and other factors. The amount involved in any such transactions, individually or in the aggregate, may be material. From time to time the company engages in discussions with holders of its existing debt and other potential financing sources regarding such transactions and the company expects to continue to engage in such discussions. The company cannot provide any assurance as to if or when it will consummate any such transactions or the terms of any such transactions.

After consideration of various actions implemented during 2022, including various restructuring actions that have reduced aspects of our cost structure and price increases with our customers to substantially offset cost increases experienced in 2021 and 2022, the company believes that its cash balances and available borrowing capacity under its ABL Credit Agreement should be sufficient to meet working capital needs, capital requirements, debt service obligations and other commitments for at least the next twelve months. If the company's operating results decrease as the result of pressures on the business due to, for example, prolonged, or worsening of, negative impacts of the pandemic, the impact of the pandemic on the company's supply chain, or political or geopolitical crises such as the Russian war with Ukraine, and actions taken in response on global and regional economies and economic activity, continued supply chain challenges, limited supply availability resulting from past-due payables, inflationary economic conditions, increases in interest rates on floating-rate debt, currency fluctuations or regulatory issues,

or the company's failure to execute its business plans or if the company's business improvement actions take longer than expected to materialize or development of one or more of the other risks discussed in "Item 1A. Risk Factors" of the company's Annual Report on Form 10-K and this Quarterly Report on Form 10-Q, or if the conditions for subsequent draw under the Highbridge Loan Agreement is not satisfied, the company may require additional financing, or may be unable to comply with its obligations under the credit facilities or its other obligations, and its lenders or creditors could demand repayment of any amounts outstanding. If additional financing is required, there can be no assurance that it will be available on terms satisfactory to the company, if at all. The company also may evaluate and implement further changes to its strategic goals and business plans, which may involve additional restructuring of its operations. If and to the extent undertaken, any such restructuring may be substantial and involve significant effort and expense, and the company can make no assurances that such efforts, if undertaken, would be successful and result in improvements to the company's business performance and financial condition. Refer to "Item 1A. Risk Factors" in the company's Annual Report on Form 10-K and this Quarterly Report on Form 10-Q for a further discussion of risks applicable to the company's liquidity, capital resources and financial condition.

The company also has an agreement with De Lage Landen, Inc. ("DLL"), a third-party financing company, to provide lease financing to the company's U.S. customers. Either party could terminate this agreement with 180 days' notice or 90 days' notice by DLL upon the occurrence of certain events. Should this agreement be terminated, the company's borrowing needs under its credit facilities could increase.

While most of the company's debt has fixed interest, should interest rates increase, the company expects that it would be able to absorb modest rate increases without material impact on its liquidity or capital resources. An increase of 1% to variable rate debt outstanding at September 30, 2022 would increase interest expense \$834,000 annually. The weighted average interest rate on borrowings, excluding finance leases, was 5.8% for the three months and 5.0% for the nine months ended September 30, 2022, respectively, and 4.5% for the year ended December 31, 2021. This weighted average interest rate will increase in the fourth quarter of the year as a result of the first and second additional fundings completed in October 2022. Refer to "Long-Term Debt" and "Leases and Commitments" in the notes to the condensed consolidated financial statements for more details regarding the company's credit facilities and lease liabilities, respectively.

ACCOUNTING ESTIMATES AND PRONOUNCEMENTS

CRITICAL ACCOUNTING ESTIMATES

The condensed consolidated financial statements included in the report include accounts of the company and all majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying condensed consolidated financial statements and related footnotes. In preparing the financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, thus, actual results could differ from these estimates. Refer to the Critical Accounting Estimates section within MD&A of company's Annual Report on Form 10-K for the period ending December 31, 2021.

Except as set forth below, there have been no significant changes to critical accounting policies and estimates included in the company's Annual Report.

Valuation of Goodwill, Intangible Assets and Other Long-Lived Assets

Goodwill recorded represents the excess of the aggregate fair value of the consideration transferred for a business combination over the fair value of the assets acquired, net of liabilities assumed. Goodwill is subject to an annual impairment test and is tested more frequently if indicators of impairment are identified. An impairment would be recorded if an assessment determined that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. A quantitative assessment for impairment requires management to use significant judgment and estimates, including estimates of future revenue, net available cash flows, as well as a discount rate, and a terminal growth rate. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. If actual results are materially lower than originally estimated, it could result in a material impact to consolidated financial statements in future periods.

Under the quantitative goodwill impairment test, if a reporting unit's carrying value exceeds its fair value, an impairment charge will be recorded based on that difference. To determine reporting unit fair value, management used the income approach. Under the income approach, projected future cash flows are discounted to reflect their relative risk. The cash flows used were consistent with those used in management's internal planning, and reflect actual business

trends experienced as well as management's long-term business strategy for the reporting unit.

The company concluded based on the results of the interim quantitative goodwill impairment assessment performed as of September 30, 2022 that goodwill was not impaired. The company assessed the results if the discount rate used were 100 basis points higher for the third quarter quantitative assessment and determined that there still would not be impairment of goodwill for the Europe reporting unit.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For the company's disclosure regarding recently issued accounting pronouncements, refer to Accounting Policies - Recent Accounting Pronouncements in the notes to the condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q.

CAPITAL EXPENDITURES

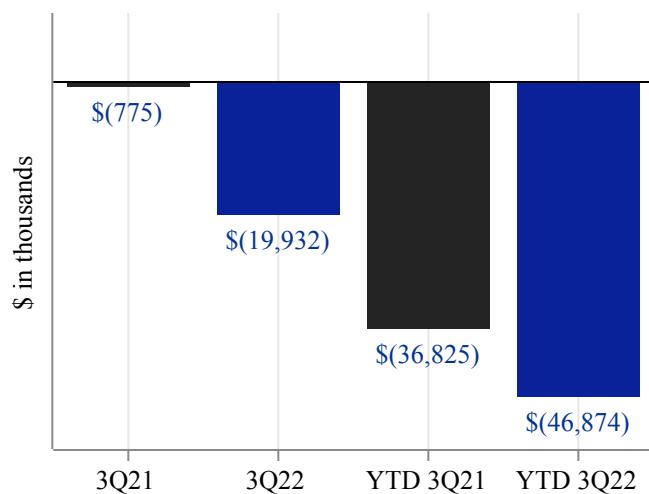
The company estimates that capital investments for 2022 to be approximately \$5,000,000 compared to actual capital expenditures of \$17,698,000 in 2021 which were elevated due to ERP system implementation activities. The company believes that its balances of cash and cash equivalents and available borrowing capacity under its existing credit facilities should be sufficient to meet its operating cash requirements and fund capital expenditures (refer to "Liquidity and Capital Resources"). The ABL Credit Agreement limits the company's annual capital expenditures to \$25,000,000.

DIVIDEND POLICY

On May 21, 2020, the Board of Directors suspended the quarterly dividend on the company's Common Shares. The Board of Directors suspended the company's regular dividend on the Class B Common Shares starting in the third quarter of 2018. Less than 4,000 Class B Common Shares remain outstanding and suspending the regular Class B dividend allows the company to save on the administrative costs and compliance expenses associated with that dividend. Holders of Class B Common Shares are entitled to convert their shares into Common Shares at any time on a share-for-share basis and would be eligible for any Common Share dividends declared following any such conversion.

CASH FLOWS

Net Cash Used by Operating Activities

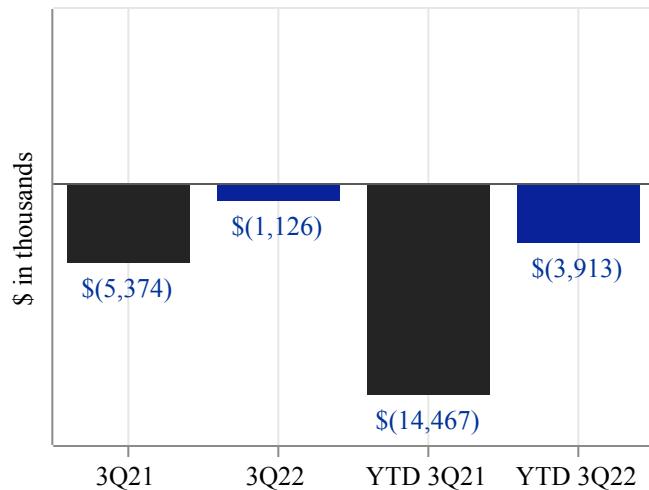


Net Cash Provided by Financing Activities



The increase in cash used by operating activities for the three and nine months ended September 30, 2022 was driven primarily by funding of an operating loss and accounts payable offset by accounts receivable collections and lower inventory levels.

Net Cash Used by Investing Activities



Cash flows provided by financing activities in the first nine months of 2022 included credit facility borrowings and repayments, repayment of \$2,650,000 principal amount of 2022 Notes, additional debt borrowings of \$66,500,000 under the 2026 Term Loan, net of \$2,000,000 of original issuance discount, offset by ABL credit facility net payments and payment of \$8,046,000 in financing costs related to the financing transactions executed in the third quarter of 2022. The first nine months of 2021 included the issuance of \$125,000,000 principal amount of 2026 Notes, payment of \$5,175,000 in financing costs, purchase of capped calls related to the 2026 Notes for \$18,787,000, repurchase of \$78,850,000 principal amount of 2022 Notes and repayment of \$1,250,000 principal amount of the company's previously outstanding convertible notes due 2021 (the "2021 Notes"). Borrowings on credit facilities are under the asset-based-lending senior secured revolving credit facilities.

The year over year changes in cash flows related to investing activities was driven primarily by lower capital expenditures related to the ERP implementation.

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

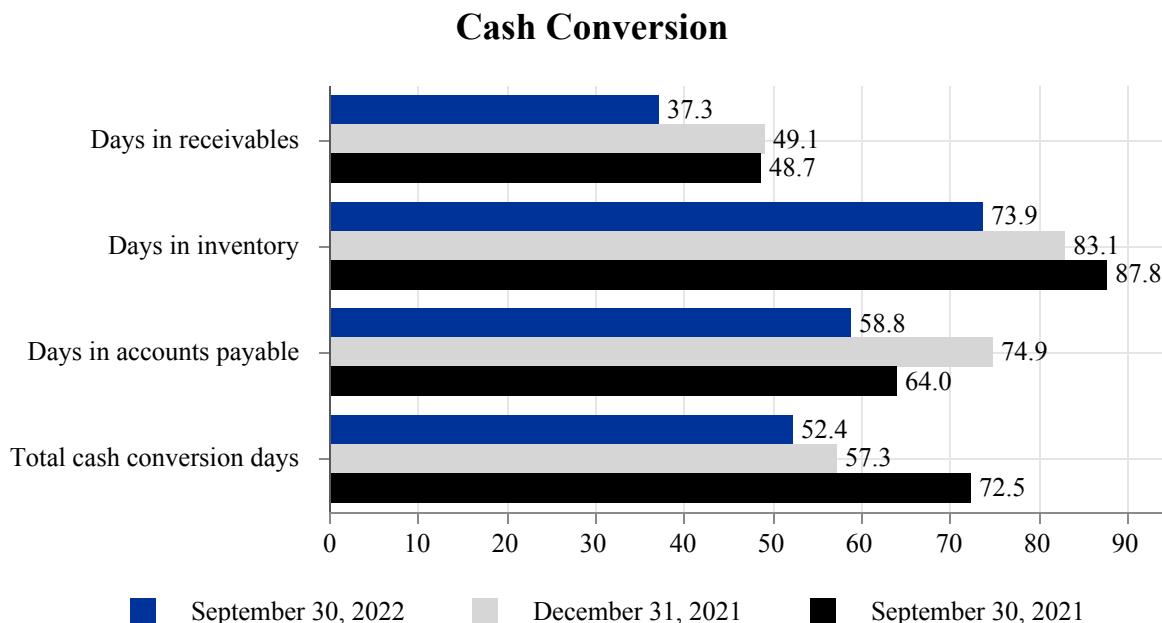
(\$ in thousands USD)	3Q22	3Q21	YTD 3Q22	YTD 3Q21
Net cash used by operating activities	\$(19,932)	\$ (775)	\$(46,874)	\$(36,825)
Plus: Sales of property and equipment	—	—	5	23
Less: Purchases of property and equipment	(538)	(5,350)	(3,302)	(14,397)
Free Cash Flow (usage)	<u>\$(20,470)</u>	<u>\$ (6,125)</u>	<u>\$(50,171)</u>	<u>\$(51,199)</u>

Free cash flow (usage) for the first nine months 2022 and 2021 was primarily impacted by the same items that affected cash flows used by operating activities. Free cash flow is a non-GAAP financial measure that is comprised of net cash provided (used) by operating activities less purchases of property and equipment plus proceeds from sales of property and equipment. Management believes that this financial measure provides meaningful information for evaluating the overall financial performance of the company and its ability to repay debt or make future investments (including acquisitions, etc.).

Generally, the first half of the year is cash consumptive and impacted by significant disbursements related to annual customer rebate payments which normally occur in the first quarter of the year and earned employee bonuses historically paid in the first half of the year. In addition, investment in inventory is typically heavy in the first half of the year, particularly in 2022 and 2021 with efforts to mitigate the company's supply chain disruptions and position the company to fulfill shipments in the second half of the year and can be impacted by footprint rationalization projects. Semi-annual interest payments on debt from the July and October 2022 financing transactions start in January 2023.

In addition, a portion of the additional liquidity in October 2022 from the Secured Term Loan is anticipated to be used to fund working capital in 4Q22 to increase revenues and fulfill open orders.

The company's approximate cash conversion days at September 30, 2022, December 31, 2021 and September 30, 2021 were as follows:



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

The improvement in days in receivables is impacted by customer mix and region. Decline in days in accounts receivable is due to increased levels of payments in the first nine months of 2022.

The company provides a summary of days of cash conversion for the components of working capital so investors may see the rate at which cash is disbursed, collected and how quickly inventory is converted and sold.

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains forward-looking statements within the meaning of the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that describe future outcomes or expectations that are usually identified by words such as "will," "may," "should," "could," "plan," "intend," "expect," "continue," "forecast," "believe" and "anticipate," as well as similar comments, denote forward-looking statements that are subject to inherent uncertainties that are difficult to predict. These include, for example, statements related to the company's ability to address on-going supply chain challenges and component shortages; sales and free cash flow trends; the impact of contingency plans and cost containment actions; the company's intention to discontinue the production of respiratory products and focus on lifestyle and mobility & seating products; the company's liquidity and working capital expectations; the company's future financial results including expectations as to consolidated and segment revenue, net sales and profitability in 4Q22; the company's future business plans and similar statements. Actual results and events may differ significantly from those expressed or anticipated as a result of various risks and uncertainties, including the availability and cost to the company of needed products, components or raw materials from the company's suppliers, including delivery delays and production interruptions from pandemic-related supply chain challenges and supplier delivery holds resulting from past due payables; the duration and scope of the COVID-19 pandemic, the pace of resumption of access to healthcare, including clinics and elective care, and loosening of public health restrictions, or any reimposed restrictions on access to healthcare or tightening of public health restrictions, which could impact the demand for the company's products; global shortages in, or increasing costs for, transportation and logistics services and capacity; actions that governments, businesses and individuals take in response to the pandemic, including mandatory business closures and restrictions on onsite commercial interactions; the impact of the pandemic or political or geopolitical crises, such as the Russian war with Ukraine, and actions taken in response, on global and regional economies and economic activity; the pace of recovery when the COVID-19 pandemic subsides; general economic uncertainty in key global markets and a worsening of global economic conditions or low levels of economic growth, including negative conditions attributable to inflationary economic conditions and rising interest rates; the effects of steps the company has taken or will take to reduce operating costs; the ability of the company to sustain profitable sales growth, achieve anticipated improvements in segment operating performance, convert high inventory levels to cash or reduce its costs; the ability of the company to successfully improve output and convert order backlog into sales; the ability of the company to successfully focus on lifestyle and mobility & seating products; lack of market acceptance of the company's new product innovations; potential adverse effects of revised product pricing and/or product surcharges on revenues or the demand for the company's products; any failure to satisfy the

continued listing standards of the NYSE and delisting of the company's common shares from the NYSE; circumstances or developments that may make the company unable to implement or realize the anticipated benefits, or that may increase the costs, of its current and planned business initiatives, in particular the key elements of its growth plans, such as its new product introductions, commercialization plans, additional investments in demonstration equipment, product distribution strategy in Europe, supply chain actions and global information technology outsourcing and ERP implementation activities; possible adverse effects on the company's liquidity, including (i) the company's ability to address future debt maturities or other obligations, including additional debt that may be incurred in the future or (ii) the company's ability to access the remaining portion of the financing under the July and October 2022 financing transactions (as discussed in the notes to the condensed consolidated financial statements) in the event of a failure to satisfy one or more of the applicable closing conditions; increases in interest rates or the costs of borrowing; potential limitations on the company's business activities from obligations in the company's debt agreements; adverse changes in government and third-party payor reimbursement levels and practices; decreased availability or increased costs of materials which could increase the company's cost of producing or acquiring the company's products, including the adverse impacts of tariffs and increases in commodity costs or freight costs; consolidation of health care providers; increasing pricing pressures in the markets for the company's products; risks of failures in, or disruptions to, legacy IT systems; risks of cybersecurity attack, data breach or data loss and/or delays in or inability to recover or restore data and IT systems; adverse effects of the company's consent decree of injunction with the U.S. Food and Drug Administration (FDA), including but not limited to, compliance costs, inability to rebuild negatively impacted customer relationships, unabsorbed capacity utilization, including fixed costs and overhead; any circumstances or developments that might adversely impact the third-party expert auditor's required audits of the company's quality systems at the facilities impacted by the consent decree, including any possible failure to comply with the consent decree or FDA regulations or the inability to adequately address the matters identified in the FDA Letters; regulatory proceedings or the company's failure to comply with regulatory requirements or receive regulatory clearance or approval for the company's products or operations in the United States or abroad; adverse effects of regulatory or governmental inspections of the company's facilities at any time and governmental enforcement actions; product liability or warranty claims; product recalls, including more extensive warranty or recall experience than expected; possible adverse effects of being leveraged, including interest rate or event of default risks; exchange rate fluctuations, particularly in light of the relative importance of the company's foreign operations to its overall financial performance; legal actions, including adverse judgments or settlements of litigation or claims in excess of available insurance limits; tax rate fluctuations; additional tax expense or additional tax exposures, which could affect the company's

future profitability and cash flow; uncollectible accounts receivable; risks inherent in managing and operating businesses in many different foreign jurisdictions; heightened vulnerability to a hostile takeover attempt or other shareholder activism; provisions of Ohio law or in the company's debt agreements, charter documents or other agreements that may prevent or delay a change in control, as well as the risks described elsewhere in this Quarterly Report on Form 10-Q, the company's Annual Report on Form 10-K and from time to time in the company's reports as filed with the Securities and Exchange Commission. The company may not be able to predict and may have little or no control over many factors or events that may influence its future results and, except to the extent required by law, the company does not undertake and specifically declines any obligation to review or update any forward-looking statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments or otherwise.

Part I. FINANCIAL INFORMATION**Item 1. Financial Statements.**

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net sales	\$ 170,408	\$ 224,200	\$ 560,413	\$ 646,266
Cost of products sold	139,029	163,890	433,323	470,500
Gross Profit	31,379	60,310	127,090	175,766
Selling, general and administrative expenses	55,365	56,135	174,552	178,721
Charges related to restructuring activities	8,440	377	16,383	2,476
Impairment of an intangible asset	1,012	—	1,012	—
Impairment of goodwill	—	28,564	—	28,564
Operating Loss	(33,438)	(24,766)	(64,857)	(33,995)
Net gain on convertible debt derivatives	(950)	—	(950)	—
Net gain on debt extinguishment	(6,398)	(10,131)	(6,398)	(9,422)
Interest expense	7,354	6,284	19,836	18,099
Interest income	(10)	—	(11)	(1)
Loss Before Income Taxes	(33,434)	(20,919)	(77,334)	(42,671)
Income tax provision	920	1,840	3,160	4,830
Net Loss	\$ (34,354)	\$ (22,759)	\$ (80,494)	\$ (47,501)
Net Loss per Share—Basic	\$ (0.92)	\$ (0.65)	\$ (2.23)	\$ (1.36)
Weighted Average Shares Outstanding—Basic	37,537	35,013	36,073	34,826
Loss per Share—Assuming Dilution	\$ (0.92)	\$ (0.65)	\$ (2.23)	\$ (1.36)
Weighted Average Shares Outstanding—Assuming Dilution	37,680	35,488	36,241	35,371
Net Loss	\$ (34,354)	\$ (22,759)	\$ (80,494)	\$ (47,501)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(34,051)	(19,202)	(66,938)	(6,487)
Defined Benefit Plans:				
Amortization of prior service costs and unrecognized losses	45	(27)	4,608	(422)
Deferred tax adjustment resulting from defined benefit plan activity	(9)	20	(94)	(43)
Valuation reserve associated with defined benefit plan activity	9	(20)	94	43
Current period gain (loss) on cash flow hedges	(1,394)	1,423	298	649
Deferred tax benefit (provision) related to gain on cash flow hedges	178	(170)	(62)	(73)
Other Comprehensive Loss	(35,222)	(17,976)	(62,094)	(6,333)
Comprehensive Loss	\$ (69,576)	\$ (40,735)	\$ (142,588)	\$ (53,834)

See notes to condensed consolidated financial statements.

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	(unaudited)	
	September 30, 2022	December 31, 2021
Assets	(In thousands)	
Current Assets		
Cash and cash equivalents	\$ 45,439	\$ 83,745
Trade receivables, net	80,105	117,115
Installment receivables, net	255	218
Inventories, net	120,687	144,274
Other current assets	48,338	40,036
Total Current Assets	294,824	385,388
Other Assets		
Intangibles, net	5,330	5,362
Property and Equipment, net	23,390	26,356
Finance Lease Assets, net	53,244	60,921
Operating Lease Assets, net	56,083	63,029
Goodwill	9,980	12,600
Total Assets	314,755	355,875
	\$ 757,606	\$ 909,531
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$ 95,973	\$ 130,036
Accrued expenses	116,330	102,971
Current taxes payable	2,136	3,914
Current portion of long-term debt	2,150	3,107
Current portion of finance lease obligations	3,031	3,009
Current portion of operating lease obligations	3,062	4,217
Total Current Liabilities	222,682	247,254
Long-Term Debt		
Finance Lease Long-Term Obligations	333,129	305,022
Operating Leases Long-Term Obligations	57,511	63,736
Other Long-Term Obligations	6,865	8,234
Shareholders' Equity	56,374	66,796
Preferred Shares (Authorized 300 shares; none outstanding)	—	—
Common Shares (Authorized 150,000 shares; 42,328 and 39,416 issued and outstanding at September 30, 2022 and December 31, 2021, respectively)—no par	10,807	9,977
Class B Common Shares (Authorized 12,000 shares; 4 and 4 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively)—no par	2	2
Additional paid-in-capital	281,130	276,665
Retained earnings (accumulated deficit)	(57,849)	22,645
Accumulated other comprehensive income (loss)	(45,106)	16,988
Treasury Shares (4,535 and 4,397 shares at September 30, 2022 and December 31, 2021, respectively)	(107,939)	(107,788)
Total Shareholders' Equity	81,045	218,489
Total Liabilities and Shareholders' Equity	\$ 757,606	\$ 909,531

See notes to condensed consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2022	2021
	(In thousands)	
Operating Activities		
Net loss	\$ (80,494)	\$ (47,501)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	11,796	12,511
Amortization of operating lease right of use assets	3,749	4,757
Provision for losses on trade and installment receivables	715	327
Provision (benefit) for deferred income taxes	33	(148)
Provision (benefit) for other deferred liabilities	(738)	165
Provision for equity compensation	1,839	5,369
Loss (gain) on disposals of property and equipment	216	(232)
Net gain on debt extinguishment	(6,398)	(9,422)
Impairment of an intangible asset	1,012	—
Impairment of goodwill	—	28,564
Inventory write-downs and product line exit obligations	8,651	—
Amortization of convertible debt discount, term loan original issuance discount and accretion of convertible debt	2,864	2,637
Amortization of debt fees	1,676	1,622
Net gain on convertible debt derivatives	(950)	—
Changes in operating assets and liabilities:		
Trade receivables	29,087	(8,030)
Installment sales contracts, net	296	222
Inventories, net	5,969	(37,199)
Other current assets	(7,784)	8,215
Accounts payable	(26,160)	24,769
Accrued expenses	11,714	(24,182)
Other long-term liabilities	(3,967)	731
Net Cash Used by Operating Activities	(46,874)	(36,825)
Investing Activities		
Purchases of property and equipment	(3,302)	(14,397)
Proceeds from sale of property and equipment	5	23
Change in other long-term assets	(77)	(93)
Other	(539)	—
Net Cash Used by Investing Activities	(3,913)	(14,467)
Financing Activities		
Proceeds from revolving lines of credit and long-term borrowings	84,693	154,830
Repurchases of convertible debt, payments on revolving lines of credit and finance leases	(59,152)	(109,139)
Payment of financing costs	(8,046)	(5,369)
Purchases of capped calls	—	(18,787)
Purchases of treasury shares	(151)	(1,752)
Net Cash Provided by Financing Activities	17,344	19,783
Effect of exchange rate changes on cash	(4,863)	(133)
Decrease in cash and cash equivalents	(38,306)	(31,642)
Cash and cash equivalents at beginning of year	83,745	105,298
Cash and cash equivalents at end of period	\$ 45,439	\$ 73,656

See notes to condensed consolidated financial statements.

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity (unaudited)

(In thousands)	Common Shares	Class B Shares	Additional Paid-in- Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Shares	Total
June 30, 2022 Balance	\$ 10,132	\$ 2	\$ 278,788	\$ (23,495)	\$ (9,884)	\$ (107,939)	\$ 147,604
Performance awards	—	—	(495)	—	—	—	(495)
Restricted share awards	—	—	56	—	—	—	56
Net loss	—	—	—	(34,354)	—	—	(34,354)
Foreign currency translation adjustments	—	—	—	—	(34,051)	—	(34,051)
Unrealized loss on cash flow hedges	—	—	—	—	(1,216)	—	(1,216)
Defined benefit plans: Amortization of prior service costs and unrecognized losses and credits	—	—	—	—	45	—	45
Total comprehensive loss	—	—	—	—	—	—	(69,576)
Issuance of common shares	675	—	2,781	—	—	—	3,456
September 30, 2022 Balance	\$ 10,807	\$ 2	\$ 281,130	\$ (57,849)	\$ (45,106)	\$ (107,939)	\$ 81,045
June 30, 2021 Balance	\$ 9,977	\$ 2	\$ 278,152	\$ 43,466	\$ 57,079	\$ (107,786)	\$ 280,890
Performance awards	—	—	(1,250)	—	—	—	(1,250)
Restricted share awards	—	—	809	—	—	—	809
Net loss	—	—	—	(22,759)	—	—	(22,759)
Foreign currency translation adjustments	—	—	—	—	(19,202)	—	(19,202)
Unrealized gain on cash flow hedges	—	—	—	—	1,253	—	1,253
Defined benefit plans: Amortization of prior service costs and unrecognized losses and credits	—	—	—	—	(27)	—	(27)
Total comprehensive loss	—	—	—	—	—	—	(40,735)
September 30, 2021 Balance	\$ 9,977	\$ 2	\$ 277,711	\$ 20,707	\$ 39,103	\$ (107,786)	\$ 239,714

See notes to condensed consolidated financial statements.

INVACARE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity (unaudited)

(In thousands)	Common Shares	Class B Shares	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive (Loss)	Treasury Shares	Total
January 1, 2022 Balance	\$ 9,977	\$ 2	\$ 276,665	\$ 22,645	\$ 16,988	\$ (107,788)	\$ 218,489
Performance awards	—	—	(814)	—	—	—	(814)
Restricted share awards	155	—	2,498	—	—	(151)	2,502
Net loss	—	—	—	(80,494)	—	—	(80,494)
Foreign currency translation adjustments	—	—	—	—	(66,938)	—	(66,938)
Unrealized gain on cash flow hedges	—	—	—	—	236	—	236
Defined benefit plans: Amortization of prior service costs and unrecognized losses and credits	—	—	—	—	4,608	—	4,608
Total comprehensive loss	—	—	—	—	—	—	(142,588)
Issuance of common shares	675	—	2,781	—	—	—	3,456
September 30, 2022 Balance	<u>\$ 10,807</u>	<u>\$ 2</u>	<u>\$ 281,130</u>	<u>\$ (57,849)</u>	<u>\$ (45,106)</u>	<u>\$ (107,939)</u>	<u>\$ 81,045</u>
January 1, 2021 Balance	\$ 9,816	\$ 2	\$ 326,088	\$ 58,538	\$ 45,436	\$ (106,034)	\$ 333,846
Performance awards	52	—	747	—	—	(668)	131
Restricted share awards	109	—	4,461	—	—	(1,084)	3,486
Net loss	—	—	—	(47,501)	—	—	(47,501)
Foreign currency translation adjustments	—	—	—	—	(6,487)	—	(6,487)
Unrealized gain on cash flow hedges	—	—	—	—	576	—	576
Defined benefit plans: Amortization of prior service costs and unrecognized losses and credits	—	—	—	—	(422)	—	(422)
Total comprehensive loss	—	—	—	—	—	—	(53,834)
Adoption of ASU 2020-06	—	—	(34,798)	9,670	—	—	(25,128)
Purchase of capped calls	—	—	(18,787)	—	—	—	(18,787)
September 30, 2021 Balance	<u>\$ 9,977</u>	<u>\$ 2</u>	<u>\$ 277,711</u>	<u>\$ 20,707</u>	<u>\$ 39,103</u>	<u>\$ (107,786)</u>	<u>\$ 239,714</u>

See notes to condensed consolidated financial statements.

Accounting Policies

Principles of Consolidation: The condensed consolidated financial statements include the accounts of the company and its wholly owned subsidiaries and include all adjustments, which were of a normal recurring nature, necessary to present fairly the financial position of the company as of September 30, 2022 and the results of its operations and changes in its cash flow for the nine months ended September 30, 2022 and 2021, respectively. Certain foreign subsidiaries, represented by the European segment, are consolidated using an August 31 quarter end 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. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates: The condensed 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.

Recent Accounting Pronouncements (Already Adopted):

In March 2020, the FASB issued ASU 2020-04 "Reference Rate Reform (Topic 848): Facilitation of Effects of Reference Rate Reform on Financial Reporting," which is intended to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burden related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates if certain criteria are met. The guidance may be adopted in any period prior to the guidance expiration on December 31, 2022.

The company adopted ASU 2020-04 effective January 1, 2022 and the adoption did not have a material impact on the company's financial statements. Interest arrangements previously referring to LIBOR prior to adoption, now refer to a secured overnight finance rate (SOFR).

Current Assets

Receivables

Receivables consist of the following (in thousands):

	September 30, 2022	December 31, 2021
Accounts receivable, gross	\$ 99,780	\$ 142,806
Customer rebate reserve	(8,722)	(12,267)
Cash discount reserves	(7,174)	(9,179)
Allowance for doubtful accounts	(3,214)	(3,642)
Other, principally returns and allowances reserves	(565)	(603)
Accounts receivable, net	<u>\$ 80,105</u>	<u>\$ 117,115</u>

Reserves for customer rebates and cash discounts are recorded as a reduction in revenue and netted against gross accounts receivable. Customer rebates in excess of a given customer's accounts receivable balance are classified in Accrued Expenses. Customer rebates and cash discounts are estimated based on the most likely amount principle as well as historical experience and anticipated performance. In addition, customers have the right to return product within the company's normal terms policy, and as such, the company estimates the expected returns based on an analysis of historical experience and adjusts revenue accordingly.

During the third quarter of 2021, the company entered into an agreement with a bank to sell certain trade receivables with governmental entity customers in the Nordic region without recourse. Under ASC 860, the sale of the receivables qualify as a true sale and not a secured borrowing. No gain or loss was recorded on the sale of the receivables. Bank charges, which are recorded as interest expense attributable to the program, were immaterial for the nine months ended September 30, 2022.

Accounts receivable are reduced by an allowance for amounts that may become uncollectible in the future. Substantially all the company's receivables are due from health care, medical equipment providers and long-term care facilities predominantly located throughout the United States, Australia, Canada, New Zealand and Europe. A significant portion of products sold to providers, both foreign and domestic, are ultimately funded through government reimbursement programs such as Medicare and Medicaid in the U.S. As a consequence, changes in these programs can have an adverse impact on dealer liquidity and profitability.

The company's approach is to separate its receivables into good-standing and collection receivables. Good-standing

receivables are assigned to risk pools of high, medium and low. The risk pools are driven by the specifics associated with the geography of origination. Expected loss percentages are calculated and assigned to each risk pool, driven primarily by historical experience. The historical loss percentages are calculated for each risk pool and then judgmentally revised to consider current risk factors as well as consideration of the impact of forecasted events, as applicable. The expected loss percentages are then applied to receivables balances each period to determine the allowance for doubtful accounts.

In North America, excluding Canada, good-standing receivables are assigned to the low risk pool and assigned an expected loss percentage of 1.0% as these receivables are deemed to share the same risk profile and collections efforts are the same. Installment receivables in North America are characterized as collection receivables and thus reserves are based on specific analysis of each customer. In Canada, good-standing receivables are deemed low risk and assigned a loss percentage of 0.1%.

In Europe, expected losses are determined by each location in each region. Most locations have a majority of their receivables assigned to the low risk pool, which has an average expected loss percentage of 0.3%. About half of the locations have a portion of their receivables assigned as medium risk with an average expected loss percentage of 0.7%. Only a few locations have any receivables characterized as high risk and the average credit loss percentage for those locations is 2.8%. Collection risk is generally low as payment terms in certain key markets, such as Germany, are immediate and in many locations the ultimate customer is the government.

In the Asia Pacific region, receivables are characterized as low risk, which have an average expected loss percentage of 1.0%. Historical losses are low in this region where the use of credit insurance is often customary.

The movement in the trade receivables allowance for doubtful accounts was as follows (in thousands):

	Nine Months Ended September 30, 2022
Balance as of beginning of period	\$ 3,642
Current period provision	715
Recoveries (direct write-offs), net	(1,143)
Balance as of end of period	<u>3,214</u>

The company did not make any material changes to the assignment of receivables to the different risk pools or to the expected loss reserves in the quarter. The company is monitoring the impacts of the COVID-19 pandemic and the possibility for an impact on collections, but to date this has not materially impacted 2022.

For collections receivables, the estimated allowance for uncollectible amounts is based primarily on management's evaluation of the financial condition of each customer. In addition, as a result of the company's financing arrangement with DLL, a third-party financing company which the company has worked with since 2000, management monitors the collection status of these contracts in accordance with the company's limited recourse obligations and provides amounts necessary for estimated losses in the allowance for doubtful accounts and establishes reserves for specific customers as needed.

The company writes off uncollectible trade accounts receivable after such receivables are moved to collection status and legal remedies are exhausted. Refer to Concentration of Credit Risk in the notes to the condensed consolidated financial statements for a description of the financing arrangement. Long-term installment receivables are included in "Other Assets" on the condensed consolidated balance sheets.

The company has recorded a contingent liability in the amount of \$393,000 related to the contingent aspect of the company's guarantee associated with its arrangement with DLL. The contingent liability is recorded applying the same expected loss model used for the trade and installment receivables recorded on the company's books. Specifically, historical loss history is used to determine the expected loss percentage, which is then adjusted judgmentally to consider other factors, as needed.

The company's U.S. customers electing to finance their purchases can do so using DLL. Repurchased DLL receivables recorded on the books of the company represent a single portfolio segment of receivables to the independent provider channel and long-term care customers. The portfolio segment

of these receivables are distinguished by geography and credit quality. These receivables were repurchased from DLL because the customers were in default. Default with DLL is defined as a customer being delinquent by three payments.

The estimated allowance for uncollectible amounts and evaluation for both classes of installment receivables is based on the company's quarterly review of the financial condition of each individual customer with the allowance for doubtful accounts adjusted accordingly. Installments are individually and not collectively reviewed. The company assesses the bad debt reserve levels based upon the status of the customer's adherence to a legally negotiated payment schedule and the company's ability to enforce judgments, liens, etc.

For purposes of granting or extending credit, the company utilizes a scoring model to generate a composite score that considers each customer's consumer credit score and/or D&B credit rating, payment history, security collateral and time in business. Additional analysis is performed for most customers desiring credit greater than \$250,000, which generally includes a detailed review of the customer's financial statements as well as consideration of other factors such as exposure to changing reimbursement laws.

Interest income is recognized on installment receivables based on the terms of the installment agreements. Installment accounts are monitored and if a customer defaults on payments and is moved to collection, interest income is no longer recognized. Subsequent payments received once an account is put on non-accrual status are generally first applied to the principal balance and then to the interest. Accruing of interest on collection accounts would only be restarted if the account became current again.

All installment accounts are accounted for using the same methodology regardless of the duration of the installment agreements. When an account is placed in collection status, the company goes through a legal process for pursuing collection of outstanding amounts, the length of which typically approximates eighteen months. Any write-offs are made after the legal process has been completed.

Installment receivables consist of the following (in thousands):

	September 30, 2022			December 31, 2021		
	Current	Long-Term	Total	Current	Long-Term	Total
Installment receivables	\$ 255	\$ 274	\$ 529	\$ 218	\$ 734	\$ 952
Allowance for doubtful accounts	—	—	—	—	—	—
Installment receivables, net	<u>\$ 255</u>	<u>\$ 274</u>	<u>\$ 529</u>	<u>\$ 218</u>	<u>\$ 734</u>	<u>\$ 952</u>

No sales of installment receivables were recorded by the company in 2022.

The movement in the installment receivables allowance for doubtful accounts was as follows (in thousands):

	Nine Months Ended September 30, 2022	Year Ended December 31, 2021
Balance as of beginning of period	\$ —	\$ 487
Current period provision (benefit)	—	(75)
Direct write-offs charged against the allowance	—	(412)
Balance as of end of period	<u>\$ —</u>	<u>\$ —</u>

Installment receivables by class as of September 30, 2022 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
Asia Pacific				
Non-Impaired installment receivables with no related allowance recorded	529	529	—	—
Total				
Non-Impaired installment receivables with no related allowance recorded	529	529	—	—
Impaired installment receivables with a related allowance recorded	—	—	—	—
Total installment receivables	<u>\$ 529</u>	<u>\$ 529</u>	<u>\$ —</u>	<u>\$ —</u>

Installment receivables by class as of December 31, 2021 consist of the following (in thousands):

	Total Installment Receivables	Unpaid Principal Balance	Related Allowance for Doubtful Accounts	Interest Income Recognized
Asia Pacific				
Non-impaired installment receivables with no related allowance recorded	952	952	—	—
Total installment receivables	\$ 952	\$ 952	\$ —	\$ —

The aging of the company's installment receivables was as follows (in thousands):

	September 30, 2022		December 31, 2021	
	Total	Asia Pacific	Total	Asia Pacific
Current	\$ 529	\$ 529	\$ 952	\$ 952
0-30 days past due	—	—	—	—
31-60 days past due	—	—	—	—
61-90 days past due	—	—	—	—
90+ days past due	—	—	—	—
	\$ 529	\$ 529	\$ 952	\$ 952

Inventories, Net

Inventories consist of the following (in thousands):

	September 30, 2022	December 31, 2021
Raw materials	\$ 60,082	\$ 69,371
Finished goods	49,270	62,124
Work in process	11,335	12,779
Inventories, net	<u>\$ 120,687</u>	<u>\$ 144,274</u>

Other Current Assets

Other current assets consist of the following (in thousands):

	September 30, 2022	December 31, 2021
Tax receivables principally value added taxes	\$ 29,152	\$ 21,943
Prepaid insurance	3,045	4,462
Prepaid inventory and freight	2,938	2,394
Derivatives (foreign currency forward exchange contracts)	2,626	386
Recoverable income taxes	2,440	2,301
Service contracts	682	304
Receivable due from information technology provider	612	612
Deferred financing fees	323	379
Prepaid and other current assets	6,520	7,255
Other Current Assets	<u>\$ 48,338</u>	<u>\$ 40,036</u>

Long-Term Assets

Other Long-Term Assets

Other long-term assets consist of the following (in thousands):

	September 30, 2022	December 31, 2021
Cash surrender value of life insurance policies	\$ 2,551	\$ 2,481
Deferred income taxes	1,615	1,540
Deferred financing fees	726	409
Installment receivables	274	734
Investments	85	86
Other	79	112
Other Long-Term Assets	\$ 5,330	\$ 5,362

Property and Equipment

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

	September 30, 2022	December 31, 2021
Machinery and equipment	\$ 267,218	\$ 278,347
Capitalized software	30,904	30,448
Land, buildings and improvements	24,432	27,299
Furniture and fixtures	7,970	8,943
Leasehold improvements	4,730	6,782
Property and Equipment, gross	335,254	351,819
Accumulated depreciation	(282,010)	(290,898)
Property and Equipment, net	\$ 53,244	\$ 60,921

Machinery and equipment includes demonstration units placed in provider locations which are depreciated to their estimated recoverable values over their estimated useful lives.

In the fourth quarter of 2019, the company initiated the first stage of an Enterprise Resource Planning ("ERP") software implementation. Related to the ERP project, the company capitalized certain costs in accordance with ASC 350 as shown in capitalized software above. The net book value of capitalized software was \$26,833,000 and \$28,715,000 at September 30, 2022 and December 31, 2021, respectively. Depreciation expense related to capitalized software started in 2021 and was \$832,000 and \$2,342,000 for the three and nine months ended September 30, 2022, respectively, compared to \$419,000 and \$1,084,000 for the three and nine months ended September 30, 2021, respectively.

Unpaid purchases of property and equipment at September 30, 2022 and December 31, 2021 were \$0 and \$1,090,000, respectively and are excluded from purchases of property and equipment on the condensed consolidated statements of cash flows for the periods ending and are included in subsequent periods when paid.

Goodwill

The change in goodwill from December 31, 2021 to September 30, 2022 was due to foreign currency translation.

In accordance with *Intangibles—Goodwill and Other*, ASC 350, goodwill is tested annually for impairment or whenever events or changes in circumstances indicate the carrying value of a reporting unit could be above its fair value. A reporting unit is defined as an operating segment or one level below. The company has determined that its reporting units are North America, Europe and Asia Pacific.

During the three months ended September 30, 2022, a continued decline in the share price of the company's Common Shares sustained the company's market capitalization below the carrying value of shareholders' equity. Further, inputs used in estimating the weighted average cost of capital ("WACC") had moved unfavorably to increase the WACC used in a discounted cash flows model. The combination of these and other developments were identified as a triggering event and the company proceeded with a quantitative goodwill impairment assessment of its Europe reporting unit (the only reporting unit with goodwill).

A quantitative goodwill impairment assessment was performed as of September 30, 2022, utilizing a discounted cash flows methodology. Key assumptions used in the discounted cash flow analysis included, but were not limited to, a WACC of approximately 14.51%, terminal growth rates and financial projections of performance and cash flows. Components of the WACC include quoted rates for 20-year debt of potential acquirer companies with similar credit risk and the cost of equity based on the 20-year treasury rate for the risk free rate, a market risk premium, an industry average beta and a small cap stock adjustment. The assumptions are based on a market participant's point of view and thus these inputs are deemed Level III inputs in regard to the fair value hierarchy. The WACC used in the 2021 annual assessment was 11.19%. The WACC used has a significant impact in the outcome of the discounted cash flow methodology utilized in the company's impairment assessment as a higher WACC would decrease fair value estimates.

The company also utilized an Enterprise Value ("EV") to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") method to compute the fair value of reporting units which considers potential acquirers and their EV to EBITDA multiples adjusted by an estimated premium. The EV method is used to corroborate fair values but more weight is placed on the discounted cash flow method results.

The company concluded based on the results of the interim quantitative goodwill impairment assessment

performed as of September 30, 2022 that goodwill was not impaired.

The valuation of goodwill can differ materially if financial projections or market inputs used to determine the WACC change significantly. For instance, higher interest rates or greater stock price volatility would increase the WACC and thus increase the chance of impairment. Assumptions used in the quantitative assessment require significant judgements and estimates which are inherently uncertain. If actual results are materially lower than estimates, it could result in a material impact on the consolidated financial statements in future periods. In addition, business changes impacting the company's assessment of reporting units could also have a material impact on impairment assessment results. For instance, higher interest rates or greater stock price volatility would increase the WACC and thus increase the chance of impairment. In consideration of this potential, the company assessed the results if the discount rate used were 100 basis points higher for the third quarter quantitative assessment and determined that there still would not be impairment of goodwill for the Europe reporting unit.

The company completed an interim test of the North America reporting unit in the third quarter of 2021 which resulted in impairment of \$28,564,000.

Refer to Goodwill in the company's Annual Report on Form 10-K for the period ending December 31, 2021 for further disclosure regarding the company's annual impairment assessment methodology.

Intangibles

The company's intangibles consist of the following (in thousands):

	September 30, 2022		December 31, 2021	
	Historical Cost	Accumulated Amortization	Historical Cost	Accumulated Amortization
Customer lists	\$ 47,041	\$ 47,041	\$ 52,447	\$ 52,447
Trademarks	20,447	—	24,137	—
Developed technology	6,973	6,648	7,652	7,149
Patents	5,471	5,471	5,543	5,543
License agreements	3,967	1,356	2,905	1,196
Other	1,148	1,141	1,147	1,140
Intangibles	<u>\$ 85,047</u>	<u>\$ 61,657</u>	<u>\$ 93,831</u>	<u>\$ 67,475</u>

All of the company's intangible assets have been assigned definite lives and continue to be amortized over their useful lives, except for trademarks shown above, which have indefinite lives.

The changes in intangible balances reflected on the balance sheet from December 31, 2021 to September 30, 2022 were primarily the result of foreign currency translation on historical cost and accumulated amortization as well as new license agreements.

The company evaluates the carrying value of definite-lived assets annually in the fourth quarter and whenever events or circumstances indicate possible impairment.

Definite-lived assets are determined to be impaired if the future undiscounted cash flows expected to be generated by the asset are less than the carrying value. Actual impairment amounts for definite-lived assets are then calculated using a discounted cash flow calculation.

Any impairment for indefinite-lived intangible assets is calculated as the difference between the future discounted cash flows expected to be generated by the asset and the carrying value of the asset.

Amortization expense related to intangible assets was \$358,000 in the first nine months of 2022 and is expected to be \$510,000 in 2022, \$612,000 in 2023, \$547,000 in 2024, \$439,000 in 2025, \$437,000 in 2026 and \$311,000 in 2027. Amortized intangible assets are being amortized on a straight-line basis over remaining lives of 2 to 7 years with a weighted average remaining life of approximately 5.8 years.

During the third quarter of 2022, the company recognized an intangible impairment charge in the North America segment of \$1,012,000 related to a trademark with an indefinite life the company determined it would no longer use.

Current Liabilities

Accrued Expenses

Accrued expenses consist of accruals for the following (in thousands):

	September 30, 2022	December 31, 2021
Taxes other than income taxes, primarily value added taxes	\$ 32,221	\$ 23,217
Salaries and wages	17,177	24,012
Professional	11,759	8,697
Warranty	8,576	11,198
Freight	5,918	5,460
Interest	5,197	3,297
Derivative liabilities (foreign currency forward exchange contracts)	4,890	1,938
Rebates	4,782	6,569
IT service contracts	4,000	4,013
Insurance	3,837	625
Severance	3,450	400
Product line exit obligations	3,264	—
Product liability, current portion	2,620	2,362
Deferred revenue	1,903	4,156
Supplemental executive retirement program liability	391	391
Other items, principally trade accruals	6,345	6,636
Accrued Expenses	\$ 116,330	\$ 102,971

Generally, the company's products are covered by warranties against defects in material and workmanship for various periods depending on the product from the date of sales 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. In addition, the company has sold extended warranties that, while immaterial, require the company to defer the revenue associated with those warranties until earned. The company has established procedures to appropriately defer such revenue. 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 field action and recalls, which could require additional warranty reserve provision.

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. Rebates are netted against gross accounts receivables. If rebates are in excess of such receivables, they are then classified as accrued expenses. The reduction in accrued rebates from December 31, 2021 to September 30, 2022 primarily relates to payments principally made in the first quarter each year, earned from the previous year.

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

Balance as of January 1, 2022	\$ 11,198
Warranties provided during the period	1,842
Settlements made during the period	(4,596)
Changes in liability for pre-existing warranties during the period, including expirations	132
Balance as of September 30, 2022	<u><u>\$ 8,576</u></u>

Warranty reserves are subject to adjustment in future periods as new developments change the company's estimate of the total cost. Lower balance at September 30, 2022 is primarily attributable to favorable claim development and lower sales.

Long-Term Liabilities

Long-Term Debt

Debt consists of the following (in thousands):

	September 30, 2022	December 31, 2021
Convertible senior notes at 4.50%, due in June 2022	—	2,642
Convertible senior notes Series I at 5.00%, due in November 2024	72,341	72,140
Convertible senior notes Series II at 5.00%, due in November 2024	75,764	78,251
Convertible senior notes at 4.25%, due in March 2026	80,898	119,036
Secured convertible senior notes at 5.68%, due in July 2026	27,463	—
Term loan, due in July 2026	59,724	—
Other obligations	19,089	36,060
	<hr/>	<hr/>
Less current maturities of long-term debt	335,279	308,129
Long-Term Debt	(2,150)	(3,107)
	<hr/>	<hr/>
	\$ 333,129	\$ 305,022

On September 30, 2015, the company entered into an Amended and Restated Revolving Credit and Security Agreement, which was subsequently amended (the “Prior Credit Agreement”) and which was to mature on January 16, 2024. The Prior Credit Agreement was entered into by and among the company, certain of the company’s direct and indirect U.S. and Canadian subsidiaries and certain of the company’s European subsidiaries, certain other of the company’s direct and indirect U.S., Canadian and European subsidiaries, and PNC Bank, National Association (“PNC”), JPMorgan Chase Bank, N.A., J.P. Morgan Europe Limited, KeyBank National Association, and Citizens Bank, National Association. PNC was the administrative agent (the “Prior Credit Agreement Administrative Agent”) and J.P. Morgan Europe Limited is the European agent (the “European Agent”) under the Prior Credit Agreement. As discussed further below, the Prior Credit Agreement was amended and restated (“the ABL Credit Agreement”) on July 26, 2022.

The company had outstanding letters of credit of \$3,576,000 and \$3,450,000 as of September 30, 2022 and December 31, 2021, respectively. Outstanding letters of credit and other reserves impacting borrowing capacity were \$4,902,000 and \$2,585,000 as of September 30, 2022 and December 31, 2021, respectively.

The company had outstanding borrowings of \$16,900,000 under its ABL Credit Agreement as of September 30, 2022. The company had outstanding borrowings of \$22,150,000 under its North America Credit Facility under the Prior Credit Agreement as of December 31, 2021. The company had outstanding borrowings of \$7,366,000 (€6,500,000) under its

French Credit Facility and \$5,986,000 (£4,500,000) under its UK Credit Facility under its Prior Credit Agreement as of December 31, 2021, together referred to as the European Credit Facility. No borrowings were outstanding under the European Credit Facility as of September 30, 2022 as it was terminated July 26, 2022.

North America Borrowers Credit Facility

For the company’s North America Borrowers, the Prior Credit Agreement provided for an asset-based-lending senior secured revolving credit facility which was secured by substantially all the company’s U.S. and Canadian assets, other than real estate. The Prior Credit Agreement provided the company and the other Borrowers with a credit facility in an aggregate principal amount of \$60,000,000, subject to availability based on a borrowing base formula, under a senior secured revolving credit, letter of credit and swing line loan facility (the “North America Credit Facility”). Up to \$20,000,000 of the North America Credit Facility was available for issuance of letters of credit. The aggregate principal amount of the North America Credit Facility could have been increased by up to \$25,000,000 to the extent requested by the company and agreed to by any lender or new financial institution approved by the Prior Credit Agreement Administrative Agent.

The aggregate borrowing availability under the North America Credit Facility was determined based on a borrowing base formula. The aggregate usage under the North America Credit Facility could not exceed an amount equal to the sum of (a) 85% of eligible U.S. accounts receivable *plus* (b) the lesser

of (i) 70% of eligible U.S. inventory and eligible foreign in-transit inventory and (ii) 85% of the net orderly liquidation value of eligible U.S. inventory and eligible foreign in-transit inventory (not to exceed \$4,000,000), *plus* (c) the lesser of (i) 80% of the net orderly liquidation value of U.S. eligible machinery and equipment and (ii) \$0 as of September 30, 2022 (subject to reduction as provided in the Prior Credit Agreement), *plus* (d) 85% of eligible Canadian accounts receivable, *plus* (e) the lesser of (i) 70% of eligible Canadian inventory and (ii) 85% of the net orderly liquidation value of eligible Canadian inventory, *less* (f) swing loans outstanding under the North America Credit Facility, *less* (g) letters of credit issued and undrawn under the North America Credit Facility, *less* (h) a \$3,000,000 minimum availability reserve, *less* (i) other reserves required by the Prior Credit Agreement Administrative Agent, and in each case subject to the definitions and limitations in the Prior Credit Agreement.

Interest accrued on outstanding indebtedness under the Prior Credit Agreement at the SOFR rate, plus a margin ranging from 2.25% to 2.75%, or at the alternate base rate, plus a margin ranging from 1.25% to 1.75%, as selected by the company. Borrowings under the North America Credit Facility are subject to commitment fees of 0.25% or 0.375% per year, depending on utilization.

The Prior Credit Agreement contained customary representations, warranties and covenants. Exceptions to the operating covenants in the Prior Credit Agreement provide the company with flexibility to, among other things, enter into or undertake certain sale and leaseback transactions, dispositions of assets, additional credit facilities, sales of receivables, additional indebtedness and intercompany indebtedness, all subject to limitations set forth in the Prior Credit Agreement, as amended. The Prior Credit Agreement also contained a covenant requiring the company to maintain minimum availability under the North America Credit Facility of not less than (i) 12.5% of the maximum amount that may be drawn under the North America Credit Facility for five (5) consecutive business days, or (ii) 11.25% of the maximum amount that may be drawn under the North America Credit Facility on any business day. The company also is subject to dominion triggers under the North America Credit Facility requiring the company to maintain borrowing capacity of not less than \$7,500,000 on any business day or any five consecutive days in order to avoid triggering full control by an agent for the lenders of the company's cash receipts for application to the company's obligations under the agreement.

The Prior Credit Agreement contained customary default provisions, with certain grace periods and exceptions, which provide for events of default that include, among other things, failure to pay amounts due, breach of covenants, representations or warranties, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical

reimbursement program, and an interruption of any material manufacturing facilities for more than 10 consecutive days. The proceeds of the North America Credit Facility were used to finance the working capital and other business needs of the company. There was \$16,900,000 of outstanding borrowings under the North America Credit Facility on September 30, 2022.

European Credit Facility

The Prior Credit Agreement also provided for a revolving credit, letter of credit and swing line loan facility which gives the company and the European Borrowers the ability to borrow up to an aggregate principal amount of \$30,000,000, with a \$5,000,000 sublimit for letters of credit and a \$2,000,000 sublimit for swing line loans (the "European Credit Facility"). Up to \$15,000,000 of the European Credit Facility was available to each of Invacare Limited (the "UK Borrower") and Invacare Poirier SAS (the "French Borrower" and, together with the UK Borrower, the "European Borrowers"). The European Credit Facility was terminated on July 26, 2022.

The aggregate borrowing availability for each European Borrower under the European Credit Facility is determined based on a borrowing base formula. The aggregate borrowings of each of the European Borrowers under the European Credit Facility may not exceed an amount equal to (a) 85% of the European Borrower's eligible accounts receivable, *less* (b) the European Borrower's borrowings and swing line loans outstanding under the European Credit Facility, *less* (c) the European Borrower's letters of credit issued and undrawn under the European Credit Facility, *less* (d) a \$3,000,000 minimum availability reserve, *less* (e) other reserves required by the European Agent, and in each case subject to the definitions and limitations in the Prior Credit Agreement.

Interest was accrued on outstanding indebtedness under the European Credit Facility at the SOFR rate, plus a margin ranging from 2.50% to 3.00%, or for swing line loans, at the overnight SOFR rate, plus a margin ranging from 2.50% to 3.00%, as selected by the company. The margin was adjusted quarterly based on utilization. Borrowings under the European Credit Facility were subject to commitment fees of 0.25% or 0.375% per year, depending on utilization.

The European Credit Facility was secured by substantially all the personal property assets of the UK Borrower and its in-country subsidiaries, and all the receivables of the French Borrower and its in-country subsidiaries. The UK and French facilities (which comprised the European Credit Facility) were cross collateralized, and the US personal property assets previously pledged under the North America Credit Facility also served as collateral for the European Credit Facility.

The European Credit Facility was subject to customary representations, warranties and covenants generally consistent with those applicable to the North America Credit Facility. Exceptions to the operating covenants in the Prior Credit Agreement provided the company with flexibility to, among other things, enter into or undertake certain sale/leaseback transactions, dispositions of assets, additional credit facilities, sales of receivables, additional indebtedness and intercompany indebtedness, all subject to limitations set forth in the Prior Credit Agreement. The Prior Credit Agreement also contained a covenant requiring the European Borrowers to maintain undrawn availability under the European Credit Facility of not less than (i) 12.5% of the maximum amount that may be drawn under the European Credit Facility for five (5) consecutive business days, or (ii) 11.25% of the maximum amount that may be drawn under the European Credit Facility on any business day. The European Borrowers also were subject to cash dominion triggers under the European Credit Facility requiring the European Borrower to maintain borrowing capacity of not less than \$3,750,000 on any business day or \$3,750,000 for five consecutive business days in order to avoid triggering full control by an agent for the lenders of the European Borrower's cash receipts for application to its obligations under the European Credit Facility.

The European Credit Facility was subject to customary default provisions, with certain grace periods and exceptions, consistent with those applicable to the North America Credit Facility, which provide that events of default include, among other things, failure to pay amounts due, breach of covenants, representations or warranties, cross-default, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical reimbursement program, and an interruption in the operations of any material manufacturing facility for more than 10 consecutive days. The proceeds of the European Credit Facility were used to finance the working capital and other business needs of the company. The company had outstanding borrowings of \$7,366,000 (€6,500,000) under its French Credit Facility and \$5,986,000 (£4,500,000) under its UK Credit Facility as of December 31, 2021.

In January 2021, the Prior Credit Agreement was amended to provide for, among other things, the addition of the company's Netherlands subsidiary as a guarantor under the European Credit Facility, amendments to the restrictive covenants in the Prior Credit Agreement to (1) increase the maximum amount of permitted miscellaneous indebtedness to \$30,000,000 from \$10,000,000 and (2) permit up to \$9,000,000 of financing based on certain European public and government receivables, and terms that, upon the occurrence of certain events related to a transition from the use of LIBOR, permit the agent for the lenders to amend the Prior Credit

Agreement to replace the LIBOR rate and/or the Euro rate with a benchmark replacement rate.

In March 2021, the Prior Credit Agreement was further amended to permit the issuance of the 2026 Notes and the capped call transactions entered into by the company in connection with the issuance of the 2026 Notes, as further discussed in the sections below.

On December 29, 2021, the Prior Credit Agreement was further amended with the primary provisions to replace the references to the LIBOR rate or Euro rate to a term secured overnight finance rate ("SOFR").

ABL Credit Agreement

On July 26, 2022, the company entered into a Second Amended and Restated Revolving Credit and Security Agreement (the "ABL Credit Agreement"), amending and restating the company's existing Revolving Credit and Security Agreement, as amended (the "Prior Credit Agreement"). The ABL Credit Agreement was entered into by and among the company, certain of the company's direct and indirect domestic and Canadian subsidiaries (together with the company, the "Borrowers"), certain other of the company's direct and indirect domestic and Canadian subsidiaries (the "Guarantors"), and PNC Bank, National Association ("PNC") and JPMorgan Chase Bank, N.A. (the "ABL Lenders"). PNC is the administrative agent (the "Administrative Agent") under the ABL Credit Agreement.

The ABL Credit Agreement retained the existing asset-based lending senior secured revolving credit facility provided for the company and the domestic and Canadian Borrowers under the Prior Credit Agreement but extended the maturity date to January 16, 2026, reduced the maximum aggregate principal amount the company and the domestic and Canadian Borrowers may borrow to \$35,000,000, limits the borrowing base thereunder to eligible domestic and Canadian accounts receivable and includes a minimum availability reserve of \$3,000,000. Borrowings under the ABL Credit Agreement also are subject to a springing maturity date of 191 days prior to the maturity dates of certain convertible notes due 2024 and 2026, and 100 days prior to the maturity date of the Secured Term Loan under the Highbridge Loan Agreement, if such notes or such term loan remain outstanding as of such respective dates. The ABL Credit Agreement also permits the loans made under the Highbridge Loan Agreement and terminated the European Credit Facility under the Prior Credit Agreement. In connection with the ABL Credit Agreement and the Highbridge Loan Agreement, the European Credit Facility under the Prior Credit Agreement was repaid in full and the liens securing the European Credit Facility under the Prior Credit Agreement were terminated and released.

The aggregate borrowing availability under the ABL Credit Agreement is determined based on a borrowing base formula. As of September 30, 2022, the company had gross

borrowing base of \$33,133,000 and net borrowing availability of \$17,336,000 under the ABL Credit Agreement, considering the minimum availability reserve, then-outstanding letters of credit, other reserves and the \$4,375,000 dominion trigger amount.

Interest accrues on outstanding indebtedness under the ABL Credit Agreement at an adjusted Term SOFR rate, plus a margin of 3.25%, or for swing line loans and prime rate revolving loans, at the overnight Prime rate, plus a margin of 2.25%.

The ABL Credit Agreement contains customary terms and covenants and negative covenants, such as limitations on indebtedness, liens, fundamental changes, asset sales, investments and other matters customarily restricted in such agreements. Most of these restrictions are subject to certain minimum thresholds and exceptions. The ABL Credit Agreement also contains customary events of default, after which the revolving loan may be due and payable immediately, including, without limitation, payment defaults, material inaccuracy of representations and warranties, covenant defaults, bankruptcy and insolvency proceedings, cross-defaults to certain other agreements, judgments against the company and its subsidiaries, change in control and lien priority.

Proceeds from the Secured Term Loan under the Highbridge Loan Agreement were used to repay in full outstanding borrowings under the Prior Credit Agreement. Refer to the Term Loan due 2026 section below.

In connection with entering into the company's Prior Credit Agreement and the ABL Credit Agreement, the company incurred fees which were capitalized and are being amortized as interest expense. As of September 30, 2022, debt fees yet to be amortized totaled \$1,043,000.

The company was in compliance with the ABL Credit Agreement covenants at September 30, 2022.

Convertible senior notes due 2022

In the second quarter of 2017, the company issued \$120,000,000 aggregate principal amount of 4.50% Convertible Senior Notes due 2022 (the "2022 Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The 2022 Notes bore interest at a rate of 4.50% per year payable semi-annually in arrears on June 1 and December 1 of each year, beginning December 1, 2017. The 2022 Notes matured on June 1, 2022. At maturity, \$2,650,000 principal amount of the 2022 Notes were outstanding, which the company repaid in cash.

In connection with the offering of the 2022 Notes, the company entered into privately negotiated convertible note hedge transactions with one financial institution (the "option counterparty"). The company evaluated the note hedges under

the applicable accounting literature, including *Derivatives and Hedging*, ASC 815, and determined that the note hedges should be accounted for as derivatives. These derivatives were capitalized on the balance sheet as long-term assets and were adjusted to reflect fair value each quarter. The fair value of the convertible note hedge assets at issuance was \$24,780,000. All note hedge options relating to the 2022 Notes expired on June 1, 2022.

The company entered into separate, privately negotiated warrant transactions with the option counterparty at a higher strike price relating to the same number of the company's Common Shares, subject to customary anti-dilution adjustments, pursuant to which the company sold warrants to the option counterparties. The warrants could have a dilutive effect on the company's outstanding Common Shares and the company's earnings per share to the extent that the price of the company's Common Shares exceeds the strike price of those warrants. The initial strike price of the warrants is \$21.4375 per share and is subject to certain adjustments under the terms of the warrant transactions. The company evaluated the warrants under the applicable accounting literature, including *Derivatives and Hedging*, ASC 815, and determined that the warrants meet the definition of a derivative, are indexed to the company's own shares and should be classified in shareholders' equity. The amount paid for the warrants and capitalized in shareholders' equity was \$14,100,000.

Warrants relating to the 2022 Notes outstanding on September 30, 2022 were 6,918,006. If exercised, one common share is issued upon exercise of each warrant, but may be adjusted under certain circumstances if the relevant share price exceeds the warrant strike price for the relevant measurement period at the time of exercise. Common Shares are reserved for issuance upon exercise of the remaining warrants relating to the 2022 Notes at two Common Shares per warrant. The warrants began to expire on September 1, 2022 and then partially expire on each trading day over the 220 trading day period following September 1, 2022.

The net proceeds from the offering of the 2022 Notes were approximately \$115,289,000, after deducting fees and offering expenses of \$4,711,000, which were paid in 2017. These debt issuance costs were capitalized and were amortized as interest expense through June 2022. Debt issuance costs are presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability. A portion of the net proceeds from the offering were used to pay the cost of the convertible note hedge transactions (after such cost is partially offset by the proceeds to the company from the warrant transactions), which net cost was \$10,680,000.

During the second quarter of 2020, the company entered into separate, privately negotiated agreements with certain holders of the company's previously outstanding convertible notes due 2021 (the "2021 Notes") and certain holders of its

2022 Notes to exchange \$35,375,000 in aggregate principal amount of 2021 Notes and \$38,500,000 in aggregate principal amount of 2022 Notes, for aggregate consideration of \$73,875,000 in aggregate principal amount of new Series II 2024 Notes and \$5,593,000 in cash.

During the first quarter of 2021, the company repurchased \$78,850,000 in principal amount of 2022 Notes, resulting in a loss on debt extinguishment of \$709,000.

The liability components of the 2022 Notes consist of the following (in thousands):

	September 30, 2022	December 31, 2021
Principal amount of liability component	\$ —	\$ 2,650
Debt fees	<u>—</u>	(8)
Net carrying amount of liability component	<u>\$ —</u>	<u>\$ 2,642</u>

The effective interest rate on the liability component was 10.9% upon original issuance including consideration of the discount. Total interest expense subsequent to adoption of ASU 2020-06 includes coupon interest and amortization of debt fees. Interest expense of \$0 and \$50,000 was accrued for the three and nine months ended September 30, 2022 compared to \$30,000 and \$829,000 for the three and nine months ended September 30, 2021, based on the stated coupon rate of 4.5%.

Convertible senior notes Series I due 2024

During the fourth quarter of 2019, the company entered into separate privately negotiated agreements with certain holders of its 2021 Notes to exchange \$72,909,000 in aggregate principal amount of 2021 Notes for aggregate consideration of \$72,909,000 in aggregate principal amount of new 5.00% Convertible Senior Notes due 2024 (the “Series I 2024 Notes”) of the company and \$6,928,000 in cash.

The notes bear interest at a rate of 5.00% per year payable semi-annually in arrears on May 15 and November 15 of each year, beginning May 15, 2020. The notes will mature on November 15, 2024, unless repurchased, redeemed or converted in accordance with their terms prior to such date. Prior to May 15, 2024, the Series I 2024 Notes will be convertible only upon satisfaction of certain conditions and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. The Series I 2024 Notes may be settled in cash, the company’s Common Shares or a combination of cash and the company’s Common Shares, at the company’s election.

Prior to the maturity of the Series I 2024 Notes, the company may, at its election, redeem for cash all or part of the Series I 2024 Notes if the last reported sale price of the company’s Common Shares equals or exceeds 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the company provides notice of redemption. The redemption price will be equal to 100% of the principal amount of the Series I 2024 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date (subject to certain limited exceptions). No sinking fund is provided for the Series I 2024 Notes, which means the company is not required to redeem or retire the Series I 2024 Notes periodically.

Holders of the Series I 2024 Notes may convert their Series I 2024 Notes at their option at any time prior to the close of business on the business day immediately preceding May 15, 2024 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending December 31, 2019 (and only during such calendar quarter), if the last reported sale price of the company’s Common Shares for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the Series I 2024 Notes on each applicable trading day; (2) during the five business day period after any 10 consecutive trading day period (the “measurement period”) in which the “trading price” (as defined in the Indenture) per one thousand U.S. dollar principal amount of Series I 2024 Notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of the company’s Common Shares and the applicable conversion rate for the Series I 2024 Notes on each such trading day; (3) upon the occurrence of specified corporate events described in the Indenture; or (4) if the company calls the Series I 2024 Notes for redemption pursuant to the terms of the Indenture. Holders of the Series I 2024 Notes will have the right to require the company to repurchase all or some of their Series I 2024 Notes at 100% of their principal, plus any accrued and unpaid interest, upon the occurrence of certain fundamental changes. The initial conversion rate is 67.6819 Common Shares per \$1,000 principal amount of Series I 2024 Notes (equivalent to an initial conversion price of approximately \$14.78 per common share). On or after May 15, 2024 until the close of business on the second scheduled trading day immediately preceding the maturity of the Series I 2024 Notes, holders may convert their Series I 2024 Notes, at the option of the holder, regardless of the foregoing circumstances.

Debt issuance costs of \$1,394,000 were capitalized and are being amortized as interest expense through November 15, 2024. Debt issuance costs are presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability.

The liability components of the Series I 2024 Notes consist of the following (in thousands):

	September 30, 2022	December 31, 2021
Principal amount of liability component	\$ 72,909	\$ 72,909
Debt fees	(568)	(769)
Net carrying amount of liability component	<u>\$ 72,341</u>	<u>\$ 72,140</u>

The effective interest rate on the liability component was 8.8% upon original issuance including consideration of the discount. Total interest expense subsequent to adoption of ASU 2020-06 includes coupon interest and amortization of debt fees. Interest expense of \$911,000 and \$2,734,000 was accrued for the three and nine months ended September 30, 2022 compared to \$911,000 and \$2,733,000 for the three and nine months ended September 30, 2021 based on the stated coupon rate of 5.0%. The effective interest rate of the Series I 2024 Notes as of September 30, 2022 was 5.4%. The Series I 2024 Notes were not convertible as of September 30, 2022 nor was the applicable conversion threshold met.

Convertible senior notes Series II due 2024

During the second quarter of 2020, the company entered into separate, privately negotiated agreements with certain holders of its 2021 Notes and certain holders of its 2022 Notes to exchange \$35,375,000 in aggregate principal amount of 2021 Notes and \$38,500,000 in aggregate principal amount of 2022 Notes, for aggregate consideration of \$73,875,000 in aggregate principal amount of new 5.00% Series II Convertible Senior Notes due 2024 (the “Series II 2024 Notes”) of the company and \$5,593,000 in cash.

The Series II 2024 Notes bear interest at a rate of 5.00% per year, payable semi-annually in arrears on May 15 and November 15 of each year, beginning November 15, 2020. The Series II 2024 Notes will mature on November 15, 2024, unless repurchased, redeemed or converted in accordance with their terms prior to such date. Prior to May 15, 2024, the Series II 2024 Notes will be convertible only upon satisfaction of certain conditions and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. The Series II 2024 Notes may be settled in cash, the company’s Common Shares or a combination of cash and the company’s Common Shares, at the company’s election.

Prior to the maturity of the Series II 2024 Notes, the company may, at its election, redeem for cash all or part of the Series II 2024 Notes, if the last reported sale price of the company’s Common Shares equals or exceeds 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the company provides notice of redemption. The redemption price will be equal to 100% of the accreted principal amount of the Series II 2024 Notes to be redeemed, plus any accrued and unpaid interest, if any, on the original principal amount of the Series II 2024 Notes redeemed to, but excluding, the redemption date (subject to certain limited exceptions). No sinking fund is provided for the Series II 2024 Notes, which means the company is not required to redeem or retire the Series II 2024 Notes periodically.

Holders of the Series II 2024 Notes may convert their Series II 2024 Notes at their option at any time prior to the close of business on the business day immediately preceding May 15, 2024 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending June 30, 2020 (and only during such calendar quarter), if the last reported sale price of the company’s Common Shares for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than 130% of the conversion price for the Series II 2024 Notes on each applicable trading day; (2) during the five business day period after any 10 consecutive trading day period (the “measurement period”) in which the “trading price” (as defined in the Indenture) per one thousand U.S. dollar principal amount of Series II 2024 Notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of the company’s Common Shares and the applicable conversion rate for the Series II 2024 Notes on each such trading day; (3) upon the occurrence of specified corporate events described in the Indenture; or (4) if the company calls the Series II 2024 Notes for redemption pursuant to the terms of the Indenture. Holders of the Series II 2024 Notes will have the right to require the company to repurchase all or some of their Series II 2024 Notes at 100% of the accreted principal amount, plus any accrued and unpaid interest, upon the occurrence of certain fundamental changes. The initial conversion rate is 67.6819 Common Shares per \$1,000 principal amount of Series II 2024 Notes (equivalent to an initial conversion price of approximately \$14.78 per common share). On or after May 15, 2024 until the close of business on the second scheduled trading day immediately preceding the maturity of the Series II 2024 Notes, holders may convert their Series II 2024 Notes,

at the option of the holder, regardless of the foregoing circumstances.

The principal amount of the Series II 2024 Notes also will accrete at a rate of approximately 4.7% per year commencing June 4, 2020, compounding on a semi-annual basis. The accreted portion of the principal is payable in cash upon maturity but does not bear interest and is not convertible into the company's Common Shares. The total amount accreted as of September 30, 2022 was \$7,558,000, of which \$383,000 and \$2,211,000 was for the three and nine months ended September 30, 2022, respectively, compared to \$890,000 and \$2,637,000 for the three and nine months ended September 30, 2021, respectively. Remaining accretion until maturity (at current principal) was \$9,064,000 at September 30, 2022.

Debt issuance costs of \$1,505,000 were capitalized and are being amortized as interest expense through November 2024. Debt issuance costs are presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability.

In the third quarter of 2022, \$5,000,000 aggregate principal amount of Series II 2024 Notes were retired as part of the Secured 2026 Notes and Secured Term Loan transactions discussed below.

The liability components of the Series II 2024 Notes consist of the following (in thousands):

	September 30, 2022	December 31, 2021
Principal amount of liability component - including accretion	\$ 76,433	\$ 79,222
Debt fees	(669)	(971)
Net carrying amount of liability component	\$ 75,764	\$ 78,251

The effective interest rate on the liability component was 9.0% upon original issuance including consideration of the discount. Total interest expense subsequent to adoption of ASU 2020-06 includes coupon interest, accretion and amortization of debt fees. Interest expense for accretion of \$886,000 and \$2,714,000 was recognized for the three and nine months ended September 30, 2022 compared to \$890,000 and \$2,637,000 for the three and nine months ended September 30, 2021. Interest expense of \$879,000 and \$2,726,000 were recognized for the three and nine months ended September 30, 2022 compared to \$923,000 and \$2,770,000 for the three and nine months ended September 30, 2021, based on the stated coupon rate of 5.0%. The effective interest rate of the Series II 2024 Notes as of September 30, 2022 including coupon interest, amortization of debt fees and accretion to maturity was 10.4%. The Series II 2024 Notes

were not convertible as of September 30, 2022 nor was the applicable conversion threshold met.

Convertible senior notes due 2026

In the first quarter of 2021, the company issued \$125,000,000 aggregate principal amount of 4.25% Convertible Senior Notes due 2026 (the "2026 Notes") in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act.

The notes bear interest at a rate of 4.25% per year payable semi-annually in arrears on March 15 and September 15 of each year, beginning September 15, 2021. The notes will mature on March 15, 2026, unless repurchased, redeemed or converted in accordance with their terms prior to such date. Prior to September 15, 2025, the 2026 Notes will be convertible only upon satisfaction of certain conditions and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. The 2026 Notes may be settled in cash, the company's Common Shares or a combination of cash and the company's Common Shares, at the company's election.

The company may not redeem the 2026 Notes prior to March 20, 2024. The company may, at its election, redeem for cash all or part of the 2026 Notes, on or after March 20, 2024, if the last reported sale price of the company's Common Shares equals or exceeds 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the company provides notice of redemption. The redemption price will be equal to 100% of the principal amount of the 2026 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date (subject to certain limited exceptions). No sinking fund is provided for the 2026 Notes, which means the company is not required to redeem or retire the 2026 Notes periodically.

Holders of the 2026 Notes may convert their 2026 Notes at their option at any time prior to the close of business on the business day immediately preceding September 15, 2025 in multiples of \$1,000 principal amount, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending June 30, 2021 (and only during such calendar quarter), if the last reported sale price of the company's Common Shares for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than 130% of the conversion price for the 2026 Notes on each applicable trading day; (2) during the five business day period

after any 10 consecutive trading day period (the “measurement period”) in which the “trading price” (as defined in the Indenture) per one thousand U.S. dollar principal amount of 2026 Notes for each trading day of such measurement period was less than 98% of the product of the last reported sale price of the company’s Common Shares and the applicable conversion rate for the 2026 Notes on each such trading day; (3) upon the occurrence of specified corporate events described in the Indenture; or (4) if the company calls any or all of the 2026 Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date. Holders of the 2026 Notes will have the right to require the company to repurchase all or some of their 2026 Notes at 100% of their principal, plus any accrued and unpaid interest, upon the occurrence of certain fundamental changes. The initial conversion rate is 94.6096 Common Shares per \$1,000 principal amount of 2026 notes (equivalent to an initial conversion price of approximately \$10.57 per common share). On or after September 15, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity of the 2026 Notes, holders may convert their 2026 Notes, at the option of the holder, regardless of the foregoing circumstances.

Debt issuance costs of \$5,697,000 were capitalized and are being amortized as interest expense through March 2026. Debt issuance costs are presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability.

The liability components of the 2026 Notes consist of the following (in thousands):

	September 30, 2022	December 31, 2021
Principal amount of liability component	\$ 83,525	\$ 125,000
Debt fees	<u>(2,627)</u>	<u>(5,964)</u>
Net carrying amount of liability component	<u>\$ 80,898</u>	<u>\$ 119,036</u>

Interest expense of \$1,015,000 and \$3,671,000 was accrued for the three and nine months ended September 30, 2022 compared to \$1,328,000 and \$2,892,000 for the three and nine months ended September 30, 2021 based on the stated coupon rate of 4.25%. The effective interest rate of the 2026 Notes as of September 30, 2022 was 5.4%. The 2026 Notes were not convertible as of September 30, 2022 nor was the applicable conversion threshold met.

In the third quarter of 2022, \$41,475,000 aggregate principal amount of 2026 Notes were exchanged and retired as part of the Secured 2026 Notes and Secured Term Loan transactions discussed below.

As part of the transactions for the closing of the Term Loan, exchange of 2026 Notes for Secured 2026 Notes and retirement of \$5,000,000 of Series II 2024 Notes in the third quarter of 2022, 2,700,000 Common Shares were issued. These transactions resulted in a net gain on extinguishment of debt of \$6,398,000.

In March 2021, in connection with the pricing of the 2026 Notes, the company entered into capped call transactions (the “Capped Call Transactions”) with certain option counterparties. The company used \$18,787,000 of the net proceeds of the private offering of the 2026 Notes to pay the cost of the Capped Call Transactions with the offset recorded to additional paid-in-capital.

The Capped Call Transactions are expected generally to reduce the potential dilution upon conversion of the 2026 Notes and/or offset any cash payments the company is required to make in excess of the principal amount of converted notes, as the case may be, in the event that the market price per share of the company’s Common Shares, as measured under the terms of the Capped Call Transactions, is greater than the strike price of the Capped Call Transactions, which is initially \$10.57, corresponding to the initial conversion price of the 2026 Notes, subject to anti-dilution adjustments. If, however, the market price per company common share, as measured under the terms of the Capped Call Transactions, exceeds the cap price of the Capped Call Transactions, which is initially \$16.58 (subject to adjustments), there would nevertheless be dilution and/or there would not be an offset of such potential cash payments, in each case, to the extent that such market price exceeds the cap price of the Capped Call Transactions. The Capped Call Transactions expire March 15, 2026, subject to earlier exercise. There were 125,000 capped call options related to the 2026 Notes outstanding on September 30, 2022.

The company will not be required to make any cash payments to the option counterparties upon the exercise of the options that are a part of the Capped Call Transactions, but the company will be entitled to receive from the option counterparties a number of company Common Shares, an amount of cash or a combination thereof generally based on the amount by which the market price per company common share, as measured under the terms of the Capped Call Transactions, is greater than the strike price of the Capped Call Transactions during the relevant valuation period under the Capped Call Transactions. However, if the market price per Company common share, as measured under the terms of the Capped Call Transactions, exceeds the cap price of the Capped Call Transactions during such valuation period, the number of company Common Shares and/or the amount of cash the company expects to receive upon exercise of the Capped Call Transactions will be capped based on the amount

by which the cap price exceeds the strike price of the Capped Call Transactions.

For any conversions of the 2026 Notes prior to September 15, 2025, a corresponding portion of the relevant Capped Call Transactions may be terminated at the company's option. Upon any such termination, the company expects to receive from the option counterparties a number of company Common Shares, or, if the company so elects, subject to certain conditions, an amount of cash, in each case, with a value equal to the fair value of such portion of the relevant Capped Call Transactions being terminated, as calculated in accordance with the terms of the relevant Capped Call Transaction.

The Capped Call Transactions are separate transactions, in each case, entered into by the company with the option counterparties, and are not part of the terms of the 2026 Notes and will not affect any holder's rights under the 2026 Notes. Holders of the 2026 Notes will not have any rights with respect to the Capped Call Transactions.

Secured convertible senior notes due 2026

In the third quarter of 2022, the company issued and aggregate \$31,106,000 (split equally between two separate tranches ("Tranche I Notes" and "Tranche II Notes" or "Indentures") in aggregate principal amount of 5.68% Secured Convertible Senior Notes due 2026 (the "Secured 2026 Notes") in a private offering. This was in exchange for \$41,475,000 aggregate principal amount of 2026 Notes which were retired. In October 2022, additional principal amount of Secured 2026 Notes were issued aggregating to \$20,739,000 and \$20,736,000 in aggregate principal amount of Tranche I Notes and Tranche II Notes, respectively, in exchange for \$13,825,000 of 2026 Notes. Refer to October 2022 Financings below.

The Secured 2026 Notes are initially guaranteed by certain subsidiaries of the company in the United States, United Kingdom, Canada, France, the Netherlands and Luxembourg pursuant to separate guarantees (each, a "Guarantee"), and are secured on a pari passu basis by the same collateral that secures the Highbridge Loan Agreement (discussed below). In addition, the company's subsidiaries that provide guarantees of the Highbridge Loan Agreement in connection with the post-closing draws provided Guarantees of the Secured 2026 Notes.

Interest on the Secured 2026 Notes will be payable semi-annually in cash in arrears on January 1 and July 1 of each year, beginning on January 1, 2023, at a rate of 5.68% per year. The Secured 2026 Notes will mature on July 1, 2026, unless earlier converted, redeemed or repurchased in accordance with their terms. Holders of the Secured 2026 Notes have the right, at their option, at any time prior to the close of business on the second scheduled trading day immediately preceding July 1, 2026 (the maturity date), to

convert any Secured 2026 Notes or portion thereof that is \$1,000 or an integral multiple thereof, subject to certain conditions, into cash, Common Shares or a combination of cash and Common Shares at the company's election (subject to, and in accordance with, the settlement provisions set forth the Indentures). The initial conversion rate for the (i) Tranche I Notes is 333.3333 Common Shares (subject to adjustment as provided for in the Tranche I Indenture) per \$1,000 principal amount of the Tranche I Notes, which is equal to an initial conversion price of \$3.00 per share, and (ii) Tranche II Notes is 222.222 Common Shares (subject to adjustment as provided for in the Tranche II Indenture) per \$1,000 principal amount of the Tranche II Notes, which is equal to an initial conversion price of \$4.50 per share. In addition, following certain corporate events as described in the Indentures that occur prior to the maturity date of the Secured 2026 Notes or if the company delivers a notice of redemption, the company will pay a make-whole premium by increasing the conversion rate for a holder who elects to convert its Secured 2026 Notes in connection with such a corporate event or notice of redemption, as the case may be, in certain circumstances, subject to adjustment as provided for and in accordance with the Indentures. These features are bifurcated driving convertible derivative liability.

The company may not elect to redeem the Secured 2026 Notes prior to January 26, 2023. The company may redeem for cash all or any portion of the Secured 2026 Notes, at its option, on or after January 26, 2023 if the last reported sale price of the Common Shares exceeds 150% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the company provides notice of redemption, at a redemption price equal to 100% of the principal amount of the Secured 2026 Notes to be redeemed, plus any accrued and unpaid interest on such Secured 2026 Notes to, but excluding, the redemption date (subject to certain conditions set forth the Indentures). No sinking fund is provided for the Secured 2026 Notes.

If the company undergoes a Fundamental Change (as defined in the Indentures), prior to the maturity date of the Secured 2026 Notes, holders of the Secured 2026 Notes will, subject to specified conditions, have the right, at their option, to require the company to repurchase for cash all or a portion of their Secured 2026 Notes at a repurchase price equal to 100% of the principal amount of the Secured 2026 Notes to be repurchased, plus any accrued and unpaid interest to, but not including, the Fundamental Change repurchase date.

The Indentures provide for customary events of default. In the case of an event of default with respect to the Secured 2026 Notes arising from specified events of bankruptcy or insolvency, all outstanding Secured 2026 Notes will become due and payable immediately without further action or notice. If any other event of default with respect to the Secured 2026

Notes under the Indentures occur or is continuing, the Trustee or holders of at least 25% in aggregate principal amount of the then outstanding Secured 2026 Notes may declare the principal amount of the Secured 2026 Notes to be immediately due and payable.

In certain circumstances if, at any time during the six-month period beginning on, and including, the date that is six months after the date of original issuance for any sub-tranche of the Secured 2026 Notes, the company fails to timely file certain documents or reports required under the Securities Exchange Act of 1934, as amended, or the Secured 2026 Notes are not otherwise freely tradable under Rule 144 by holders of the Secured 2026 Notes other than the company's affiliates or holders that were affiliates at any time during the three months preceding, additional interest will accrue at a rate of up to 0.50% on the Secured 2026 Notes during the period in which its failure to file has occurred and is continuing or such Secured 2026 Notes are not otherwise freely tradable under Rule 144 by holders other than the company's affiliates or holders that were affiliates at any time during the three months preceding until such failure is cured.

In addition, if, and for so long as, the restrictive legend on any sub-tranche of the Secured 2026 Notes has not been removed, any sub-tranche of the Secured 2026 Notes are assigned a restricted CUSIP number or any sub-tranche of the Secured 2026 Notes are not otherwise freely tradable under Rule 144 by holders other than the company's affiliates or holders that were affiliates at any time during the three months preceding (without restrictions pursuant to U.S. securities laws or the terms of the Indentures or the Secured 2026 Notes) as of the 380th day after the date of original issuance of such sub-tranche of the Secured 2026 Notes, the company will pay additional interest at a rate of 0.50% on the Secured 2026 Notes during the period in which the Secured 2026 Notes remain so restricted.

The company may not issue Common Shares upon conversions of the Secured 2026 Notes, net of the 2,700,000 Common Shares issued in the Exchange, in excess of 19.99% of the company's Common Shares outstanding on July 25, 2022; until the requisite approval under the applicable New York Stock Exchange rules by the company's shareholders is obtained. The company intends to seek this approval at its 2023 Annual Meeting of Shareholders.

Debt issuance costs of \$2,389,000 were capitalized and are being amortized as interest expense through July 2026. Debt issuance costs are presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability.

The liability components of the Secured 2026 Notes consist of the following (in thousands):

September 30, 2022	
Principal amount of liability component	\$ 31,106
Unamortized discount	(1,365)
Debt fees	(2,278)
Net carrying amount of liability component	<u><u>\$ 27,463</u></u>

Interest expense of \$324,000 was accrued for the three and nine months ended September 30, 2022 based on the stated coupon rate of 5.68%. The effective interest rate of the 2026 Notes as of September 30, 2022 was 8.7%. The 2026 Notes were not convertible as of September 30, 2022 nor was the applicable conversion threshold met.

Secured Term Loan due 2026

On July 26, 2022, the company entered into a Credit Agreement (the "Highbridge Loan Agreement" or "Secured Term Loan") with a certain fund managed by Highbridge Capital Management, LLC ("Highbridge"), as the lender (together with the other lenders from time to time party thereto, the "Lenders"), Cantor Fitzgerald Securities as administrative agent and GLAS Trust Corporation Limited, as collateral agent.

Pursuant to the Highbridge Loan Agreement, the company may borrow up to an aggregate of \$104,500,000 principal amount of Secured Term Loan, including \$66,500,000 with \$2,000,000 original issuance discount in initial secured term loans drawn at closing, \$8,500,000 in additional Secured Term Loans principal to be made in a single draw subject to satisfaction of certain conditions, another \$10,000,000 in additional Secured Term Loan principal to be made in a single draw subject to satisfaction of certain further conditions and \$19,500,000 in additional Secured Term Loan to be made in a single draw subject to satisfaction of certain further conditions. The company expects to use the proceeds of the Secured Term loan for working capital and general corporate purposes and to pay fees and expenses in connection with the transactions described herein.

The Secured Term Loan is scheduled to mature on July 26, 2026 and accrues interest at an initial annual rate of SOFR plus 7.00% or a base rate plus 6.00% and after the second anniversary of closing at an annual rate of SOFR plus 8.75% or a base rate plus 7.75%. The Secured Term Loan is also subject to a springing maturity date of 91 days prior to the maturity date of certain convertible notes due November 2024 if more than \$20,000,000 of such notes remain outstanding as of such date. The obligations under the Highbridge Loan Agreement are secured, initially, by substantially all assets of the company and certain subsidiaries of the company (subject

to certain exceptions), subject to intercreditor agreements in connection with the ABL Credit Agreement and the 5.68% Indentures, and are guaranteed by certain subsidiaries of the company in the United States, United Kingdom, Canada, France, the Netherlands and Luxembourg at the closing. Additional collateral owned by subsidiaries of the company in various jurisdictions will be added to the security for the Secured Term Loan and additional subsidiaries of the company in various jurisdictions will guarantee the obligations in connection with the post-closing draws.

The company will have the right to prepay the Secured Term Loan at any time, subject to a prepayment premium, which in case of a prepayment before the second anniversary of the closing date is equal to the greater of (i) 1.00% of the aggregate principal amount of the Secured Term Loan so prepaid and (ii) the excess, if any of (A) the present value as of the date of repayment of all interest that would have accrued on the Secured Term Loan being prepaid from such date through the second anniversary of the closing plus the present value as of such date of the principal amount of the Secured Term Loan being prepaid assuming a prepayment date of the second anniversary of the closing over (B) the principal amount of such Secured Term Loan being prepaid and, after the second anniversary of the closing is equal to 1.00% of the aggregate principal amount of the Secured Term Loan so prepaid, as well as, in each case, an additional redemption fee equal to 3.00% of the aggregate principal amount of the Secured Term Loan so prepaid.

The Highbridge Loan Agreement contains customary terms and covenants, including without limitation a financial covenant to maintain a minimum liquidity of \$20,000,000 and negative covenants, such as limitations on indebtedness, liens, fundamental changes, asset sales, investments and other matters customarily restricted in such agreements. Most of these restrictions are subject to certain minimum thresholds and exceptions. The Highbridge Loan Agreement also contains customary events of default, after which the Secured Term Loan may be due and payable immediately, including, without limitation, payment defaults, material inaccuracy of representations and warranties, covenant defaults, bankruptcy and insolvency proceedings, cross-defaults to certain other agreements, judgments against the company and its subsidiaries, change in control and lien priority.

Debt issuance costs of \$5,107,000 were capitalized and are being amortized as interest expense through July 2026. Debt issuance costs are presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability.

The liability components of the Secured Term Loan consist of the following (in thousands):

September 30, 2022	
Principal amount of liability component	\$ 66,500
Unamortized original issuance discount	(1,907)
Debt fees	(4,869)
Net carrying amount of liability component	<u>\$ 59,724</u>

Interest expense of \$1,217,000 was accrued for the three and nine months ended September 30, 2022 based on the stated coupon rate of 5.68%. The effective interest rate of the 2026 Notes as of September 30, 2022 was 12.7%.

The weighted average interest rate on all borrowings, excluding finance leases, was 5.0% for the nine months ended September 30, 2022 and 4.5% for the year ended December 31, 2021.

Other

In the second quarter of 2022, the company borrowed \$2,000,000 against the cash surrender value of its life insurance policies which the company intends to repay in the next twelve months.

October 2022 Financings

Highbridge Loan Agreement and Indentures

On October 3, 2022, the company consummated additional draws of an aggregate of \$18,500,000 under the Highbridge Loan Agreement. Additional borrowing under the Term Loan of \$19,500,000 remains available, subject to the satisfaction of certain conditions.

Further, the company issued \$5,186,000 in aggregate principal amount of additional 5.68% Tranche I Notes and \$5,183,000 in aggregate principal amount of additional 5.68% Tranche II Notes of the Secured 2026 Notes in exchange for \$13,825,000 of 2026 Notes which were retired. Following these transactions, \$69,700,000 aggregate principal amount of 2026 Notes remain outstanding.

Other Long-Term Obligations

Other long-term obligations consist of the following (in thousands):

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Deferred income taxes	\$ 19,385	\$ 21,664
Product liability	12,010	11,342
Deferred compensation	5,090	6,174
Deferred gain on sale leaseback	4,920	5,174
Supplemental executive retirement plan liability	4,697	5,106
Death benefit obligation plan	3,499	4,568
Uncertain tax obligation including interest	2,980	3,171
Pension	2,783	7,814
Secured Convertible 2026 debt conversion liability	473	—
Other	537	1,783
Other Long-Term Obligations	\$ 56,374	\$ 66,796

The Secured Convertible 2026 debt conversion liability amounts included in the above table represent the fair values of the conversion liabilities.

On April 23, 2015, the company entered into a real estate sale leaseback transaction which resulted in the company recording an initial deferred gain of \$7,414,000, the majority of which is included in Other Long-Term Obligations and will be recognized over the 20-year life of the leases. The gains realized were \$82,000 and \$245,000 for the three and nine months ended September 30, 2022 respectively, compared to \$80,000 and \$237,000 for the three and nine months ended September 30, 2021 respectively.

Leases and Commitments

The company reviews new contracts to determine if the contracts include a lease. To the extent a lease agreement includes an extension option that is reasonably certain to be exercised, the company has recognized those amounts as part of the right-of-use assets and lease liabilities. The company combines lease and certain non-lease components, such as common area maintenance, in the calculation of the lease assets and related liabilities. As most lease agreements do not provide an implicit rate, the company uses an incremental borrowing rate (IBR) based on information available at commencement date in determining the present value of lease payments and to help classify the lease as operating or financing. The company calculates its IBR based on the secured rates of the company's recent debt issuances, the credit rating of the company, changes in currencies, lease repayment timing as well as other publicly available data.

The company leases a portion of its facilities, transportation equipment, data processing equipment and certain other equipment. These leases have terms from 1 to 20 years and provide for renewal options. Generally, the company is required to pay taxes and normal expenses associated with operating the facilities and equipment. As of September 30, 2022, the company is committed under non-cancelable leases, which have initial or remaining terms in excess of one year and expire on various dates through 2040.

On April 23, 2015, the company sold and leased back, under four separate lease agreements, four properties located in Ohio and one property in Florida for net proceeds of \$23,000,000, which were used to reduce debt under the U.S. and Canadian Credit Facility. The initial total annual rent for the properties was \$2,275,000 and can increase annually over the 20-year term of the leases based on the applicable geographical consumer price index (CPI). Each of the four lease agreements contains three 10-year renewals with the rent for each option term based on the greater of the then-current fair market rent for each property or the then-current rate and increasing annually by the applicable CPI. Under the terms of the lease agreements, the company is responsible for all taxes, insurance and utilities. The company is required to adequately maintain each of the properties and any leasehold improvements will be amortized over the lesser of the lives of the improvements or the remaining lease lives, consistent with any other company leases.

In connection with the transaction, the requirements for sale lease-back accounting were met. Accordingly, the company recorded the sale of the properties, removed the related property and equipment from the company's balance sheet, recognized an initial deferred gain of \$7,414,000 and an immediate loss of \$257,000 related to one property and recorded new lease liabilities. Specifically, the company

recorded four finance leases totaling \$32,339,000 and one operating lease related to leased land, which was not a material component of the transaction. The gains on the sales of the properties were required to be deferred and recognized over the life of the leases as the property sold is being leased back. The deferred gain is classified under Other Long-Term Obligations on the condensed consolidated balance sheets.

Lease expenses for the three and nine months ended September 30, 2022 and September 30, 2021, respectively, were as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating leases	\$ 1,391	\$ 1,811	\$ 4,421	\$ 5,592
Variable and short-term leases	616	764	1,961	2,825
Total operating leases	<u>\$ 2,007</u>	<u>\$ 2,575</u>	<u>\$ 6,382</u>	<u>\$ 8,417</u>
Finance lease interest cost	\$ 1,062	\$ 1,146	\$ 3,224	\$ 3,487
Finance lease depreciation	1,055	1,265	3,210	3,807
Total finance leases	<u>\$ 2,117</u>	<u>\$ 2,411</u>	<u>\$ 6,434</u>	<u>\$ 7,294</u>

Future minimum operating and finance lease commitments, as of September 30, 2022, are as follows (in thousands):

	Finance Leases	Operating Leases
2022	\$ 1,637	\$ 1,100
2023	6,501	3,192
2024	6,443	2,452
2025	6,353	1,973
2026	6,248	1,209
Thereafter	65,253	1,615
Total future minimum lease payments	92,435	11,541
Amounts representing interest	(31,893)	(1,614)
Present value of minimum lease payments	60,542	9,927
Less: current maturities of lease obligations	(3,031)	(3,062)
Long-term lease obligations	\$ 57,511	\$ 6,865

Weighted-average remaining lease terms and discount rates for finance and operating leases are as follows as of September 30, 2022 and December 31, 2021, respectively:

	September 30, 2022	December 31, 2021
Weighted-average remaining lease term - finance leases	14.9 years	15.8 years
Weighted-average remaining lease term - operating leases	4.8 years	5.0 years
Weighted-average discount rate - finance leases	6.37%	6.43%
Weighted-average discount rate - operating leases	8.07%	7.10%

Supplemental cash flow amounts for the three and nine months ended September 30, 2022 and September 30, 2021 were as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Cash Activity: Cash paid in measurement of amounts for lease liabilities	2022	2021	2022	2021
Operating leases	\$ 1,967	\$ 2,584	\$ 6,266	\$ 8,501
Finance leases	1,810	2,100	5,478	6,311
Total	\$ 3,777	\$ 4,684	\$11,744	\$14,812

Non-Cash Activity: Right-of-use assets obtained in exchange for lease obligations	2022	2021	2022	2021
Operating leases	\$ 1,264	\$ 989	\$ 2,429	\$ 5,418
Finance leases	54	189	969	6,345
Total	\$ 1,318	\$ 1,178	\$ 3,398	\$11,763

Revenue

The company has two revenue streams: products and services. Services include repair, refurbishment, preventive maintenance and rental of products. Services for the North America segment include maintenance and repair of products. Services for the Europe segment include repair, refurbishment and preventive maintenance services. Services in All Other, are in the Asia Pacific region, and include rental and repair of products.

The following tables disaggregate the company's revenues by major source and by reportable segment for the three and nine months ended September 30, 2022 and September 30, 2021 (in thousands):

Three Months Ended September 30, 2022			
	Product	Service	Total
Europe	\$ 94,723	\$ 2,764	\$ 97,487
North America	65,068	246	65,314
All Other	6,380	1,227	7,607
Total	<u>\$ 166,171</u>	<u>\$ 4,237</u>	<u>\$ 170,408</u>
% Split	98%	2%	100%

Nine Months Ended September 30, 2022			
	Product	Service	Total
Europe	\$ 319,467	\$ 8,867	\$ 328,334
North America	208,776	575	209,351
All Other	19,067	3,661	22,728
Total	<u>\$ 547,310</u>	<u>\$ 13,103</u>	<u>\$ 560,413</u>
% Split	98%	2%	100%

Three Months Ended September 30, 2021			
	Product	Service	Total
Europe	\$ 123,671	\$ 3,355	\$ 127,026
North America	87,936	118	88,054
All Other	7,788	1,332	9,120
Total	<u>\$ 219,395</u>	<u>\$ 4,805</u>	<u>\$ 224,200</u>
% Split	98%	2%	100%

	Nine Months Ended September 30, 2021		
	Product	Service	Total
Europe	\$ 351,680	\$ 9,417	\$ 361,097
North America	259,623	652	260,275
All Other	21,010	3,884	24,894
Total	<u>\$ 632,313</u>	<u>\$ 13,953</u>	<u>\$ 646,266</u>
% Split	98%	2%	100%

The company's revenues are principally related to the sale of products, approximately 98%, with the remaining 2% related to services including repair, refurbishment, preventive maintenance and rental of products. While the company has a significant amount of contract types, the sales split by contract type is estimated as follows: general terms and conditions (30%), large national customers (23%), governments, principally pursuant to tender contracts (22%) and other customers including buying groups and independent customers (25%).

All product revenues and substantially all service revenues are recognized at a point in time. The remaining service revenue, recognized over time, are reflected in the Europe segment and include multiple performance obligations. For such contracts, the company allocates revenue to each performance obligation based on its relative standalone selling price. The company generally determines the standalone selling price based on the expected cost-plus margin methodology.

Revenue is recognized when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of the company's products and services. The amount of consideration received and revenue recognized by the company can vary as a result of variable consideration terms included in the contracts related to customer rebates, cash discounts and return policies. Revenue is measured as the amount of consideration probable of not having a significant reversal of cumulative revenue recognized when related uncertainties are resolved. Customer rebates and cash discounts are estimated based on the most likely amount principle and these estimates are based on historical experience and anticipated performance. In addition, customers have the right to return products within the company's normal terms policy, and as such the company estimates the expected returns based on an analysis of historical experience. The company adjusts its estimate of revenue at the earlier of when the most likely amount of consideration it expects to receive changes or when the consideration becomes fixed. The company generally does not expect that there will be significant changes to its estimates of variable consideration (refer to "Receivables" and "Accrued

"Expenses" in the notes to the condensed consolidated financial statements include elsewhere in this report for more detail).

Depending on the terms of the contract, the company may defer the recognition of a portion of the revenue at the end of a reporting period to align with transfer of control of the company's products to the customer. In addition, to the extent performance obligations are satisfied over time, the company defers revenue recognition until the performance obligations are satisfied. As of September 30, 2022 and December 31, 2021, the company had deferred revenue of \$1,903,000 and \$4,156,000, respectively, related to outstanding performance obligations with substantially all expected to be recognized as revenue within a year.

Equity Compensation

The company's Common Shares have a \$0.25 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 and, in general, can only be transferred to family members or for estate planning purposes. Holders of Class B Common Shares are entitled to convert their shares into Common Shares at any time on a share-for-share basis. When Class B Common Shares are transferred out of a familial relationship, they automatically convert to Common Shares.

As of September 30, 2022, 3,667 Class B Common Shares remained outstanding. Prior conversions of Class B Common Shares have virtually eliminated the company's dual class voting structure. As of September 30, 2022, the holders of the Common Shares represented approximately 99.9% of the company's total outstanding voting power.

Equity Compensation Plan

On May 17, 2018, the shareholders of the company approved the Invacare Corporation 2018 Equity Compensation Plan (the "2018 Plan"), which was adopted on March 27, 2018 by the company's Board of Directors (the "Board"). The company's Board adopted the 2018 Plan in order to authorize additional Common Shares for grant as equity compensation, and to reflect changes to Section 162(m) of the Internal Revenue Code (the "Code") resulting from the U.S. Tax Cuts and Jobs Act of 2017.

Following shareholder approval of the 2018 Plan, all of the Common Shares then-remaining available for issuance under the Invacare Corporation 2013 Equity Compensation Plan (the "2013 Plan") and all of the Common Shares that were forfeited or remained unpurchased or undistributed upon termination or expiration of awards under the 2013 Plan and under the Invacare Corporation 2003 Performance Plan (the "2003 Plan"), become available for issuance under the 2018 Plan. Awards granted previously under the 2013 Plan and 2003 Plan will remain in effect under their original terms.

The 2018 Plan uses a fungible share-counting method, under which each Common Share underlying an award of stock options or stock appreciation rights ("SAR") will count against the number of total shares available under the 2018 Plan as one share; and each Common Share underlying any award other than a stock option or a SAR will count against the number of total shares available under the 2018 Plan as two shares. Shares underlying awards made under the 2003

Plan or 2013 Plan that are forfeited or remain unpurchased or undistributed upon termination or expiration of the awards will become available under the 2018 Plan for use in future awards. Any Common Shares that are added back to the 2018 Plan as the result of forfeiture, termination or expiration of an award granted under the 2018 Plan or the 2013 Plan will be added back in the same manner such shares were originally counted against the total number of shares available under the 2018 Plan or 2013 Plan, as applicable. Each Common Share that is added back to the 2018 Plan due to a forfeiture, termination or expiration of an award granted under the 2003 Plan will be added back as one Common Share.

The Compensation and Management Development Committee of the Board (the "Compensation Committee"), in its discretion, may grant an award under the 2018 Plan to any director or employee of the company or an affiliate. As of September 30, 2022, 5,507,144 Common Shares were available for future issuance under the 2018 Plan in connection with the following types of awards with respect to the company's Common Shares: incentive stock options, nonqualified stock options, SARs, restricted stock, restricted stock units, unrestricted stock and performance shares. The Compensation Committee also may grant performance units that are payable in cash. The Compensation Committee has the authority to determine which participants will receive awards, the amount of the awards and the other terms and conditions of the awards.

The 2018 Plan provides that shares granted come from the company's authorized but unissued Common Shares or treasury shares. In addition, the company's stock-based compensation plans allow employee participants to exchange shares for minimum withholding taxes, which results in the company acquiring treasury shares.

The amounts of equity-based compensation expense recognized as part of SG&A expenses in All Other in business segment reporting were as follows (in thousands):

	For the Nine Months Ended September 30,	
	2022	2021
Restricted stock and restricted stock units	\$ 2,653	\$ 4,570
Performance shares and performance share units	(814)	799
Total stock-based compensation expense	<u><u>\$ 1,839</u></u>	<u><u>\$ 5,369</u></u>

As of September 30, 2022, unrecognized compensation expense related to equity-based compensation arrangements granted under the company's 2018 Plan, which is related to non-vested awards, was as follows (in thousands):

	September 30, 2022
Restricted stock and restricted stock units	\$ 2,826
Performance shares and performance share units	168
Total unrecognized stock-based compensation expense	<u><u>\$ 2,994</u></u>

The following table summarizes information about stock option activity for the nine months ended September 30, 2022:

		Weighted Average Exercise Price
Options outstanding at January 1, 2022	750,159	\$ 12.69
Expired	(107,987)	13.48
Options outstanding at September 30, 2022	<u><u>642,172</u></u>	<u><u>\$ 12.55</u></u>
Options exercise price range at September 30, 2022	\$ 12.15 to	\$ 14.49
Options exercisable at September 30, 2022	642,172	
Shares available for grant under the 2018 Plan at September 30, 2022*	5,507,144	

* Shares available for grant under the 2018 Plan as of September 30, 2022 are reduced by awards and increased by forfeitures or expirations. At September 30, 2022, an aggregate of 910,624 Common Shares underlie awards which were forfeited or expired unexercised under the 2003 and 2013 Plans and thus are available for future issuance under the 2018 Plan upon transfer.

The following table summarizes information about stock options outstanding at September 30, 2022:

Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding at September 30, 2022	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at September 30, 2022	Weighted Average Exercise Price	
\$12.15 – \$14.49	642,172	0.8	\$ 12.55	642,172	\$ 12.55	

The 2018 Plan provides for a one-year minimum vesting period for stock options and, generally, options must be exercised within ten years from the date granted. No stock options were issued in 2022 or 2021.

Restricted Stock and Restricted Stock Units

The following table summarizes information about restricted stock and restricted stock units (primarily for non-U.S. recipients):

	Weighted Average Fair Value
Stock / Units unvested at January 1, 2022	1,160,847 \$ 8.17
Granted	1,321,249 1.37
Vested	(553,071) 8.43
Forfeited	(741,679) 4.30
Stock / Units unvested at September 30, 2022	<u><u>1,187,346</u></u> \$ 2.90

The restricted awards generally vest ratably over the three years after the award date. Unearned restricted awards compensation, 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 as adjusted for forfeiture estimates.

Performance Shares and Performance Share Units

The following table summarizes information about performance shares and performance share units (primarily for non-U.S. recipients):

	Weighted Average Fair Value
Shares / Units unvested at January 1, 2022	972,288 \$ 7.76
Granted	460,187 1.48
Forfeited	(942,201) 5.79
Shares / Units unvested at September 30, 2022	<u><u>490,274</u></u> \$ 5.67

During the nine months ended September 30, 2022, performance shares and performance share units (for non-U.S. recipients) were granted. Performance awards have a three year performance period with payouts based on achievement of certain performance goals. The awards are classified as equity awards as they will be settled in Common Shares upon vesting. The number of shares earned will be determined at the end of the three year performance period based on achievement of performance criteria for January 1, 2020 through December 31, 2022, January 1, 2021 through

December 31, 2023 and January 1, 2022 through December 31, 2024, respectively established by the Compensation Committee at the time of grant. Recipients will be entitled to receive a number of Common Shares equal to the number of performance shares that vest based upon the levels of achievement which may range between 0% and 150% of the target number of shares with the target being 100% of the initial grant.

The fair value of the performance awards is based on the stock price on the date of grant discounted for the estimated value of dividends foregone as the awards are not eligible for dividends except to the extent vested. The grant fair value is further updated each reporting period while variable accounting applies. The company assesses the probability that the performance targets will be met with expense recognized whenever it is probable that at least the minimum performance criteria will be achieved. Depending upon the company's assessment of the probability of achievement of the goals, the company may not recognize any expense associated with performance awards in a given period, may reverse prior expense recorded or record additional expense to recognize the cumulative estimated achievement level of proportionate term of the award. Performance award compensation expense is generally expected to be recognized over three years. The company continues to recognize expense (benefit) related to the awards granted in 2020, 2021 and 2022 based on estimates that the performance goals for those awards will be or will not be met.

Accumulated Other Comprehensive Income (Loss) by Component

Changes in accumulated other comprehensive income (loss) ("OCI") (in thousands):

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
June 30, 2022	\$ (13,347)	\$ 1,548	\$ 462	\$ 1,453	\$ (9,884)
OCI before reclassifications	(31,883)	(2,168)	155	59	(33,837)
Amount reclassified from accumulated OCI	—	—	(110)	(1,275)	(1,385)
Net current-period OCI	(31,883)	(2,168)	45	(1,216)	(35,222)
September 30, 2022	<u>\$ (45,230)</u>	<u>\$ (620)</u>	<u>\$ 507</u>	<u>\$ 237</u>	<u>\$ (45,106)</u>

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
December 31, 2021	\$ 18,961	\$ 2,127	\$ (4,101)	\$ 1	\$ 16,988
OCI before reclassifications	(64,191)	(2,747)	4,772	2,197	(59,969)
Amount reclassified from accumulated OCI	—	—	(164)	(1,961)	(2,125)
Net current-period OCI	(64,191)	(2,747)	4,608	236	(62,094)
September 30, 2022	<u>\$ (45,230)</u>	<u>\$ (620)</u>	<u>\$ 507</u>	<u>\$ 237</u>	<u>\$ (45,106)</u>

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
June 30, 2021	\$ 60,381	\$ 2,146	\$ (4,069)	\$ (1,379)	\$ 57,079
OCI before reclassifications	(19,155)	(47)	(209)	944	(18,467)
Amount reclassified from accumulated OCI	—	—	182	309	491
Net current-period OCI	(19,155)	(47)	(27)	1,253	(17,976)
September 30, 2021	<u>\$ 41,226</u>	<u>\$ 2,099</u>	<u>\$ (4,096)</u>	<u>\$ (126)</u>	<u>\$ 39,103</u>

	Foreign Currency	Long-Term Notes	Defined Benefit Plans	Derivatives	Total
December 31, 2020	\$ 50,329	\$ (517)	\$ (3,674)	\$ (702)	\$ 45,436
OCI before reclassifications	(9,103)	2,616	(440)	(643)	(7,570)
Amount reclassified from accumulated OCI	—	—	18	1,219	1,237
Net current-period OCI	(9,103)	2,616	(422)	576	(6,333)
September 30, 2021	<u>\$ 41,226</u>	<u>\$ 2,099</u>	<u>\$ (4,096)</u>	<u>\$ (126)</u>	<u>\$ 39,103</u>

Reclassifications out of accumulated OCI were as follows (in thousands):

	Amount reclassified from OCI		Amount reclassified from OCI		Affected line item in the Statement of Comprehensive (Income) Loss	
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,			
	2022	2021	2022	2021		
Defined Benefit Plans						
Service and interest costs	\$ (110)	\$ 182	\$ (164)	\$ 18	Selling, general and administrative expenses	
Tax	—	—	—	—	Income taxes	
Total after tax	\$ (110)	\$ 182	\$ (164)	\$ 18		
Derivatives						
Foreign currency forward contracts hedging sales	\$ (68)	\$ 476	\$ (125)	\$ 657	Net sales	
Foreign currency forward contracts hedging purchases	(1,263)	(92)	(1,997)	746	Cost of products sold	
Total loss (income) before tax	(1,331)	384	(2,122)	1,403		
Tax	56	(75)	161	(184)	Income taxes	
Total after tax	\$ (1,275)	\$ 309	\$ (1,961)	\$ 1,219		

Charges Related to Restructuring Activities

The company's restructuring charges were originally necessitated primarily by continued declines in Medicare and Medicaid reimbursement by the U.S. government, as well as similar healthcare reimbursement pressures abroad, which negatively affected the company's customers (e.g. home health care providers) and continued pricing pressures faced by the company due to the outsourcing by competitors to lower cost locations. Restructuring decisions were also the result of reduced profitability in each of the segments. Restructuring actions have continued into 2022.

For the nine months ended September 30, 2022, severance and other charges totaled \$16,383,000 which were related to North America of \$5,534,000, Europe of \$9,766,000 and All Other of \$1,083,000. Payments for the nine months ended September 30, 2022 were \$10,789,000 and the cash payments were funded with the company's cash on hand. The 2022 charges are expected to be paid out within 12 months.

For the nine months ended September 30, 2021, charges totaled \$2,476,000 which were related to North America of \$975,000 and Europe of \$1,501,000. In North America costs were incurred related to severance. The European charges were for severance costs \$895,000 and contract terminations \$606,000, primarily related to the closure of a German manufacturing facility. Payments for the nine months ended September 30, 2021 were \$7,367,000 and the cash payments were funded with company's cash on hand.

There have been no material changes in accrued balances related to the charges, either as a result of revisions to the plans or changes in estimates. In addition, the savings anticipated as a result of the company's restructuring plans have been or are expected to be achieved, primarily resulting in reduced salary and benefit costs principally impacting selling, general and administrative expenses, and to a lesser extent, costs of products sold. To date, the company's liquidity has been sufficient to absorb these charges and payments.

A progression by reporting segment of the accruals recorded as a result of the restructuring for the nine months ended September 30, 2022 is as follows (in thousands):

	Severance	Other	Total
December 31, 2021 Balances			
North America	\$ 482	\$ —	\$ 482
Total	<u>482</u>	<u>—</u>	<u>482</u>
Charges			
North America	1,124	538	1,662
Europe	2,119	—	2,119
All Other	9	—	9
Total	<u>3,252</u>	<u>538</u>	<u>3,790</u>
Payments			
North America	(422)	(538)	(960)
Europe	(367)	—	(367)
All Other	(9)	—	(9)
Total	<u>(798)</u>	<u>(538)</u>	<u>(1,336)</u>
March 31, 2022 Balances			
North America	1,184	—	1,184
Europe	1,752	—	1,752
Total	<u>\$ 2,936</u>	<u>\$ —</u>	<u>\$ 2,936</u>
Charges			
North America	\$ 542	998	\$ 1,540
Europe	1,288	1,325	2,613
Total	<u>1,830</u>	<u>2,323</u>	<u>4,153</u>
Payments			
North America	(768)	(442)	(1,210)
Europe	(1,254)	(624)	(1,878)
Total	<u>(2,022)</u>	<u>(1,066)</u>	<u>(3,088)</u>
June 30, 2022 Balances			
North America	958	556	1,514
Europe	1,786	701	2,487
Total	<u>\$ 2,744</u>	<u>\$ 1,257</u>	<u>\$ 4,001</u>
Charges			
North America	116	2,216	2,332
Europe	1,033	4,001	5,034
All Other	1,074	—	1,074
Total	<u>2,223</u>	<u>6,217</u>	<u>8,440</u>
Payments			
North America	(438)	(1,807)	(2,245)
Europe	(1,067)	(3,041)	(4,108)
All Other	(12)	—	(12)
Total	<u>(1,517)</u>	<u>(4,848)</u>	<u>(6,365)</u>
September 30, 2022 Balances			
North America	636	965	1,601
Europe	1,752	1,661	3,413
All Other	1,062	—	1,062
Total	<u>\$ 3,450</u>	<u>\$ 2,626</u>	<u>\$ 6,076</u>

Income Taxes

The company had an effective tax rate of 2.8% and 4.1% on losses before tax for the three and nine months ended September 30, 2022, respectively, compared to a statutory benefit of 21.0% on the pre-tax loss for each period. The company had an effective tax rate of 8.8% and 11.3% on losses before tax for the three and nine months ended September 30, 2021, respectively, compared to a statutory benefit of 21.0% on the pre-tax loss for each period. The company's effective tax rate for the three and nine months ended September 30, 2022 and September 30, 2021 were unfavorable as compared to the U.S. federal statutory rate, principally due to the negative impact of the company not being able to record tax benefits related to the significant losses in countries which had tax valuation allowances. The effective tax rate was increased for the three and nine months ended September 30, 2022 and September 30, 2021 by certain taxes outside the United States, excluding countries with tax valuation allowances, that were at an effective rate higher than the U.S. statutory rate.

Net Loss Per Common Share

The following table sets forth the computation of basic and diluted net loss per common share for the periods indicated.

(In thousands except per share data)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Basic				
Weighted average common shares outstanding	37,537	35,013	36,073	34,826
Net loss	\$ (34,354)	\$ (22,759)	\$ (80,494)	\$ (47,501)
Net loss per common share	\$ (0.92)	\$ (0.65)	\$ (2.23)	\$ (1.36)
Diluted				
Weighted average common shares outstanding	37,537	35,013	36,073	34,826
Share options and awards	143	475	168	545
Weighted average common shares assuming dilution	37,680	35,488	36,241	35,371
Net loss	\$ (34,354)	\$ (22,759)	\$ (80,494)	\$ (47,501)
Net loss per common share *	\$ (0.92)	\$ (0.65)	\$ (2.23)	\$ (1.36)

* Net loss per common share assuming dilution calculated utilizing weighted average shares outstanding-basic for the periods in which there was a net loss.

For the three and nine months ended September 30, 2022, shares associated with equity compensation awards of 1,659,909 and 1,120,192, respectively, and for the three and nine months ended September 30, 2021, shares associated with equity compensation awards of 1,432,833 and 1,163,526, respectively, were excluded from the weighted average common shares assuming dilution as incremental shares were antidilutive.

At September 30, 2022, the majority of the antidilutive incremental shares were awards granted at an exercise price above \$12.14, which was higher than the average fair market value price of \$1.05 and \$1.50 for the three and nine months ended September 30, 2022. At September 30, 2021, the majority of the antidilutive incremental shares were awards granted at an exercise price above \$14.49, which was higher than the average fair market value price of \$7.30 and \$8.30 for the three and nine months ended September 30, 2021.

For the three and nine months ended September 30, 2022 and September 30, 2021, respectively, no shares were included in the common shares assuming dilution related to the company's issued warrants as the average market price of the company shares for these periods did not exceed the strike price of the warrants.

Further, upon adoption of ASU 2020-06, effective in 2021 for the company, use of the if-converted earnings per share method is required. However, no shares were included in the weighted average common shares assuming dilution for the three and nine months ended September 30, 2022 and September 30, 2021 related to the company's convertible senior notes as conversion prices were above the company's average stock price for the periods and other requirements for the notes to be convertible to shares were not met.

Concentration of Credit Risk

The company manufactures and distributes durable medical equipment to the home health care, retail and extended care markets. The company performs credit evaluations of its customers' financial condition. The company utilizes De Lage Landen, Inc. ("DLL"), a third-party financing company, to provide lease financing to Invacare's U.S. customers. The DLL agreement provides for direct leasing between DLL and the Invacare customer. The company retains a recourse obligation of \$2,071,000 at September 30, 2022 to DLL for events of default under the contracts, which total \$8,588,000 at September 30, 2022. Guarantees, ASC 460, requires the company to record a guarantee liability as it relates to the limited recourse obligation. As such, the company has recorded an immaterial liability for this guarantee obligation within other long-term obligations. The company's recourse is reevaluated by DLL biannually, considers activity between the biannual dates and excludes any receivables purchased by the company from DLL. 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 *Receivables*, ASC 310-10-05-4. Credit losses are provided for in the financial statements.

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

Derivatives

ASC 815 requires companies to recognize all derivative instruments in the condensed consolidated balance sheets as either assets or liabilities at fair value. The accounting for changes in fair value of a derivative is dependent upon whether or not the derivative has been designated and qualifies for hedge accounting treatment and the type of hedging relationship. For derivatives designated and qualifying as hedging instruments, the company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

Cash Flow Hedging Strategy

The company uses derivative instruments in an attempt to manage its exposure to transactional foreign currency exchange risk. Foreign forward exchange contracts are used to manage the price risk associated with forecasted sales denominated in foreign currencies and the price risk associated with forecasted purchases of inventory over the next twelve months.

The company recognizes its derivative instruments as assets or liabilities in the condensed consolidated balance sheets measured at fair value. All 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.

To protect against increases/decreases in forecasted foreign currency cash flows resulting from inventory purchases/sales over the next year, the company utilizes foreign currency forward contracts to hedge portions of its forecasted purchases/sales denominated in foreign currencies. The gains and losses are included in cost of products sold and selling, general and administrative expenses on the condensed consolidated statements of comprehensive income (loss). If it is later determined that a hedged forecasted transaction is unlikely to occur, any prospective gains or losses on the forward contracts would be recognized in earnings. The company does not expect any material amount of hedge ineffectiveness related to forward contract cash flow hedges during the next twelve months.

The company has historically not recognized any material amount of ineffectiveness related to forward contract cash flow hedges because the company generally limits its hedges to between 50% and 90% of total forecasted transactions for a given entity's exposure to currency rate changes and the transactions hedged are recurring in nature. Furthermore, most of the hedged transactions are related to intercompany sales and purchases for which settlement occurs on a specific day each month. Forward contracts with a total notional amount in USD of \$67,853,000 and \$90,800,000 matured during the nine months ended September 30, 2022 and September 30, 2021, respectively, compared to \$29,189,000 and \$32,685,000 during the three month ended September 30, 2022 and September 30, 2021, respectively.

Outstanding foreign currency forward exchange contracts qualifying and designated for hedge accounting treatment were as follows (in thousands USD):

	September 30, 2022		December 31, 2021	
	Notional Amount	Unrealized Net Gain (Loss)	Notional Amount	Unrealized Net Gain (Loss)
USD / EUR	3,492	441	—	—
USD / CAD	4,523	(343)	—	—
EUR / GBP	5,961	179	—	—
EUR / NOK	689	(5)	—	—
NOK / SEK	1,089	(43)	—	—
USD / MXN	1,089	70	23	1
	\$ 16,843	\$ 299	\$ 23	\$ 1

Derivatives Not Qualifying or Designated for Hedge Accounting Treatment

The company utilizes foreign currency forward contracts that are not designated as hedges in accordance with ASC 815. These contracts are entered into to eliminate the risk associated with the settlement of short-term intercompany trading receivables and payables between Invacare Corporation and its foreign subsidiaries. The currency forward contracts are entered into at the same time as the intercompany

receivables or payables are created so that upon settlement, the gain/loss on the settlement is offset by the gain/loss on the foreign currency forward contract. No material net gain or loss was realized by the company in 2022 or 2021 related to these contracts and the associated short-term intercompany trading receivables and payables.

Foreign currency forward exchange contracts not qualifying or designated for hedge accounting treatment, as well as ineffective hedges, entered into in 2022 and 2021, respectively, and outstanding were as follows (in thousands USD):

	September 30, 2022		December 31, 2021	
	Notional Amount	Gain (Loss)	Notional Amount	Gain (Loss)
USD / AUD	\$ 1,194	\$ 104	\$ 3,792	\$ (57)
USD / CAD	19,765	(272)	14,556	(24)
USD / EUR	73,507	(1,852)	70,454	(1,104)
USD / DKK	5,099	(137)	10,850	(257)
USD / GBP	—	—	4,028	32
USD / NOK	4,790	(467)	2,352	(81)
USD / SEK	1,880	(72)	2,344	(131)
EUR / GBP	1,200	36	—	—
EUR / NOK	1,099	(8)	—	—
AUD / NZD	17,082	(163)	7,366	(17)
USD / THB	4,310	278	4,500	86
EUR / SEK	2,353	(10)	—	—
	\$ 132,279	\$ (2,563)	\$ 120,242	\$ (1,553)

The fair values of the company's derivative instruments were as follows (in thousands):

	September 30, 2022		December 31, 2021	
	Assets	Liabilities	Assets	Liabilities
Derivatives designated as hedging instruments under ASC 815				
Foreign currency forward exchange contracts	\$ 690	\$ 391	\$ 1	\$ —
Derivatives not designated as hedging instruments under ASC 815				
Foreign currency forward exchange contracts	1,936	4,499	385	1,938
Total derivatives	<u>\$ 2,626</u>	<u>\$ 4,890</u>	<u>\$ 386</u>	<u>\$ 1,938</u>

The fair values of the company's foreign currency forward exchange contract assets and liabilities are included in Other Current Assets and Accrued Expenses, respectively in the condensed consolidated balance sheets.

The effect of derivative instruments on Accumulated Other Comprehensive Income (Loss) (OCI) and the condensed consolidated Statements of comprehensive income (loss) was as follows (in thousands):

	Amount of Gain (Loss) Recognized in Accumulated OCI on Derivatives (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
			Three months ended September 30, 2022	Nine months ended September 30, 2022
Derivatives (foreign currency forward exchange contracts) in ASC 815 cash flow hedge relationships				
Foreign currency forward exchange contracts	\$ 59	\$ 1,275	\$ 1,002	
Nine months ended September 30, 2022				
Foreign currency forward exchange contracts	\$ 2,197	\$ 1,961	\$ 1,117	
Three months ended September 30, 2021				
Foreign currency forward exchange contracts	\$ 944	\$ (309)	\$ 51	
Nine months ended September 30, 2021				
Foreign currency forward exchange contracts	\$ (643)	\$ (1,219)	\$ (37)	
Derivatives (foreign currency forward exchange contracts) not designated as hedging instruments under ASC 815				
Foreign currency forward exchange contracts		\$ 2,072		
Nine months ended September 30, 2022				
Foreign currency forward exchange contracts		\$ (2,563)		
Three months ended September 30, 2021				
Foreign currency forward exchange contracts		\$ (592)		
Nine months ended September 30, 2021				
Foreign currency forward exchange contracts		\$ (1,315)		

The gains or losses recognized as the result of the settlement of cash flow hedge foreign currency forward contracts are recognized in net sales for hedges of inventory sales and in cost of products sold for hedges of inventory purchases. For the three and nine months ended September 30, 2022, net sales were increased by \$68,000 and \$125,000, while cost of products sold was decreased by \$1,263,000 and \$1,997,000 for net pre-tax realized gains of \$1,331,000 and

\$2,122,000, respectively. For the three and nine months ended September 30, 2021, net sales were decreased by \$476,000 and \$657,000 while cost of products sold was decreased by \$92,000 and increased by \$746,000 for net realized pre-tax losses of \$384,000 and \$1,403,000, respectively.

A gain of \$2,072,000 and \$2,563,000 was recognized in selling, general and administrative (SG&A) expenses for the

three and nine months ended September 30, 2022 compared to a loss of \$592,000 and a loss of \$1,315,000 for the three and nine months ended September 30, 2021 related to forward contracts not designated as hedging instruments. The forward contracts were entered into to offset gains/losses that were also recorded in SG&A expenses on intercompany trade receivables or payables. The gains/losses on the non-designated hedging instruments were substantially offset by gains/losses on intercompany trade payables.

The company's derivative agreements provide the counterparties with a right of set off in the event of a default. The right of set off would enable the counterparty to offset any net payment due by the counterparty to the company under the applicable agreement by any amount due by the company to the counterparty under any other agreement. For example, the terms of the agreement would permit a counterparty to a derivative contract that is also a lender under the company's

Prior Credit Agreement and ABL Credit Agreement to reduce any derivative settlement amounts owed to the company under the derivative contract by any amounts owed to the counterparty by the company under the Prior Credit Agreement and ABL Credit Agreement. In addition, the agreements contain cross-default provisions that could trigger a default by the company under the agreement in the event of a default by the company under another agreement with the same counterparty.

During the third quarter of 2022, the company entered into privately negotiated Secured Convertible 2026 Notes of \$31,106,000 in aggregate principal amount. Convertible debt conversion liabilities of \$1,423,000 were recorded based on initial fair values and these fair values are updated quarterly with the offset to the income statement. Refer to "Long-Term Debt" in the notes to the condensed consolidated financial statements for more detail.

The fair values of the outstanding convertible note derivatives as of September 30, 2022 and their effect on the Statement of Comprehensive Income (Loss) were as follows (in thousands):

	Fair Value	Gain	
		September 30, 2022	September 30, 2022
		Three and Nine Months Ended	
Secured Convertible 2026 Notes conversion long-term liability	\$ 473	\$ 950	

The secured convertible 2026 notes conversion liability amounts are included in Other Long-Term Obligations in the company's condensed consolidated balance sheets.

Fair Values

Pursuant to ASC 820, the inputs used to derive the fair value of assets and liabilities are analyzed and assigned a level I, II or III priority, with level I being the highest and level III being the lowest in the hierarchy. Level I inputs are quoted prices in active markets for identical assets or liabilities.

Level II inputs are quoted prices for similar assets or liabilities in active markets: quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets. Level III inputs are based on valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The following table provides a summary of the company's assets and liabilities that are measured on a recurring basis (in thousands):

	Basis for Fair Value Measurements at Reporting Date		
	Quoted Prices in Active Markets for Identical Assets / (Liabilities)	Significant Other Observable Inputs	Significant Other Unobservable Inputs
	Level I	Level II	Level III
<u>September 30, 2022</u>			
Forward exchange contracts—net	—	\$ (2,264)	—
Secured convertible 2026 debt conversion liability	—	(473)	—
<u>December 31, 2021</u>			
Forward exchange contracts—net	—	\$ (1,552)	—

The carrying values and fair values of the company's financial instruments are as follows (in thousands):

	September 30, 2022		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 45,439	\$ 45,439	\$ 83,745	\$ 83,745
Forward contracts in Other current assets	2,626	2,626	386	386
Forward contracts in Accrued expenses	(4,890)	(4,890)	(1,938)	(1,938)
Total debt (including current maturities of long-term debt) *	(335,279)	(272,485)	(308,129)	(259,472)
2022 Notes	—	—	(2,642)	(2,632)
Series I 2024 Notes	(72,341)	(62,887)	(72,140)	(64,897)
Series II 2024 Notes	(75,764)	(63,963)	(78,251)	(74,165)
2026 Notes	(80,898)	(36,832)	(119,036)	(81,718)
2026 Secured Notes	(27,463)	(25,369)	—	—
2026 Term Loan	(59,724)	(64,345)	—	—
Other	(19,089)	(19,089)	(36,060)	(36,060)
Secured convertible 2026 debt conversion liability in Other Long-Term Obligations	(473)	(473)	—	—

* The company's total debt is shown net of discount and fees associated with the convertible senior notes and term loan due in 2022, 2024 and 2026 on the company's condensed consolidated balance sheets. Accordingly, the fair values due in 2022, 2024 and 2026 are included in the long-term debt presented in this table are also shown net of fees. Total debt amounts exclude operating and finance lease obligations.

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

Cash, cash equivalents: The carrying value reported in the balance sheet for cash, cash equivalents equals its fair value. The fair values are deemed to be categorized as Level 1.

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 are used to hedge the following currencies: AUD, CAD, DKK, EUR, GBP, MXN, NOK, NZD, SEK, THB, and USD. The company does not use derivative financial instruments for speculative purposes. Fair values for the company's foreign exchange forward contracts are based on quoted market prices for contracts with similar maturities. The fair values are deemed to be categorized as Level 2. The company's forward contracts are included in Other Current Assets or Accrued Expenses in the condensed consolidated balance sheets.

Total debt: Fair value for the company's convertible debt other than the 2026 Secured Notes and Term Loan is based on quoted market-based estimates as of the end of the period, while the revolving credit facility fair value is based on an estimate of the market for similar borrowing arrangements. The fair values are deemed to be categorized as Level 2 in the fair value hierarchy. The 2026 Secured Notes and Term Loan fair values are based on valuation models in which significant inputs are observable in active markets. The fair values are deemed to be categorized as Level 2. Other total debt is primarily attributable to credit facilities borrowings where the carrying value reported in the balance approximates its fair value.

Convertible debt derivative: The fair value for the convertible debt conversion liability is based on valuation models in which significant inputs are observable in active markets. The fair values are deemed to be categorized as Level 2.

Business Segments

The company operates in two primary business segments: North America and Europe with each selling the company's primary product categories, which include: lifestyle, mobility and seating and respiratory therapy products. Sales in Asia Pacific are reported in All Other and include products similar to those sold in North America and Europe. The accounting policies of each segment are the same as those described in the summary of significant accounting policies for the company's condensed consolidated financial statements. Intersegment sales and transfers are based on the costs to manufacture plus a reasonable profit element.

Segment performance is measured and resources are allocated based on a number of factors, with the primary income or loss measure being segment operating income (loss). Segment operating income (loss) represents net sales less cost of products sold less selling general and administrative expenses. Segment operating income (loss)

excludes unallocated corporate general and administrative expenses not allocated to the segments and intersegment sales and profit eliminations, which are included in All Other. In addition, segment operating income (loss) further excludes charges related to restructuring activities, asset impairment and gain on sale of business (as applicable).

This performance measure, segment operating income (loss), is used by the Chief Operating Decision Maker (CODM) for purposes of making decisions about allocating resources to a segment and assessing its performance. In addition, this metric is reviewed by the company's Board of Directors regarding segment performance and is a key metric in the performance management assessment of the company's employees.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues from external customers				
Europe	\$ 97,487	\$ 127,026	\$ 328,334	\$ 361,097
North America	65,314	88,054	209,351	260,275
All Other (Asia Pacific)	7,607	9,120	22,728	24,894
Consolidated	<u>\$ 170,408</u>	<u>\$ 224,200</u>	<u>\$ 560,413</u>	<u>\$ 646,266</u>
Intersegment revenues				
Europe	\$ 2,763	\$ 6,221	\$ 11,327	\$ 17,758
North America	5,738	15,044	24,274	45,903
Consolidated	<u>\$ 8,501</u>	<u>\$ 21,265</u>	<u>\$ 35,601</u>	<u>\$ 63,661</u>
Restructuring charges before income taxes				
Europe	\$ 5,034	\$ 255	\$ 9,766	\$ 1,501
North America	2,332	122	5,534	975
All Other	1,074	—	1,083	—
Consolidated	<u>\$ 8,440</u>	<u>\$ 377</u>	<u>\$ 16,383</u>	<u>\$ 2,476</u>
Operating income (loss)				
Europe	\$ (2,588)	\$ 9,554	\$ 4,126	\$ 18,378
North America	(15,007)	(1,523)	(29,607)	(2,308)
All Other	(6,391)	(3,856)	(21,981)	(19,025)
Charges related to restructuring activities	(8,440)	(377)	(16,383)	(2,476)
Impairment of an intangible asset	(1,012)	—	(1,012)	—
Impairment of goodwill	—	(28,564)	—	(28,564)
Consolidated operating loss	<u>(33,438)</u>	<u>(24,766)</u>	<u>(64,857)</u>	<u>(33,995)</u>
Net gain on convertible debt derivatives	950	—	950	—
Net gain on debt extinguishment	6,398	10,131	6,398	9,422
Net interest expense	(7,344)	(6,284)	(19,825)	(18,098)
Loss before income taxes	<u>\$ (33,434)</u>	<u>\$ (20,919)</u>	<u>\$ (77,334)</u>	<u>\$ (42,671)</u>

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Europe				
Lifestyle	\$ 46,881	\$ 61,683	\$ 162,942	\$ 181,628
Mobility and Seating	43,778	56,535	139,010	152,660
Respiratory Therapy	2,262	4,225	11,847	13,613
Other(1)	4,566	4,583	14,535	13,196
	\$ 97,487	\$ 127,026	\$ 328,334	\$ 361,097
North America				
Lifestyle	\$ 34,379	\$ 38,666	\$ 102,516	\$ 114,951
Mobility and Seating	23,453	28,414	74,876	82,243
Respiratory Therapy	7,236	20,856	31,384	62,429
Other(1)	246	118	575	652
	\$ 65,314	\$ 88,054	\$ 209,351	\$ 260,275
All Other (Asia Pacific)				
Mobility and Seating	\$ 3,311	\$ 3,171	\$ 8,989	\$ 9,239
Lifestyle	2,556	3,230	8,239	8,736
Respiratory Therapy	407	1,215	1,538	2,547
Other(1)	1,333	1,504	3,962	4,372
	\$ 7,607	\$ 9,120	\$ 22,728	\$ 24,894
Total Consolidated	\$ 170,408	\$ 224,200	\$ 560,413	\$ 646,266

(1) Includes various services, including repair services, equipment rentals and external contracting.

Contingencies

General

In the ordinary course of its business, the company is a defendant in a number of lawsuits, primarily product liability actions in which various plaintiffs seek damages for injuries allegedly caused by defective products. All the product liability lawsuits that the company faces in the United States have been referred to the company's captive insurance company and/or excess insurance carriers while all non-U.S. lawsuits have been referred to the company's commercial insurance carriers. All such lawsuits are generally contested vigorously. The coverage territory of the company's insurance is worldwide with the exception of those countries with respect to which, at the time the product is sold for use or at the time a claim is made, the U.S. government has suspended or prohibited diplomatic or trade relations. The amount recorded for identified contingent liabilities is based on estimates. Amounts recorded are reviewed periodically and adjusted to reflect additional technical and legal information that becomes available. Actual costs to be incurred in future periods may vary from the estimates, given the inherent uncertainties in evaluating certain exposures.

As a medical device manufacturer, the company is subject to extensive government regulation, including numerous laws directed at preventing fraud and abuse and laws regulating reimbursement under various government programs. The marketing, invoicing, documenting, developing, testing, manufacturing, labeling, promoting, distributing and other practices of health care suppliers and medical device manufacturers are all subject to government scrutiny. Most of the company's facilities are subject to inspection at any time by the FDA or similar medical device regulatory agencies in other jurisdictions. Violations of law or regulations can result in administrative, civil and criminal penalties and sanctions, which could have a material adverse effect on the company's business.

Medical Device Regulatory Matters

The FDA in the United States and comparable medical device regulatory authorities in other jurisdictions regulate virtually all aspects of the marketing, invoicing, documenting, development, testing, manufacturing, labeling, promotion, distribution and other practices regarding medical devices. The company and its products are subject to the laws and regulations of the FDA and other regulatory bodies in the various jurisdictions where the company's products are manufactured or sold. The company's failure to comply with the regulatory requirements of the FDA and other applicable medical device regulatory requirements can subject the company to administrative or judicially imposed sanctions or

enforcement actions. These sanctions include injunctions, consent decrees, warning letters, civil penalties, criminal penalties, product seizure or detention, product recalls and total or partial suspension of production.

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

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

The consent decree will continue in effect for at least five years from July 24, 2017, during which time the company's Corporate and Taylor Street facilities must complete two semi-annual audits in the first year and then four annual audits in the next four years performed by an independent company-retained audit firm. The expert audit firm will determine whether the facilities remain in continuous compliance with the Federal Food, Drug and Cosmetic Act ("FDA Act"), FDA regulations and the terms of the consent decree and issue post audit reports contemporaneously to the FDA, and the FDA has the authority to inspect these facilities and any other FDA registered facility, at any time.

The FDA has continued to actively inspect the company's facilities, other than through the processes established under the consent decree. The company expects that the FDA will, from time to time, inspect substantially all the company's domestic and foreign FDA-registered facilities.

In 2021, FDA conducted an inspection of the company's Corporate and Taylor Street facilities from May 25 through June 24, 2021. At the close of the inspection, six FDA Form 483 observations were issued, and the company timely responded to FDA, has diligently taken actions to address FDA's inspectional observations, and has provided FDA monthly updates on the corrective actions taken to address these observations. On November 18, 2021, the company received a warning letter from the FDA concerning certain of the inspectional observations in the June 2021 FDA Form 483 related to the complaint handling process, the corrective and preventive action ("CAPA") process, and medical device reporting ("MDR") associated with oxygen concentrators (the "Warning Letter"). On November 16, 2021, the company received a consent decree non-compliance letter from the FDA concerning the same complaint and CAPA handling matters as in the Warning Letter observations but associated with the Taylor Street products (this letter, together with the Warning Letter, the "FDA Letters"). The company timely responded to the FDA Letters, has diligently taken actions to address FDA's concerns, and has provided FDA with periodic updates on the corrective actions taken to address the matters in the FDA Letters. The company remains committed to resolving the FDA's concerns; however, it is not possible to predict the outcome or timing of a resolution at this time. There can be no assurance that the FDA will be satisfied with the company's responses to the FDA Letters, nor any assurance as to the timeframe that may be required for the company to adequately address the FDA's concerns or whether the matters in the FDA Letters will result in an extension in the duration of the consent decree. As of the date of filing of the company's Quarterly Report on Form 10-Q, there has been no impact on the Company's ability to produce and market its products as a result of the FDA Letters.

Under the consent decree, the FDA has the authority to order the company to take a wide variety of actions if the FDA finds that the company is not in compliance with the consent decree, FDA Act or FDA regulations, including requiring the company to cease all operations relating to Taylor Street products. The FDA also can order the company to undertake a partial cessation of operations or a recall, issue a safety alert, public health advisory, or press release, or to take any other corrective action the FDA deems necessary with respect to Taylor Street products.

The FDA also has authority under the consent decree to assess liquidated damages of \$15,000 per violation per day for any violations of the consent decree, FDA regulations or the FDA Act. The FDA also may assess liquidated damages for shipments of adulterated or misbranded devices in the amount of twice the sale price of any such adulterated or misbranded device. The liquidated damages, if assessed, are limited to a total of \$7,000,000 for each calendar year. The authority to

assess liquidated damages is in addition to any other remedies otherwise available to the FDA, including civil money penalties.

The results of regulatory claims, proceedings, investigations, or litigation are difficult to predict. An unfavorable resolution or outcome of the FDA Letters, any other FDA warning letters or inspectional observations, or other FDA enforcement related to company facilities, could materially and adversely affect the company's business, financial condition, and results of operations.

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

Although the company has been permitted to resume full operations at the Corporate and Taylor Street facilities, the negative effect of the consent decree on customer orders and net sales in the North America segment and Asia Pacific region has been considerable, and it is uncertain as to whether, or how quickly, the company will be able to rebuild net sales to more typical historical levels, irrespective of market conditions. Accordingly, when compared to the company's historic results, the previous limitations in the consent decree had, and likely may continue to have, a material adverse effect on the company's business, financial condition and results of operations.

Warranty Matters

The company's warranty reserves are subject to adjustment in future periods based on historical analysis of warranty claims and as new developments occur that may change the company's estimates related to specific product recalls. Refer to Current Liabilities in the notes to the condensed consolidated financial statements for the total provision amounts and a reconciliation of the changes in the warranty accrual.

Any of the above contingencies could have an adverse impact on the company's financial condition or results of operations.

For additional information regarding the consent decree, other regulatory matters, and risks and trends that may impact the company's financial condition or results of operations, please see the following sections of the company's Annual Report on Form 10-K for the year ended December 31, 2021: Item 1. Business - Government Regulation and Item 1A. Risk Factors; Item 3. Legal Proceedings; and Item 7. Management's

Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The company is at times exposed to market risk through various financial instruments, including fixed rate and floating rate debt instruments. An increase of 1% to variable rate debt outstanding at September 30, 2022 would increase interest expense \$834,000 annually. Additionally, the company operates internationally and, as a result, is exposed to foreign currency fluctuations. Specifically, the exposure results from intercompany loans, intercompany sales or payments and third-party sales or payments. In an attempt to reduce this exposure, foreign currency forward contracts are utilized to hedge intercompany purchases and sales as well as third-party purchases and sales. 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.

The company is party to the ABL Credit Agreement which became effective on July 26, 2022. Accordingly, while the company is exposed to increases in interest rates, its exposure to the volatility of the current market environment is currently limited until the ABL Credit Agreement expires. The ABL Credit Agreement and Highbridge Loan Agreement contain customary default provisions, with certain grace periods and exceptions, which provide that events of default that include, among other things, failure to pay amounts due, breach of covenants, representations or warranties, bankruptcy, the occurrence of a material adverse effect, exclusion from any medical reimbursement program, and an interruption of any material manufacturing facilities for more than ten consecutive days. Should the company fail to comply with these requirements, the company would potentially have to attempt to obtain alternative financing and thus likely be required to pay much higher interest rates.

Item 4. Controls and Procedures.*(a) Evaluation of Disclosure Controls and Procedures*

As of September 30, 2022, an evaluation was performed, under the supervision and with the participation of the company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). 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 as of September 30, 2022, in ensuring that information required to be disclosed by the company in the reports it files and submits under the Exchange Act is (1) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and (2) accumulated and communicated to the company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in the company's internal control over financial reporting that occurred during the company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

In December 2012, the company became subject to a consent decree of injunction filed by the FDA in the U.S. District Court for the Northern District of Ohio with respect to the company's Corporate facility and its Taylor Street manufacturing facility in Elyria, Ohio. On July 24, 2017, following its reinspection of the Corporate and Taylor Street facilities, FDA notified the company that it was in substantial compliance with the FDA Act, FDA regulations and the terms of the consent decree and that the company was permitted to resume full operations at those facilities, including the resumption of unrestricted sales of products made in those facilities.

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

The FDA has the authority to inspect the Corporate and Taylor Street facilities, and any other FDA registered facility, at any time. The FDA also has the authority to order the company to take a wide variety of actions if the FDA finds that the company is not in compliance with the consent decree, FDA Act or FDA regulations, including requiring the company to cease all operations relating to Taylor Street products. The FDA also can order the company to undertake a partial cessation of operations or a recall, issue a safety alert, public health advisory, or press release, or to take any other

corrective action the FDA deems necessary with respect to Taylor Street products.

The FDA also has authority under the consent decree to assess liquidated damages of \$15,000 per violation per day for any violations of the consent decree, FDA Act or FDA regulations. The FDA also may assess liquidated damages for shipments of adulterated or misbranded devices in the amount of twice the sale price of any such adulterated or misbranded device. The liquidated damages, if assessed, are limited to a total of \$7,000,000 for each calendar year. The authority to assess liquidated damages is in addition to any other remedies otherwise available to the FDA, including civil money penalties.

In November 2021, the company received a Warning Letter from the FDA concerning certain of the June 2021 FDA Form 483 inspectional observations related to the complaint handling, CAPA and MDR processes, associated with oxygen concentrators. The company also received a consent decree non-compliance letter from the FDA concerning the same complaint and CAPA handling matters as in the Warning Letter but associated with the Taylor Street products. The company timely responded to the FDA Letters, has diligently taken actions to address FDA's concerns, and has provided FDA with periodic updates on the corrective actions taken to address the matters in the FDA Letters. The company remains committed to resolving the FDA's concerns; however, it is not possible to predict the outcome or timing of a resolution at this time. There can be no assurance that the FDA will be satisfied with the company's responses to the FDA Letters, nor any assurance as to the timeframe that may be required for the company to adequately address the FDA's concerns or whether the matters in the FDA Letters will result in an extension in the duration of the consent decree.

For additional information regarding the consent decree, please see the "Contingencies" note to the financial statements contained in Part I of this Quarterly Report on Form 10-Q, the risk factors referred to in Part I, Item 1A of this Quarterly Report on Form 10-Q, and the following sections of the company's Annual Report on Form 10-K for the period ending December 31, 2021 Item 1. Business - Government Regulation; Item 1A. Risk Factors; and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Outlook and - Liquidity and Capital Resources.

Item 1A. Risk Factors

Except as set forth below, there have been no material changes to the risk factors disclosed in Part 1, Item 1A, of the company's Annual Report on Form 10-K for the year ended December 31, 2021.

Restrictive covenants under the company's new credit agreements and the indentures related to the company's secured convertible notes may limit the manner in which the company operates.

The Highbridge Loan Agreement, the ABL Credit Agreement and the Indentures related to the company's secured convertible notes due 2026 contain, and any future indebtedness the company incurs may contain, various negative covenants that restrict, among other things, the company's indebtedness, liens, fundamental changes, asset sales, investments and other matters. In addition, the Highbridge Loan Agreement has a minimum liquidity requirement. The company's obligations under the Highbridge Loan Agreement, the ABL Credit Agreement and the Indentures, collectively, are secured by substantially all of the company's assets. As a result, the company is limited in the manner in which it conducts its business and the company may be unable to engage in favorable business activities.

Servicing the company's debt requires a significant amount of cash, and the company may not have sufficient cash flow from its business to pay its substantial debt.

The company's ability to make scheduled payments of the principal of, to pay interest on or to refinance its indebtedness depends on its future performance, which is subject to economic, financial, competitive and other factors beyond its control, including uncertainties related to the company's supply chain. Pandemic-related supply chain challenges, as well as supplier delivery holds resulting from past due payables, have had, and may continue to have, the effect of interrupting production and negatively impacting the company's ability to fulfill orders and generate sales and cash flow. The company's business may not generate cash flow from operations in the future sufficient to service its debt and make necessary capital expenditures. If the company is unable to generate such cash flow, it may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. The company's ability to refinance its indebtedness will depend on the capital markets and its financial condition at such time. The company may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the company's debt obligations.

Despite the company's current debt levels, subject to certain conditions and limitations, it may still incur substantially more debt or take other actions which would intensify the risks discussed above.

Despite the company's current consolidated debt levels, subject to certain conditions and limitations in the Highbridge Loan Agreement, the ABL Credit Agreement and the Indentures related to the company's secured convertible notes, the company may be able to incur substantial additional debt in the future, some of which may be secured debt. If new debt is added to the company's current debt levels, the related risks that the company faces could intensify.

If the company cannot regain compliance with the NYSE's continued listing standards, the NYSE may delist the company's common shares, which could negatively affect the company, the price of its common shares and shareholders' ability to sell the company's common shares and may lead to potential events of default on existing debt instruments.

On September 23, 2022, the company was notified by the NYSE that the company was not in compliance with Section 802.01C of the NYSE Listed Company Manual because the average closing price of the company's common shares was less than \$1.00 per share over a consecutive 30 trading-day period. The company intends to cure the stock price deficiency and to return to compliance with the NYSE continued listing standard. The company can regain compliance at any time within the six-month period following receipt of the NYSE notice if on the last trading day of any calendar month during the six-month period the company has a closing share price of at least \$1.00 and an average closing share price of at least \$1.00 over the 30 trading-day period ending on the last trading day of that month. The company intends to consider available alternatives, including but not limited to, a reverse stock split, subject to shareholder approval no later than at the company's next annual meeting of shareholders, if necessary to cure the stock price non-compliance. Under the NYSE's rules, if the company determines that it will cure the stock price deficiency by taking an action that will require shareholder approval at its next annual meeting of shareholders, the price condition will be deemed cured if the price promptly exceeds \$1.00 per share, and the price remains above that level for at least the following 30 trading days.

If the company fails to regain compliance with Section 802.01C of the NYSE Listed Company Manual by the end of the cure period, the common shares will be subject to the NYSE's suspension and delisting procedures. In addition, if the company's average global market capitalization over a consecutive 30 trading-day period drops below \$15.0 million, the NYSE will initiate delisting proceedings without a cure period in which the company can regain compliance. While the company intends to regain compliance with the NYSE listing standards, there is no assurance that the company's efforts will be successful, nor is there any assurance that the company will remain in compliance with Section 802.01C of the NYSE Listed Company Manual or other NYSE continued listing standards in the future.

A suspension and delisting of the company's common shares could, among other things, further reduce the liquidity and market price of the company's common shares; reduce the number of investors willing to hold or acquire the company's common shares; negatively impact the company's ability to raise capital through equity financing; and limit the company's ability to issue additional securities or obtain additional financing in the future. A delisting of the common shares could constitute a "fundamental change" under the terms of the company's outstanding convertible notes, requiring the company to make an offer to repurchase all of the notes at 100% of their principal amount plus accrued and unpaid interest. There is no assurance the company would have sufficient funds available to it to repurchase the notes if required to do so. Failure to repurchase the notes if required could cause an event of default under the convertible notes, which in turn also could cause a cross-default under the company's credit facilities and term loans, which would permit the holders of the indebtedness to accelerate the maturity thereof and proceed against their collateral and could have a material adverse effect on the company's business and financial condition as well as its ability to continue as a going concern.

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

The following table presents information with respect to repurchases of Common Shares made by the company during the three months ended September 30, 2022.

Period	Total Number of Shares Purchased (1)	Avg. Price Paid Per Share \$	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs (2)
7/1/2022 - 7/31/2022	—	\$ —	—	2,453,978
8/1/2022 - 8/31/2022	—	—	—	2,453,978
9/1/2022 - 9/30/2022	192	0.78	—	2,453,978
Total	192	\$ 0.78	—	2,453,978

(1) All 192 were repurchased between July 1, 2022 and September 30, 2022 or were surrendered to the company by employees for minimum tax withholding purposes in conjunction with the vesting of restricted shares awarded to the employees or exercise of non-qualified options under the company's equity compensation plans.

(2) In 2001, the Board of Directors authorized the company to purchase up to 2,000,000 Common Shares, excluding any shares acquired from employees or directors as a result of the exercise of options or vesting of restricted shares pursuant to the company's performance plans. The Board of Directors reaffirmed its authorization of this repurchase program on November 5, 2010, and on August 17, 2011 authorized an additional 2,046,500 shares for repurchase under the plan. To date, the company has purchased 1,592,522 shares under this program, with authorization remaining to purchase 2,453,978 shares. The company purchased no shares pursuant to this Board authorized program during the quarter ended September 30, 2022.

Under the terms of the company's Prior Credit Agreement and ABL Credit Agreement, repurchases of shares by the company generally are not permitted except in certain limited circumstances in connection with the vesting or exercise of employee equity compensation awards.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

After careful evaluation of strategic options and its core revenue streams, the company has decided to discontinue its respiratory line of products. The company will fulfill existing customer orders as possible with inventory on hand. The company expects to discontinue production of respiratory products in the fourth quarter of 2022. The company will continue to produce and supply respiratory parts and service needs of customers and will remain obligated under respiratory-related warranty and regulatory requirements.

additional restructuring charges for one-time termination benefits and other asset write-downs related to inventory or fixed assets. The company is unable at this time to estimate the amount or range of amounts of any such additional restructuring charges. The company expects to include such information in an amendment to Form 8-K and/or the company's Annual Report on Form 10-K for the year ended December 31, 2022.

In connection with the discontinuation of the respiratory product line, the company incurred charges of \$8.7 million of in the third quarter of 2022 related to a write-down of inventory and purchase obligations. As the company ceases production during the fourth quarter of 2022, there may be

Item 6. Exhibits

Exhibit
No.

4.1	Indenture, dated as of July 26, 2022, by and between Invacare Corporation, the guarantors party thereto, Computershare Trust Company, N.A., as trustee, and GLAS Corporation Limited, as notes collateral agent (incorporated by reference to Exhibit 4.1 to the Form 8-K filed with the Securities and Exchange Commission (the "SEC") on July 26, 2022).
4.2	Form of 5.68% Convertible Senior Secured Notes due 2026, Tranche I (incorporated by reference to Exhibit 4.2 to the Form 8-K filed with the SEC on July 26, 2022).
4.3	Form of Guarantee (incorporated by reference to Exhibit 4.3 to the Form 8-K filed with the SEC on July 26, 2022).
4.4	Indenture, dated as of July 26, 2022, by and between Invacare Corporation, the guarantors party thereto, Computershare Trust Company, N.A., as trustee, and GLAS Corporation Limited, as notes collateral agent (incorporated by reference to Exhibit 4.4 to the Form 8-K filed with the SEC on July 26, 2022).
4.5	Form of 5.68% Convertible Senior Secured Notes due 2026, Tranche II (incorporated by reference to Exhibit 4.5 to the Form 8-K filed with the SEC on July 26, 2022).
4.6	Form of Guarantee (incorporated by reference to Exhibit 4.6 to the Form 8-K filed with the SEC on July 26, 2022).
4.7	Resale Registration Rights Agreement, dated as of July 26, 2022, by and among Invacare Corporation and the noteholders parties thereto (incorporated by reference to Exhibit 4.7 to the Form 8-K filed with the SEC on July 26, 2022).
10.1	Credit Agreement, dated as of July 26, 2022, among Invacare Corporation, the lenders party thereto, Cantor Fitzgerald Securities, as administrative agent, and GLAS Trust Corporation Limited, as collateral agent (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on July 26, 2022).
10.2	Second Amended and Restated Credit Agreement, dated as of July 26, 2022, by and among Invacare Corporation, the borrowers, guarantors and lenders party thereto, and PNC Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.2 to the Form 8-K filed with the SEC on July 26, 2022).
10.3	Cooperation Agreement, dated as of August 22, 2022, by and among Invacare Corporation, Azurite Management LLC and the other parties named therein (incorporated by reference to Exhibit 10.1 to the Form 8-K filed with the SEC on August 22, 2022).
10.4	Amendment to Termination Agreement - Ledda (filed herewith).
31.1	Chief Executive Officer Rule 13a-14(a)/15d-14(a) Certification (filed herewith).
31.2	Chief Financial Officer Rule 13a-14(a)/15d-14(a) Certification (filed herewith).
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS*	XBRL instance document
101.SCH*	XBRL taxonomy extension schema
101.CAL*	XBRL taxonomy extension calculation linkbase
101.DEF*	XBRL taxonomy extension definition linkbase
101.LAB*	XBRL taxonomy extension label linkbase
101.PRE*	XBRL taxonomy extension presentation linkbase
104	Cover page of the Quarterly Report on Form 10-Q formatted in Inline XBRL.

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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

INVACARE CORPORATION

Date: November 7, 2022

By: /s/ Kathleen P. Leneghan

Name: Kathleen P. Leneghan

Title: Senior Vice President and Chief Financial Officer

(As Principal Financial and Accounting Officer and on behalf of the registrant)

CONFIDENTIAL, WITHOUT PREJUDICE & NOT TO BE USED IN COURT

AMENDMENT TO TERMINATION AGREEMENT

between

Invacare International GmbH, Benkenstrasse 260, 4108 Witterswil,
Switzerland

(the "**Company**")

and

Ralf Ledda, Helsinkistrasse 7, 4142 Münchenstein, Switzerland

(the "**Employee**")

(each individually a "**Party**" and collectively the "**Parties**")

Preamble

The Parties entered into a Termination Agreement dated Feb 27/ March 1, 2022 (the "**Termination Agreement**") to amicably settle all aspects of the Employee's employment and the termination thereof effective September 30, 2022.

Employee informed Company of his desire to start a new employment contract as the CEO of Auxillium, which is a Competitor within the scope of the Non-Competition provisions in Annex paragraph 2 of the Termination Agreement.

The Company is willing to enter into this this amendment (the "Amendment") to modify the Termination Agreement to enable Employee to work for Auxillium, in accordance with the terms of this Amendment.

Terms that are defined in the Termination Agreement are used in this Amendment with the same meaning, unless otherwise defined herein.

The Parties agree as follows:

1. Non-Competition Waiver

The Company hereby agrees to waive the restrictions of clause 2 of the Annex to the Termination Agreement solely with respect to Employee becoming employed by Auxillium beginning on October 1, 2022. In consideration of the Company's waiver, the Parties agree to delete clause 8.2 of the Termination Agreement to cancel the Employee's right to be paid any compensation during the Restricted Period.

2. Non-Recruitment and Non-Solicitation

1. The Parties agree that the employee stays obliged to respect and honor the Non-Recruitment and Non-Solicitation obligations in clauses 3 and 4 of the Annex to the Termination Agreement during the Restricted Period.

3. Final provisions

1. All other terms and conditions described in the original Termination Agreement remains unchanged.
2. This Agreement shall in all respects be governed by and construed in accordance with the substantive Swiss law.

4. Signatures

Place, Date: Witterswil, 15 July 2022

Invacare International GmbH

/s/Cintia Ferreira

[Name] Cintia Ferreira

[Function] VP HR EMEA

Place, Date: Minchenstein, 15 July 2022

/s/Ralf Ledda

Ralf Ledda

CERTIFICATIONS

I, Geoffrey P. Purtill, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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. I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my 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. I have disclosed, based on my 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.

/s/ GEOFFREY P. PURTILL

Geoffrey P. Purtill
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2022

CERTIFICATIONS

I, Kathleen P. Leneghan, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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. I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my 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. I have disclosed, based on my 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.

/s/ KATHLEEN P. LENEGHAN

Kathleen P. Leneghan
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: November 7, 2022

**Certification
Pursuant to Section 18 U.S.C. Section 1350,
as adopted pursuant to Section 906
of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Invacare Corporation (the “company”) on Form 10-Q for the period ending September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Geoffrey P. Purtill, President and Chief Executive Officer of the company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

/s/ GEOFFREY P. PURTILL

**Geoffrey P. Purtill
President and Chief Executive Officer
(Principal Executive Officer)**

Date: November 7, 2022

A signed original of this written statement required by Section 906 has been provided to Invacare Corporation and will be retained by Invacare Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification
Pursuant to Section 18 U.S.C. Section 1350,
as adopted pursuant to Section 906
of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Invacare Corporation (the “company”) on Form 10-Q for the period ending September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kathleen P. Leneghan, Senior Vice President and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

/s/ KATHLEEN P. LENEGHAN

**Kathleen P. Leneghan
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)**

Date: November 7, 2022

A signed original of this written statement required by Section 906 has been provided to Invacare Corporation and will be retained by Invacare Corporation and furnished to the Securities and Exchange Commission or its staff upon request.